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Internal Control Standards

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Internal Control Management and Evaluation Tool

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PREFACE

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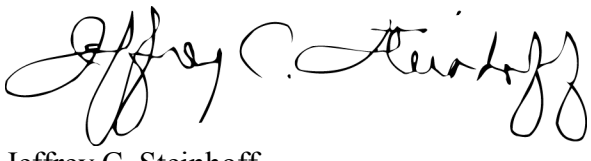
The General Accounting Office (GAO) issues standards for internal control in the federal government as required by 31 U.S.C. 3512(c), commonly referred to as the Federal Managers' Financial Integrity Act of 1982. GAO first issued the standards in 1983. They became widely known throughout the government as the "Green Book." Since then, changes in information technology, emerging issues involving human capital management, and requirements of recent financial management-related legislation have prompted renewed focus on internal control. Consequently, GAO revised the standards and reissued them as *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999). These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement.

We are issuing this Management and Evaluation Tool, which is based upon GAO's *Standards for Internal Control in the Federal Government*, to assist agencies in maintaining or implementing effective internal control and, when needed, to help determine what, where, and how improvements can be implemented. Although this tool is not required to be used, it is intended to provide a systematic, organized, and structured approach to assessing the internal control structure. It is one in a series of related documents we have issued to assist agencies in improving or maintaining effective operations. (See the last page of this document for a list of related products.)

This tool, GAO's standards for internal control, and the Office of Management and Budget Circular A-123, *Management Accountability and Control* (Revised June 21, 1995), should be used concurrently. Judgment must be applied in the interpretation and application of this tool to enable a user to consider the impact of the completed document on the entire internal control structure.

To facilitate its use, this tool is located on the Internet on GAO's home page (www.gao.gov) under the heading "Other Publications" and the subheading "Accounting and Financial Management." Additional copies can be obtained from the U.S. General Accounting Office, Room 1100, 700 4th Street, NW, Washington, DC 20548, or by calling (202) 512-6000, or TDD (202) 512-2537.



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Abbreviations

CFO	Chief Financial Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FAM	Financial Audit Manual
FFMIA	Federal Financial Management Improvement Act of 1996
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAO	General Accounting Office
GPRA	Government Performance and Results Act of 1993
OMB	Office of Management and Budget
OPM	Office of Personnel Management

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INTRODUCTION

As federal managers strive to achieve their agency's missions and goals and provide accountability for their operations, they need to continually assess and evaluate their internal control structure to assure that it is well designed and operated, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the agency are being achieved. Specifically, managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.

Using This Document

This document is an Internal Control Management and Evaluation Tool. Although this tool is not required to be used, it is intended to help managers and evaluators determine how well an agency's internal control is designed and functioning and help determine what, where, and how improvements, when needed, may be implemented.

This tool is based upon the guidance provided in GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999). That document provides the context for the use and application of this tool. Consequently, users of this tool (and managers and staff in general) should become familiar with the standards provided in that document. In addition, it would be helpful if users who are not experienced in internal control matters have access to persons who have such experience.

The tool is presented in five sections corresponding to the five standards for internal control: control environment, risk assessment, control activities, information and communications, and monitoring. Each section contains a list of major factors to be considered when reviewing internal control as it relates to the particular standard. These factors represent some of the more important issues addressed by the standard. Included under each factor are points and subsidiary points that users should consider when addressing the factor. The points and subsidiary points are intended to help users consider specific items that indicate the degree to which internal control is functioning. Users should apply informed judgment when considering the specific points and subsidiary points to determine (1) the applicability of the point to the circumstances, (2) whether the agency has actually been able to implement, perform, or apply the point, (3) any control weaknesses that may actually result, and (4) the extent to which the point impacts on the agency's ability to achieve its mission and goals.

Space is provided beside each point and subsidiary point for the user to note comments or provide descriptions of the circumstances affecting the issue. Comments and descriptions usually will not be of the "yes/no" type, but will generally include information on how the agency does or does not address the issue. Users could also use this comment space to indicate whether any problems found might be major or minor control weaknesses. This tool is intended to help users reach a conclusion about the agency's internal control as it pertains to the particular standard. In this regard, a space is provided at the end of each section for the user to note the

general overall assessment and to identify actions that might need to be taken or considered. Additional space is provided for an overall summary assessment at the end of the tool.

It should be understood that this tool is not an authoritative part of the standards for internal control. Rather, it is intended as a supplemental *guide* that federal managers and evaluators may use in assessing the effectiveness of internal control and identifying important aspects of control in need of improvement. Users should keep in mind that this tool is a starting point and that it can and should be modified to fit the circumstances, conditions, and risks relevant to the situation of each agency. Not all of the points or subsidiary points need to be considered for every agency or activity, depending upon the type of mission being performed and the cost/benefit aspect of a particular control item. Users should consider the relevant points and subsidiary points and delete or add others as appropriate to their particular entity or circumstances. In addition, users should note that this document follows the format of the standards for internal control. Users may rearrange or reorganize the points and subsidiary points to fit their particular needs or desires.

This Tool Can Help

This tool could be useful in assessing internal control as it relates to the achievement of the objectives in any of the three major control categories, i.e., effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. It may also be useful with respect to the subset objective of safeguarding assets from fraud, waste, abuse, or misuse. In addition, the tool may be used when considering internal control as it relates to any of the various activities of an agency, such as administration, human capital management, financial management, acquisition and procurement, and provision of goods or services.

Furthermore, the tool may be helpful in meeting the reporting requirements of 31 U.S.C. 3512(c), commonly referred to as the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The FMFIA requires annual reporting on agency internal control. The act directs the head of each executive agency to provide an annual statement as to whether the agency's internal control complies with the prescribed standards. Essentially, this requires the report to make a declaration as to the effectiveness of the internal control. If the internal control does not comply with such requirements, the report is to identify material weaknesses and the plans and schedule for correcting those weaknesses. Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, revised June 21, 1995, provides agencies guidance on how to satisfy the FMFIA reporting requirements.[1]

Related Resources

It should be further noted that this tool is not the only resource available for assessing internal control. It should be used in conjunction with other resources, such as the guidance provided in OMB Circular A-123, *Management Accountability and Control*, revised June 21, 1995. Financial statement auditors should follow GAO's *Financial Audit Manual* (FAM) (GAO/AFMD-12.19.5A/B, December 1997), as amended. The FAM provides the process and

[1]OMB Circular A-123 uses the term "management control," whereas this document uses the term "internal control." GAO's internal control standards state that these terms are synonymous.

methodology the auditor is to follow when reviewing internal control in financial audits. The financial auditor considers internal control primarily as it relates to financial reporting and compliance with laws and regulations. Relating to internal control, the FAM focuses on the auditor's identification and assessment of risk as it relates to the financial statement audit objectives. On the other hand, this tool discusses internal control from a broader, overall entity perspective based on the internal control standards and focusing on management's operational and program objectives. Although the focus of each document is different, they are complementary.

This Management and Evaluation Tool was developed using many different sources of information and ideas. The primary source was, of course, GAO's *Standards for Internal Control in the Federal Government*. Additional guidance was obtained from the "Evaluation Tools" section of *Internal Control – Integrated Framework*, by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), issued in September 1992. Consideration was given to the requirements of pertinent legislation, including the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Chief Financial Officers Act of 1990, the Government Performance and Results Act (GPRA) of 1993, and the Federal Financial Management Improvement Act (FFMIA) of 1996. Further guidance was developed using prior GAO publications, including *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OGC-00-14G, September 2000, Version 1) and the *Federal Information System Controls Audit Manual* (FISCAM) (GAO/AIMD-12.19.6, January 1999). Finally, essential material was also developed based on the many years of experience of GAO evaluators and analysts in reviewing and assessing federal agency internal control.

This publication is one in a series of documents issued by GAO to assist agencies in improving or maintaining effective operations. See the last page of this document for a list of related products.

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CONTROL ENVIRONMENT

According to the first internal control standard, which relates to control environment, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. There are several key factors that affect the accomplishment of this goal. Managers and evaluators should consider each of these control environment factors when determining whether a positive control environment has been achieved. The factors that should be focused on are listed below. The list is a beginning point. It is not all-inclusive and not every item will apply to every agency or activity within the agency. Even though some of the functions are subjective in nature and require the use of judgment, they are important in achieving control environment effectiveness.

Integrity and Ethical Values	Comments/Descriptions
1. The agency has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest. Consider the following: • The codes are comprehensive in nature and directly address issues such as improper payments, appropriate use of resources, conflicts of interest, political activities of employees, acceptance of gifts or donations or foreign decorations, and use of due professional care.[2] • The codes are periodically acknowledged by signature from all employees. • Employees indicate that they know what kind of behavior is acceptable and unacceptable, what penalties unacceptable behavior may bring, and what to do if they become aware of unacceptable behavior.	
2. An ethical tone has been established at the top of the organization and has been communicated throughout the agency. Consider the following:	

[2]Executive branch employees are subject to standards and principles of ethical conduct in accordance with 5CFR2635 and Executive Orders 12674 and 12731.

Integrity and Ethical Values	Comments/Descriptions

- Management fosters and encourages an agency culture that emphasizes the importance of integrity and ethical values. This might be achieved through oral communications in meetings, via one-on-one discussions, and by example in day-to-day activities.

- Employees indicate that peer pressure exists for appropriate moral and ethical behavior.

- Management takes quick and appropriate action as soon as there are any signs that a problem may exist.

3. Dealings with the public, Congress, employees, suppliers, auditors, and others are conducted on a high ethical plane. Consider the following:

- Financial, budgetary, and operational/programmatic reports to Congress, OMB, Treasury, the Office of Personnel Management (OPM), and the public are proper and accurate (not intentionally misleading).

- Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations.

- Underbillings by suppliers or overpayments by users or customers are quickly corrected.

- The agency has a well-defined and understood process for dealing with employee claims and concerns in a timely and appropriate manner.

4. Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct. Consider the following:

- Management takes action when there are violations of policies, procedures, or the code(s) of conduct.

Integrity and Ethical Values	Comments/Descriptions

- The types of disciplinary actions that can be taken are widely communicated throughout the agency so that others know that if they behave improperly, they will face similar consequences.

5. Management appropriately addresses intervention or overriding internal control. Consider the following:

- Guidance exists concerning the circumstances and frequency with which intervention may be needed, and the management levels which may take such action.

- Any intervention or overriding of internal control is fully documented as to reasons and specific actions taken.

- Overriding of internal control by low-level management personnel is prohibited except in emergency situations, and upper-level management is immediately notified and the circumstances are documented.

6. Management removes temptation for unethical behavior. Consider the following:

- Management has a sound basis for setting realistic and achievable goals and does not pressure employees to meet unrealistic ones.

- Management provides fair, nonextreme incentives (as opposed to unfair and unnecessary temptations) to help ensure integrity and adherence to ethical values.

- Compensation and promotion are based on achievements and performance.

Commitment to Competence	Comments/Descriptions

1. Management has identified and defined the tasks required to accomplish particular jobs and fill the various positions. Consider the following:

Commitment to Competence	Comments/Descriptions

- Management has analyzed the tasks that need to be performed for particular jobs and given consideration to such things as the level of judgment required and the extent of supervision necessary.

- Formal job descriptions or other means of identifying and defining specific tasks required for job positions have been established and are up-to-date.

2. The agency has performed analyses of the knowledge, skills, and abilities needed to perform jobs appropriately. Consider the following:

- The knowledge, skills, and abilities needed for various jobs have been identified and made known to employees.

- Evidence exists that the agency attempts to assure that employees selected for various positions have the requisite knowledge, skills, and abilities.

3. The agency provides training and counseling in order to help employees maintain and improve their competence for their jobs. Consider the following:

- There is an appropriate training program to meet the needs of all employees.

- The agency emphasizes the need for continuing training and has a control mechanism to help ensure that all employees actually received appropriate training.

- Supervisors have the necessary management skills and have been trained to provide effective job performance counseling.

- Performance appraisals are based on an assessment of critical job factors and clearly identify areas in which the employee is performing well and areas that need improvement.

- Employees are provided candid and constructive job performance counseling.

Commitment to Competence	Comments/Descriptions
4. Key senior-level employees have a demonstrated ability in general management and extensive practical experience in operating governmental or business entities.	

Management's Philosophy and Operating Style	Comments/Descriptions
1. Management has an appropriate attitude toward risk-taking, and proceeds with new ventures, missions, or operations only after carefully analyzing the risks involved and determining how they may be minimized or mitigated.	
2. Management enthusiastically endorses the use of performance-based management.	
3. There has not been excessive personnel turnover in key functions, such as operations and program management, accounting, or internal audit, that would indicate a problem with the agency's emphasis on internal control. Consider the following: • There has not been excessive turnover of supervisory personnel related to internal control problems, and there is a strategy for dealing with turnover related to constraints and limitations such as salary caps. • Key personnel have not quit unexpectedly. • Personnel turnover has not been so great as to impair internal control as a result of employing many people new to their jobs and unfamiliar with the control activities and responsibilities. • There is no pattern to personnel turnover that would indicate a problem with the emphasis that management places on internal control.	
4. Management has a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations. Consider the following:	

Management's Philosophy and Operating Style	Comments/Descriptions

- The financial accounting and budgeting operations are considered essential to the well-being of the organization and viewed as methods for exercising control over the entity's various activities.

- Management regularly relies on accounting/financial and programmatic data from its systems for decision-making purposes and performance evaluation.

- If the accounting operation is decentralized, unit accounting personnel also have reporting responsibility to the central financial officer(s).

- The financial management, accounting operations, and budget execution operations are under the direction of the Chief Financial Officer (CFO) and strong synchronization and coordination exists between budgetary and proprietary financial accounting activities.

- Management looks to the information management function for critical operating data and supports efforts to make improvements in the systems as technology advances.

- Personnel operations have a high priority and senior executives emphasize the importance of good human capital management.

- Management places a high degree of importance on the work of the Inspector General, external audits, and other evaluations and studies and is responsive to information developed through such products.

5. Valuable assets and information are safeguarded from unauthorized access or use.[3]

6. There is frequent interaction between senior management and operating/program management, especially when operating from geographically dispersed locations.

[3]Specific subsidiary points to consider with regard to physical control over vulnerable assets are discussed under the section on "Control Activities," under "Common Categories of Control Activities," 5th point.

Management's Philosophy and Operating Style	Comments/Descriptions
7. Management has an appropriate attitude toward financial, budgetary, and operational/programmatic reporting. Consider the following: • Management is informed and involved in critical financial reporting issues and supports a conservative approach toward the application of accounting principles and estimates. • Management discloses all financial, budgetary, and programmatic information needed to fully understand the operations and financial condition of the agency. • Management avoids focus on short-term reported results. • Personnel do not submit inappropriate or inaccurate reports in order to meet targets. • Facts are not exaggerated and budgetary estimates are not stretched to a point of unreasonableness.	

Organizational Structure	Comments/Descriptions
1. The agency's organizational structure is appropriate for its size and the nature of its operations. Consider the following: • The organizational structure facilitates the flow of information throughout the agency. • The organizational structure is appropriately centralized or decentralized, given the nature of its operations, and management has clearly articulated the considerations and factors taken into account in balancing the degree of centralization versus decentralization.	
2. Key areas of authority and responsibility are defined and communicated throughout the organization. Consider the following:	

- Executives in charge of major activities or functions are fully aware of their duties and responsibilities.

- An accurate and updated organizational chart showing key areas of responsibility is provided to all employees.

- Executives and key managers understand their internal control responsibilities and ensure that their staff also understand their own responsibilities.

3. **Appropriate and clear internal reporting relationships have been established. Consider the following:**

   - Reporting relationships have been established and effectively provide managers information they need to carry out their responsibilities and perform their jobs.

   - Employees are aware of the established reporting relationships.

   - Mid-level managers can easily communicate with senior operating executives.

4. **Management periodically evaluates the organizational structure and makes changes as necessary in response to changing conditions.**

5. **The agency has the appropriate number of employees, particularly in managerial positions. Consider the following:**

   - Managers and supervisors have time to carry out their duties and responsibilities.

   - Employees do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks.

   - Managers and supervisors are not fulfilling the roles of more than one employee.

Assignment of Authority and Responsibility	Comments/Descriptions
1. The agency appropriately assigns authority and delegates responsibility to the proper personnel to deal with organizational goals and objectives. Consider the following: • Authority and responsibility are clearly assigned throughout the organization and this is clearly communicated to all employees. • Responsibility for decision-making is clearly linked to the assignment of authority, and individuals are held accountable accordingly. • Along with increased delegation of authority and responsibility, management has effective procedures to monitor results.	
2. Each employee knows (1) how his or her actions interrelate to others considering the way in which authority and responsibilities are assigned, and (2) is aware of the related duties concerning internal control. Consider the following: • Job descriptions clearly indicate the degree of authority and accountability delegated to each position and the responsibilities assigned. • Job descriptions and performance evaluations contain specific references to internal control-related duties, responsibilities, and accountability.	
3. The delegation of authority is appropriate in relation to the assignment of responsibility. Consider the following: • Employees at the appropriate levels are empowered to correct problems or implement improvements. • There is an appropriate balance between the delegation of authority at lower levels to "get the job done" and the involvement of senior-level personnel.	

Human Resource Policies and Practices	Comments/Descriptions
1. Policies and procedures are in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating employees. Consider the following:	
• Management communicates information to recruiters about the type of competencies needed for the work or participates in the hiring process.	
• The agency has standards or criteria for hiring qualified people, with emphasis on education, experience, accomplishment, and ethical behavior.	
• Position descriptions and qualifications are in accordance with OPM guidance and standardized throughout the agency for similar jobs.	
• A training program has been established and includes orientation programs for new employees and ongoing training for all employees.	
• Promotion, compensation, and rotation of employees are based on periodic performance appraisals.	
• Performance appraisals are linked to the goals and objectives included in the agency's strategic plan.	
• The importance of integrity and ethical values is reflected in performance appraisal criteria.	
• Employees are provided with appropriate feedback and counseling on their job performance and suggestions for improvements.	
• Disciplinary or remedial action is taken in response to violations of policies or ethical standards.	
• Employment is terminated, following established policies, when performance is consistently below standards or there are significant and serious violations of policy.	

Human Resource Policies and Practices	Comments/Descriptions
• Management has established criteria for employee retention and considers the effect upon operations if large numbers of employees are expected to leave or retire in a given period.	
2. Background checks are conducted on candidates for employment. Consider the following:	
• Candidates who change jobs often are given particularly close attention.	
• Hiring standards require investigations for criminal records for all potential employees.	
• References and previous employers are contacted.	
• Educational and professional certifications are confirmed.	
3. Employees are provided a proper amount of supervision. Consider the following:	
• Employees receive guidance, review, and on-the-job training from supervisors to help ensure proper work flow and processing of transactions and events, reduce misunderstandings, and discourage wrongful acts.	
• Supervisory personnel ensure that staff are aware of their duties and responsibilities and management's expectations.	

Oversight Groups	Comments/Descriptions
1. Within the agency, there are mechanisms in place to monitor and review operations and programs. Consider the following:	
• An Inspector General, who is independent from management, audits and reviews agency activities.	

Oversight Groups	Comments/Descriptions

- The agency has an audit committee or senior management council consisting of high-level line and staff executives that review the internal audit work and coordinate closely with the Inspector General and external auditors.

- If there is an internal audit operation it reports to the agency head.[4]

- The internal audit function reviews that agency's activities and systems and provides information, analyses, appraisals, recommendations, and counsel to management.

2. The agency works closely with executive branch oversight organizations. Consider the following:

- The agency has a good working relationship with OMB, and major officials, including the CFO, meet regularly with OMB personnel to discuss areas such as financial and budgetary reporting, internal control, and management's performance.

- High-level agency personnel maintain good working relationships with other executive branch agencies that exercise multi-agency control responsibilities, such as the Department of the Treasury, the General Services Administration, and OPM.

3. The agency maintains a close relationship with Congress in general and oversight committees in particular. Consider the following:

- The agency provides Congress and oversight committees with timely and accurate information to allow monitoring of agency activities, including review of the agency's (1) mission and goals, (2) performance reporting, and (3) financial position and operating results.

[4]Agencies may or may not have an internal audit function separate and apart from the Inspector General.

Oversight Groups	Comments/Descriptions
• High-level agency officials meet regularly with congressional and GAO staff to discuss major issues affecting operations, internal control, performance, and other major agency activities and programs.	

Control Environment Summary Section
Provide General Conclusions and Actions Needed Here:

RISK ASSESSMENT

The second internal control standard addresses risk assessment. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives at both the entity level and at the activity (program or mission) level. Once the objectives have been set, the agency needs to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level. Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations. A manager or evaluator will focus on management's processes for objective setting, risk identification, risk analysis, and management of risk during times of change. Listed below are factors a user might consider. The list is a beginning point. It is not all-inclusive nor will every item apply to every agency or activity within the agency. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in performing risk assessment.

Establishment of Entitywide Objectives	Comments/Descriptions
1. The agency has established entitywide objectives that provide sufficiently broad statements and guidance about what the agency is supposed to achieve, yet are specific enough to relate directly to the agency. Consider the following: • Management has established overall entitywide objectives in the form of mission, goals, and objectives, such as those defined in strategic and annual performance plans developed under the GPRA. • The entitywide objectives relate to and stem from program requirements established by legislation. • The entitywide objectives are specific enough to clearly apply to the agency instead of applying to all agencies.	
2. Entitywide objectives are clearly communicated to all employees, and management obtains feedback signifying that the communication has been effective.	

Establishment of Entitywide Objectives	Comments/Descriptions
3. There is a relationship and consistency between the agency's operational strategies and the entitywide objectives. Consider the following: • Strategic plans support the entitywide objectives. • Strategic plans address resource allocations and priorities. • Strategic plans and budgets are designed with an appropriate level of detail for various management levels. • Assumptions made in strategic plans and budgets are consistent with the agency's historical experience and current circumstances.	
4. The agency has an integrated management strategy and risk assessment plan that considers the entitywide objectives and relevant sources of risk from internal management factors and external sources and establishes a control structure to address those risks.	

Establishment of Activity-Level Objectives	Comments/Descriptions
1. Activity-level (program or mission-level) objectives flow from and are linked with the agency's entitywide objectives and strategic plans. Consider the following: • All significant activities are adequately linked to the entitywide objectives and strategic plans. • Activity-level objectives are reviewed periodically to assure that they have continued relevance.	
2. Activity-level objectives are complementary, reinforce each other, and are not contradictory.	
3. The activity-level objectives are relevant to all significant agency processes. Consider the following: • Objectives have been established for all the key operational activities and the support activities.	

Establishment of Activity-Level Objectives	Comments/Descriptions
• Activity-level objectives are consistent with effective past practices and performance, and are consistent with any industry or business norms that may be applicable to the agency's operations.	
4. Activity-level objectives include measurement criteria.	
5. Agency resources are adequate relative to the activity-level objectives. Consider the following:	
• The resources needed to meet the objectives have been identified.	
• If adequate resources are not available, management has plans to acquire them.	
6. Management has identified those activity-level objectives that are critical to the success of the overall entitywide objectives. Consider the following:	
• Management has identified the things that must occur or happen if the entitywide objectives are to be met.	
• The critical activity-level objectives receive particular attention and review from management and their performance is monitored regularly.	
7. All levels of management are involved in establishing the activity-level objectives and are committed to their achievement.	

Risk Identification	Comments/Descriptions
1. Management comprehensively identifies risk using various methodologies as appropriate. Consider the following:	
• Qualitative and quantitative methods are used to identify risk and determine relative risk rankings on a scheduled and periodic basis.	
• How risk is to be identified, ranked, analyzed, and mitigated is communicated to appropriate staff.	

Risk Identification	Comments/Descriptions
• Risk identification and discussion occur in senior-level management conferences. • Risk identification takes place as a part of short-term and long-term forecasting and strategic planning. • Risk identification occurs as a result of consideration of findings from audits, evaluations, and other assessments. • Risks that are identified at the employee and mid-management level are brought to the attention of senior-level managers.	
2. Adequate mechanisms exist to identify risks to the agency arising from <u>external</u> factors. Consider the following: • The agency considers the risks associated with technological advancements and developments. • Consideration is given to risks arising from the changing needs or expectations of Congress, agency officials, and the public. • Risks posed by new legislation or regulations are identified. • Risks to the agency as a result of possible natural catastrophes or criminal or terrorist actions are taken into account. • Identification of risks resulting from business, political, and economic changes are determined. • Consideration is given to the risks associated with major suppliers and contractors. • The agency carefully considers any risks resulting from its interactions with various other federal entities and parties outside the government.	

Risk Identification	Comments/Descriptions
3. Adequate mechanisms exist to identify risks to the agency arising from internal factors. Consider the following: • Risks resulting from downsizing of agency operations and personnel are considered. • The agency identifies risks associated with business process reengineering or redesign of operating processes. • Consideration is given to risks posed by disruption of information systems processing and the extent to which backup systems are available and can be implemented. • The agency identifies any potential risks due to highly decentralized program operations. • Consideration is given to possible risks resulting from the lack of qualifications of personnel hired or the extent to which they have been trained or not trained. • Risks resulting from heavy reliance on contractors or other related parties to perform critical agency operations are identified. • The agency identifies any risks that might be associated with major changes in managerial responsibilities. • Risks resulting from unusual employee access to vulnerable assets are considered. • Risk identification activities consider certain human capital-related risks, such as the inability to provide succession planning and retain key personnel who can affect the ability of the agency or program activity to function effectively, and the inadequacy of compensation and benefit programs to keep the agency competitive with the private sector for labor.	

Risk Identification	Comments/Descriptions
• Risks related to the availability of future funding for new programs or the continuation of current programs are assessed.	
4. In identifying risk, management assesses other factors that may contribute to or increase the risk to which the agency is exposed. Consider the following:	
• Management considers any risks related to past failures to meet agency missions, goals, or objectives or failures to meet budget limitations.	
• Consideration is given to risks indicated by a history of improper program expenditures, violations of funds control, or other statutory noncompliance.	
• The agency identifies any risks inherent to the nature of its mission or to the significance and complexity of any specific programs or activities it undertakes.	
5. Management identifies risks both entitywide and for each significant activity-level of the agency.	

Risk Analysis	Comments/Descriptions
1. After the risks to the agency have been identified, management undertakes a thorough and complete analysis of their possible effect. Consider the following:	
• Management has established a formal process to analyze risks, and that process may include informal analysis based on day-to-day management activities.	
• Criteria have been established for determining low, medium, and high risks.	
• Appropriate levels of management and employees are involved in the risk analysis.	
• The risks identified and analyzed are relevant to the corresponding activity objective.	

Risk Analysis	Comments/Descriptions
• Risk analysis includes estimating the risk's significance. • Risk analysis includes estimating the likelihood and frequency of occurrence of each risk and determining whether it falls into the low, medium, or high-risk category. • A determination is made on how best to manage or mitigate the risk and what specific actions should be taken.	
2. Management has developed an approach for risk management and control based on how much risk can be prudently accepted. Consider the following: • The approach can vary from one agency to another depending upon variances in risks and how much risk can be tolerated, but seems appropriate to the agency. • The approach is designed to keep risks within levels judged to be appropriate and management takes responsibility for setting the tolerable risk level. • Specific control activities are decided upon to manage or mitigate specific risks entitywide and at each activity level, and their implementation is monitored.	

Managing Risk During Change	Comments/Descriptions
1. The agency has mechanisms in place to anticipate, identify, and react to risks presented by changes in governmental, economic, industry, regulatory, operating, or other conditions that can affect the achievement of entitywide or activity-level goals and objectives. Consider the following: • All activities within the agency that might be significantly affected by changes are considered in the process. • Routine changes are addressed through the established risk identification and analysis processes.	

Managing Risk During Change	Comments/Descriptions
• Risks resulting from conditions that are significantly changing are addressed at sufficiently high levels within the agency so that their full impact on the organization is considered and appropriate actions are taken.	
2. The agency gives special attention to risks presented by changes that can have a more dramatic and pervasive effect on the entity and may demand the attention of senior officials. Consider the following:	
• The agency is especially attentive to risks caused by the hiring of new personnel to occupy key positions or by high personnel turnover in any particular area.	
• Mechanisms exist to assess the risks posed by the introduction of new or changed information systems and risks involved in training employees to use the new systems and to accept the changes.	
• Management gives special consideration to the risks presented by rapid growth and expansion or rapid downsizing and the effects on systems capabilities and revised strategic plans, goals, and objectives.	
• Consideration is given to the risks involved when introducing major new technological developments and applications and incorporating them into the operating processes.	
• The risks are extensively analyzed whenever the agency begins the production or provision of new outputs or services.	
• Risks resulting from the establishment of operations in a new geographical area are assessed.	

Risk Assessment Summary Section
Provide General Conclusions and Actions Needed Here:

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CONTROL ACTIVITIES

The third internal control standard addresses control activities. Internal control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's directives to mitigate risks identified during the risk assessment process are carried out. Control activities are an integral part of the agency's planning, implementing, and reviewing. They are essential for proper stewardship and accountability for government resources and for achieving effective and efficient program results.

Control activities occur at all levels and functions of the agency. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. A manager or evaluator should focus on control activities in the context of the agency's management directives to address risks associated with established objectives for each significant activity (program or mission). Therefore, a manager or evaluator will consider whether control activities relate to the risk-assessment process and whether they are appropriate to ensure that management's directives are carried out. In assessing the adequacy of internal control activities, a reviewer should consider whether the proper control activities have been established, whether they are sufficient in number, and the degree to which those activities are operating effectively. This should be done for each significant activity. This analysis and evaluation should also include controls over computerized information systems. A manager or evaluator should consider not only whether established control activities are relevant to the risk-assessment process, but also whether they are being applied properly.

The control activities put into place in a given agency may vary considerably from those used in a different agency. This difference may occur because of the (1) variations in missions, goals, and objectives of the agencies; (2) differences in their environment and manner in which they operate; (3) variations in degree of organizational complexity; (4) differences in agency histories and culture; and (5) differences in the risks that the agencies face and are trying to mitigate. It is probable that, even if two agencies did have the same missions, goals, objectives, and organizational structures, they would employ different control activities. This is due to individual judgment, implementation, and management. All of these factors affect an agency's internal control activities, which should be designed accordingly to contribute to the achievement of the agency's missions, goals, and objectives.

Given the wide variety of control activities that agencies may employ, it would be impossible for this tool to address them all. However, there are some general, overall points to be considered by managers and evaluators, as well as several major categories or types of control activity factors that are applicable at various levels throughout practically all federal agencies. In addition, there are some control activity factors specifically designed for information systems. These factors and related points and subsidiary points are listed below as examples of issues to be considered. They are meant to illustrate the range and variety of control activities that are typically used. The list is a beginning point. It is not all-inclusive, and not every point or subsidiary point may apply to every agency or activity within the agency. Even though some of the functions and

points may be subjective in nature and require the use of judgment, they are important in assessing the appropriateness of the agency's internal control activities.

General Application	Comments/Descriptions
1. Appropriate policies, procedures, techniques, and mechanisms exist with respect to each of the agency's activities. Consider the following: • All relevant objectives and associated risks for each significant activity have been identified in conjunction with conducting the risk assessment and analysis function. • Management has identified the actions and control activities needed to address the risks and directed their implementation.	
2. The control activities identified as necessary are in place and being applied. Consider the following: • Control activities described in policy and procedures manuals are actually applied and applied properly. • Supervisors and employees understand the purpose of internal control activities. • Supervisory personnel review the functioning of established control activities and remain alert for instances in which excessive control activities should be streamlined. • Timely action is take on exceptions, implementation problems, or information that requires follow-up.	
3. Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.[5]	

[5]This point is closely related to the functions, points, and subsidiary points included in the "Monitoring" section. See that section for more specific information on monitoring and periodic evaluation of control activities.

Common Categories of Control Activities	Comments/Descriptions

1. Top-Level Reviews – Management tracks major agency achievements in relation to its plans. Consider the following:

- Top-level management regularly reviews actual performance against budgets, forecasts, and prior period results.
- Top management is involved in developing 5-year and annual performance plans and targets in accordance with GPRA and measuring and reporting results against those plans and targets.
- Major agency initiatives are tracked for target achievement and follow-up actions are taken.

2. Management Reviews at the Functional or Activity Level – Agency managers review actual performance against targets. Consider the following:

- Managers at all activity levels review performance reports, analyze trends, and measure results against targets.
- Both financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results.
- Appropriate control activities are employed, such as reconciliations of summary information to supporting detail and checking the accuracy of summarizations of operations.

3. Management of Human Capital – The agency effectively manages the organization's workforce to achieve results. Consider the following:[6]

- A clear and coherent shared vision of agency mission, goals, values, and strategies is explicitly identified in the strategic plan, annual performance plan, and other guiding documents, and that view has been clearly and consistently communicated to all employees.

[6]For more detailed information about items to consider, see GAO publication *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OGC-00-14G, September 2000, Version 1).

Common Categories of Control Activities	Comments/Descriptions
• The agency has a coherent overall human capital strategy, as evidenced in its strategic plan, performance plan, or separate human capital planning document; and that strategy encompasses human capital policies, programs, and practices to guide the agency.	
• The agency has a specific and explicit workforce planning strategy, linked to the overall strategic plan, and that allows for identification of current and future human capital needs.	
• The agency has defined the type of leaders it wants through written descriptions of roles, responsibilities, attributes, and competencies and has established broad performance expectations for them.	
• Senior leaders and managers attempt to build teamwork, reinforce the shared vision of the agency, and encourage feedback from employees, as evidenced by actions taken to communicate this to all employees and the existence of opportunities for management to obtain feedback.	
• The agency's performance management system is given a high priority by top-level officials, and it is designed to guide the workforce to achieve the agency's shared vision/mission.	
• Procedures are in place to ensure that personnel with appropriate competencies are recruited and retained for the work of the agency, including a formal recruiting and hiring plan with explicit links to skill needs the agency has identified.	
• Employees are provided orientation, training, and tools to perform their duties and responsibilities, improve performance, enhance their capabilities, and meet the demands of changing organizational needs.	
• The compensation system is adequate to acquire, motivate, and retain personnel, and incentives and rewards are provided to encourage personnel to perform at maximum capability.	

Common Categories of Control Activities	Comments/Descriptions
• The agency provides workplace flexibilities, services, and facilities (e.g., career counseling, flextime, casual-dress days, and childcare) to help it compete for talent and enhance employee satisfaction and commitment. • Qualified and continuous supervision is provided to ensure that internal control objectives are being met. • Meaningful, honest, constructive performance evaluation and feedback are provided to help employees understand the connection between their performance and the achievement of the agency's goals. • Management conducts succession planning to ensure continuity of needed skills and abilities. **4. Information Processing – The agency employs a variety of control activities suited to information processing systems to ensure accuracy and completeness. Consider the following:**[7] • Edit checks are used in controlling data entry. • Accounting for transactions is performed in numerical sequences. • File totals are compared with control accounts. • Exceptions or violations indicated by other control activities are examined and acted upon. • Access to data, files, and programs is appropriately controlled. **5. Physical Control Over Vulnerable Assets – The agency employs physical control to secure and safeguard vulnerable assets. Consider the following:**	

[7]Further guidance on control activities for information processing is provided in the following section under "Control Activities Specific for Information Systems." In addition, see GAO's FISCAM and OMB Circular A-130, *Management of Federal Information Resources*.

Common Categories of Control Activities	Comments/Descriptions
• Physical safeguarding policies and procedures have been developed, implemented, and communicated to all employees.	
• The agency has developed a disaster recovery plan, which is regularly updated and communicated to employees.	
• The agency has developed a plan for the identification of and protection of any critical infrastructure assets.[8]	
• Assets that are particularly vulnerable to loss, theft, damage, or unauthorized use, such as cash, securities, supplies, inventories, and equipment, are physically secured and access to them controlled.	
• Assets such as cash, securities, supplies, inventories, and equipment are periodically counted and compared to control records and exceptions examined.	
• Cash and negotiable securities are maintained under lock and key and access to them strictly controlled.	
• Forms such as blank checks and purchase orders are sequentially pre-numbered and physically secured and access to them strictly controlled.	
• Mechanical check signers and signature plates are physically protected and access to them strictly controlled.	
• Equipment vulnerable to theft is securely fastened or protected in some other manner.	
• Identification plates and numbers are affixed to office furniture and fixtures, equipment, and other portable assets.	

[8]Critical infrastructure assets are those assets of physical and cyber-based systems that are essential to the minimum operations of the economy and government. In accordance with Presidential Decision Directive No. 63, dated May 22, 1998, each federal agency is responsible for identifying its own critical infrastructure and developing a protection plan for it.

Common Categories of Control Activities	Comments/Descriptions
• Inventories, supplies, and finished items/goods are stored in physically secured areas and protected from damage.	
• Facilities are protected from fire by fire alarms and sprinkler systems.	
• Access to premises and facilities is controlled by fences, guards, and/or other physical controls.	
• Access to facilities is restricted and controlled during nonworking hours.	
6. Performance Measures and Indicators – The agency has established and monitors performance measures and indicators. Consider the following:	
• Performance measures and indicators have been established throughout the organization at the entitywide, activity, and individual level.	
• The agency periodically reviews and validates the propriety and integrity of both organizational and individual performance measures and indicators.	
• Performance measurement assessment factors are evaluated to ensure they are linked to mission, goals, and objectives, and are balanced and set appropriate incentives for achieving goals while complying with law, regulations, and ethical standards.	
• Actual performance data are continually compared against expected/planned goals and differences are analyzed.	
• Comparisons are made relating different sets of data to one another so that analyses of the relationships can be made and corrective actions can be taken if necessary.	
• Investigation of unexpected results or unusual trends leads to identification of circumstances in which the achievement of goals and objectives may be threatened and corrective action is taken.	

Common Categories of Control Activities	Comments/Descriptions
• Analysis and review of performance measures and indicators are used for both operational and financial reporting control purposes.	
7. Segregation of Duties – Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud. Consider the following:	
• No one individual is allowed to control all key aspects of a transaction or event.	
• Responsibilities and duties involving transactions and events are separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial functions and handling of related assets.	
• Duties are assigned systematically to a number of individuals to ensure that effective checks and balances exist.	
• Where feasible, no one individual is allowed to work alone with cash, negotiable securities, or other highly venerable assets.	
• The responsibility for opening mail is assigned to individuals who have no responsibilities for or access to files or documents pertaining to accounts receivable or cash accounts.	
• Bank accounts are reconciled by employees who have no responsibilities for cash receipts, disbursements, or custody.	
• Management is aware that collusion can reduce or destroy the control effectiveness of segregation of duties and, therefore, is especially alert for it and attempts to reduce the opportunities for it to occur.	

Common Categories of Control Activities	Comments/Descriptions
8. Execution of Transactions and Events – Transactions and other significant events are authorized and performed by the appropriate personnel. Consider the following: • Controls ensure that only valid transactions and other events are initiated or entered into, in accordance with management's decisions and directives. • Controls are established to ensure that all transactions and other significant events that are entered into are authorized and executed only by employees acting within the scope of their authority. • Authorizations are clearly communicated to managers and employees and include the specific conditions and terms under which authorizations are to be made. • The terms of authorizations are in accordance with directives and within limitations established by law, regulation, and management.	
9. Recording of Transactions and Events – Transactions and other significant events are properly classified and promptly recorded. Consider the following: • Transactions and events are appropriately classified and promptly recorded so that they maintain their relevance, value, and usefulness to management in controlling operations and making decisions. • Proper classification and recording take place throughout the entire life cycle of each transaction or event, including authorization, initiation, processing, and final classification in summary records. • Proper classification of transactions and events includes appropriate organization and format of information on original documents (hardcopy paper or electronic) and summary records from which reports and statements are prepared.	

Common Categories of Control Activities	Comments/Descriptions
• Excessive adjustments to numbers or account classifications are not necessary prior to finalization of financial reports.	
10. Access Restrictions to and Accountability for Resources and Records – Access to resources and records is limited and accountability for their custody is assigned. Consider the following:	
• The risk of unauthorized use or loss is controlled by restricting access to resources and records only to authorized personnel.	
• Accountability for resources and records custody and use is assigned to specific individuals.	
• Access restrictions and accountability assignments for custody are periodically reviewed and maintained.	
• Periodic comparison of resources with the recorded accountability is made to determine if the two agree, and differences are examined.	
• How frequently actual resources are compared to records and the degree of access restrictions are functions of the vulnerability of the resource to the risk of errors, fraud, waste, misuse, theft, or unauthorized alteration.	
• Management considers such factors as asset value, portability, and exchangeability when determining the appropriate degree of access restrictions.	
• As a part of assigning and maintaining accountability for resources and records, management informs and communicates those responsibilities to specific individuals within the agency and assures that those people are aware of their duties for appropriate custody and use of those resources.	
11. Documentation – Internal Control and all transactions and other significant events are clearly documented. Consider the following:	

Common Categories of Control Activities	Comments/Descriptions
• Written documentation exists covering the agency's internal control structure and for all significant transactions and events.	
• The documentation is readily available for examination.	
• The documentation for internal control includes identification of the agency's activity-level functions and related objectives and control activities and appears in management directives, administrative policies, accounting manuals, and other such manuals.	
• Documentation for internal control includes documentation describing and covering automated information systems, data collection and handling, and the specifics of general and application control related to such systems.[9]	
• Documentation of transactions and other significant events is complete and accurate and facilitates tracing the transaction or event and related information from authorization and initiation, through its processing, to after it is completed.	
• Documentation, whether in paper or electronic form, is useful to managers in controlling their operations and to any others involved in evaluating or analyzing operations.	
• All documentation and records are properly managed, maintained, and periodically updated.	

[9]Additional guidance on documentation of control activities for information processing is provided in the following section under "Control Activities Specific for Information Systems." In addition, see GAO's FISCAM and OMB Circular A-130, *Management of Federal Information Resources*.

Control Activities Specific for Information Systems – General Control

As stated in the introduction to the Control Activities Section, there are some control activity factors specifically designed for information systems. As discussed in the standard, there are two broad groupings of information systems control – general control and application control. General control includes the structure, policies, and procedures that apply to the agency's overall computer operations. It applies to all information systems – mainframe, minicomputer, network, and end-user environments. General control creates the environment in which the agency's application systems operate. General control activities are presented first followed by application control activities.

There are six major factors or categories of control activities that need to be considered by the user when evaluating general control: entitywide security management program, access control, application software development and change, system software control, segregation of duties, and service continuity. The factors and related points and some subsidiary points are listed below as examples of issues to be considered. They are meant to illustrate the range and variety of general control activities that are typically used. They are not all-inclusive. Users should refer to the list of critical elements and control activities pertaining to general control provided in GAO's *Federal Information System Controls Audit Manual* (FISCAM) (GAO/AIMD-12.19.6, January 1999). The list below summarizes the FISCAM's list; however, users should refer to the FISCAM for more detailed guidance in performing their evaluation and analysis.

Entitywide Security Management Program	Comments/Descriptions
1. The agency periodically performs a comprehensive, high-level assessment of risks to its information systems. Consider the following: • Risk assessments are performed and documented regularly and whenever systems, facilities, or other conditions change. • Risk assessments consider data sensitivity and integrity. • Final risk determinations and managerial approvals are documented and kept on file.	
2. The agency has developed a plan that clearly describes the entitywide security program and policies and procedures that support it.	

Entitywide Security Management Program	Comments/Descriptions
3. Senior management has established a structure to implement and manage the security program throughout the agency, and security responsibilities are clearly defined.	
4. The agency has implemented effective security-related personnel policies.	
5. The agency monitors the security program's effectiveness and makes changes as needed. Consider the following: • Management periodically assesses the appropriateness of security policies and compliance with them. • Corrective actions are promptly and effectively implemented and tested, and they are continually monitored.	

Access Control	Comments/Descriptions
1. The agency classifies information resources according to their criticality and sensitivity. Consider the following: • Resource classifications and related criteria have been established and communicated to resource owners. • Resource owners have classified their information resources based on the approved criteria and with regard to risk determinations and assessments and have documented those classifications.	
2. Resource owners have identified authorized users, and their access to the information has been formally authorized.	
3. The agency has established physical and logical controls to prevent or detect unauthorized access.	

Access Control	Comments/Descriptions
4. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.	

Application Software Development and Change Control	Comments/Descriptions
1. Information system processing features and program modifications are properly authorized.	
2. All new or revised software is thoroughly tested and approved.	
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.	

System Software Control	Comments/Descriptions
1. The agency limits access to system software based on job responsibilities, and access authorization is documented.	
2. Access to and use of system software are controlled and monitored.	
3. The agency controls changes made to the system software.	

Segregation of Duties	Comments/Descriptions
1. Incompatible duties have been identified and policies implemented to segregate those duties.	
2. Access controls have been established to enforce segregation of duties.	
3. The agency exercises control over personnel activities through the use of formal operating procedures, supervision, and review.	

Service Continuity	Comments/Descriptions
1. The criticality and sensitivity of computerized operations have been assessed and prioritized, and supporting resources have been identified.	
2. The agency has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures including off-site storage of backup data as well as environmental controls, staff training, and hardware maintenance and management.	
3. Management has developed and documented a comprehensive contingency plan.	
4. The agency periodically tests the contingency plan and adjusts it as appropriate.	

Control Activities Specific for Information Systems – Application Control

Application control covers the structure, policies, and procedures designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. It includes both the routines contained within the computer program code as well as the policies and procedures associated with user activities, such as manual measures performed by the user to determine that the data were processed accurately by the computer.

There are four major factors or categories of control activities that need to be considered by the user when evaluating application control: authorization control, completeness control, accuracy control, and control over integrity of processing and data files. The factors and related points and some subsidiary points are listed below as examples of issues to be considered. They are meant to illustrate the range and variety of application control activities that are typically used. They are not all-inclusive. In the future, application control evaluation and testing will be addressed in Chapter 4 of GAO's *Federal Information System Controls Audit Manual* (FISCAM) (GAO/AIMD-12.19.6, January 1999). That chapter is currently under development and is expected to be issued with the first update of the FISCAM. However, the list of factors, points, and subsidiary points provided below generally follows the guidance expected to be issued in the FISCAM. Users should refer to Chapter 4 of the FISCAM, when issued, for more detailed guidance in performing their evaluation and analysis.

Authorization Control	Comments/Descriptions
1. Source documents are controlled and require authorization. Consider the following: • Access to blank source documents is restricted. • Source documents are pre-numbered sequentially. • Key source documents require authorizing signatures. • For batch application systems, batch control sheets are used providing information such as date, control number, number of documents, and control totals for key fields. • Supervisory or independent review of data occurs before it is entered into the application system.	
2. Data entry terminals have restricted access.	
3. Master files and exception reporting are used to ensure that all data processed are authorized.	

Completeness Control	Comments/Descriptions
1. All authorized transactions are entered into and processed by the computer.	
2. Reconciliations are performed to verify data completeness.	

Accuracy Control	Comments/Descriptions
1. The agency's data entry design features contribute to data accuracy.	
2. Data validation and editing are performed to identify erroneous data.	
3. Erroneous data are captured, reported, investigated, and promptly corrected.	
4. Output reports are reviewed to help maintain data accuracy and validity.	

Control Over Integrity of Processing and Data Files	Comments/Descriptions
1. Procedures ensure that the current version of production programs and data files are used during processing.	
2. Programs include routines to verify that the proper version of the computer file is used during processing.	
3. Programs include routines for checking internal file header labels before processing.	
4. The application protects against concurrent file updates.	

Control Activities Summary Section
Provide General Conclusions and Actions Needed Here:

INFORMATION AND COMMUNICATIONS

According to the fourth internal control standard, for an agency to run and control its operations, it must have relevant, reliable information, both financial and nonfinancial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the agency needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications. Managers and evaluators should consider the appropriateness of information and communication systems to the entity's needs and the degree to which they accomplish the objectives of internal control. Listed below are factors a user might consider. The list is a beginning point. It is not all-inclusive nor will every item apply to every agency or activity within the agency. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in collecting appropriate data and information and in establishing and maintaining good communications.

Information	Comments/Descriptions
1. Information from internal and external sources is obtained and provided to management as a part of the agency's reporting on operational performance relative to established objectives. Consider the following: • Internally generated information critical to achieving the agency's objectives, including information relative to critical success factors, is identified and regularly reported to management. • The agency obtains and reports to managers any relevant external information that may affect the achievement of its missions, goals, and objectives, particularly that related to legislative or regulatory developments and political or economic changes. • Internal and external information needed by managers at all levels is reported to them.	
2. Pertinent information is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively. Consider the following:	

Information	Comments/Descriptions
• Managers receive analytical information that helps them identify specific actions that need to be taken.	
• Information is provided at the right level of detail for different levels of management.	
• Information is summarized and presented appropriately and provides pertinent information while permitting a closer inspection of details as needed.	
• Information is available on a timely basis to allow effective monitoring of events, activities, and transactions and to allow prompt reaction.	
• Program managers receive both operational and financial information to help them determine whether they are meeting the strategic and annual performance plans and meeting the agency's goals for accountability of resources.	
• Operational information is provided to managers so that they may determine whether their programs comply with applicable laws and regulations.	
• The appropriate financial and budgetary information is provided for both internal and external financial reporting.	

Communications	Comments/Descriptions
1. Management ensures that effective <u>internal</u> communications occur. Consider the following:	
• Top management provides a clear message throughout the agency that internal control responsibilities are important and must be taken seriously.	

Communications	Comments/Descriptions
• Employees' specific duties are clearly communicated to them and they understand the relevant aspects of internal control, how their role fits into it, and how their work relates to the work of others.	
• Employees are informed that when the unexpected occurs in performing their duties, attention must be given not only to the event, but also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm to the agency.	
• Acceptable behavior versus unacceptable behavior and the consequences of improper conduct are clearly communicated to all employees.	
• Personnel have a means of communicating information upstream within the agency through someone other than a direct supervisor, and there is a genuine willingness to listen on the part of management.	
• Mechanisms exist to allow the easy flow of information down, across, and up the organization, and easy communications exist between functional activities, such as between procurement activities and production activities.	
• Employees indicate that informal or separate lines of communications exist, which serve as a "fail-safe" control for normal communications avenues.	
• Personnel understand that there will be no reprisals for reporting adverse information, improper conduct, or circumvention of internal control activities.	
• Mechanisms are in place for employees to recommend improvements in operations, and management acknowledges good employee suggestions with cash awards or other meaningful recognition.	

Communications	Comments/Descriptions

- Management communicates frequently with internal oversight groups, such as senior management councils, and keeps them informed of performance, risks, major initiatives, and any other significant events.

2. Management ensures that effective external communications occur with groups that can have a serious impact on programs, projects, operations, and other activities, including budgeting and financing. Consider the following:

- Open and effective communications channels have been established with customers, suppliers, contractors, consultants, and other groups that can provide significant input on quality and design of agency products and services.

- All outside parties dealing with the agency are clearly informed of the agency's ethical standards and also understand that improper actions, such as improper billings, kickbacks, or other improper payments, will not be tolerated.

- Communications from external parties, such as other federal agencies, state and local governments, and other related third parties, is encouraged since it can be a source of information on how well internal control is functioning.

- The agency has methods to ensure compliance with the Federal Advisory Committee Act of 1972 since such committees may include individuals external to the agency with whom communications could occur.

- Complaints or inquires, especially those concerning services, such as shipments, receipts, and billings, are welcomed since they can point out control problems.

- Management makes certain that the advice and recommendations of Inspectors General and other auditors and evaluators are fully considered and that actions are implemented to correct any problems or weaknesses they identify.

Communications

Comments/Descriptions

- Communications with Congress, OMB, Treasury, other federal agencies, state and local governments, the media, the public, and others provide information relevant to the requesters' needs so that they can better understand the agency's mission, goals, and objectives, better understand the risks facing the agency, and thus better understand the agency.

Forms and Means of Communications

Comments/Descriptions

1. **The agency employs many and various forms and means of communicating important information with employees and others. Consider the following:**

   - Management uses effective communications methods, which may include policy and procedures manuals, management directives, memoranda, bulletin board notices, internet and intranet web pages, videotaped messages, e-mail, and speeches.

   - Two of the most powerful forms of communications used by management are the positive actions it takes in dealing with personnel throughout the organization and its demonstrated support of internal control.

2. **The agency manages, develops, and revises its information systems in an effort to continually improve the usefulness and reliability of its communication of information. Consider the following:**

   - Information systems management is based on a strategic plan for information systems that is linked to the agency's overall strategic plan.

   - A mechanism exists for identifying emerging information needs.

   - As part of the agency's information management, improvements and advances in technology are monitored, analyzed, evaluated, and introduced to help the agency respond more rapidly and efficiently to those it serves.

Forms and Means of Communications	Comments/Descriptions
• Management continually monitors the quality of the information captured, maintained, and communicated as measured by such factors as appropriateness of content, timeliness, accuracy, and accessibility. • Management's support for the development of information technology is demonstrated by its commitment of appropriate human and financial resources to the effort.	

Information and Communications Summary Section
Provide General Conclusions and Actions Needed Here:

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MONITORING

Monitoring is the final internal control standard. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. In considering the extent to which the continued effectiveness of internal control is monitored, both ongoing monitoring activities and separate evaluations of the internal control system, or portions thereof, should be considered. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that managers and supervisors know their responsibilities for internal control and the need to make control and control monitoring part of their regular operating processes. Separate evaluations are a way to take a fresh look at internal control by focusing directly on the controls' effectiveness at a specific time. These evaluations may take the form of self-assessments as well as review of control design and direct testing, and may include the use of this Management and Evaluation Tool or some similar device. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and are resolved promptly. Managers and evaluators should consider the appropriateness of the agency's internal control monitoring and the degree to which it helps them accomplish their objectives. Listed below are factors a user might consider. The list is a beginning point. It is not all-inclusive, and every item might not apply to every agency or activity within the agency. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in establishing and maintaining good internal control monitoring policies and procedures.

Ongoing Monitoring	Comments/Descriptions
1. Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable. Consider the following: • Management's strategy provides for routine feedback and monitoring of performance and control objectives. • The monitoring strategy includes methods to emphasize to program and operational mangers that they have responsibility for internal control and that they should monitor the effectiveness of control activities as a part of their regular duties.	

Ongoing Monitoring	Comments/Descriptions
• The monitoring strategy includes methods to emphasize to program mangers their responsibility for internal control and their duties to regularly monitor the effectiveness of control activities.	
• The monitoring strategy includes identification of critical operational and mission support systems that need special review and evaluation.	
• The strategy includes a plan for periodic evaluation of control activities for critical operational and mission support systems.	
2. In the process of carrying out their regular activities, agency personnel obtain information about whether internal control is functioning properly. Consider the following:	
• Operating reports are integrated or reconciled with financial and budgetary reporting system data and used to manage operations on an ongoing basis, and management is aware of inaccuracies or exceptions that could indicate internal control problems.	
• Operating management compares production, sales, or other operating information obtained in the course of its daily activities to system-generated information and follows up on any inaccuracies or other problems that might be found.	
• Operating personnel are required to "sign-off" on the accuracy of their unit's financial statements and are held accountable if errors are discovered.	
3. Communications from external parties should corroborate internally generated data or indicate problems with internal control. Consider the following:	
• Management recognizes that customers paying for invoices help to corroborate billing data, while customer complaints indicate that deficiencies may exist; and these deficiencies are then investigated to determine the underlying causes.	

Ongoing Monitoring	Comments/Descriptions

- Communications from vendors and monthly statements of accounts payable are used as control monitoring techniques.

- Supplier complaints about any unfair practices by agency purchasing agents are investigated.

- Congress and oversight groups communicate information to the agency about compliance or other matters that reflect on the functioning of internal control, and management follows up on any problems indicated.

- Control activities that should have prevented or detected any problems that arose, but did not function properly, are reassessed.

4. **Appropriate organizational structure and supervision help provide oversight of internal control functions. Consider the following:**

   - Automated edits and checks as well as clerical activities are used to help control accuracy and completeness of transaction processing.

   - Separation of duties and responsibilities is used to help deter fraud.

   - The Inspector General is independent and has authority to report directly to the agency head and does not conduct agency operations for management.

5. **Data recorded by information and financial systems are periodically compared with physical assets and discrepancies are examined. Consider the following:**

   - Inventory levels of materials, supplies, and other assets are checked regularly; differences between recorded and actual amounts are corrected; and the reasons for the discrepancies resolved.

   - The frequency of the comparison is a function of the vulnerability of the asset.

Ongoing Monitoring	Comments/Descriptions
• Custodial accountability for assets and resources is assigned to responsible individuals.	
6. The Inspector General and other auditors and evaluators regularly provide recommendations for improvements in internal control with management taking appropriate follow-up action.	
7. Meetings with employees are used to provide management with feedback on whether internal control is effective. Consider the following:	
• Relevant issues, information, and feedback concerning internal control raised at training seminars, planning sessions, and other meetings are captured and used by management to address problems or strengthen the internal control structure.	
• Employee suggestions on internal control are considered and acted upon as appropriate.	
• Management encourages employees to identify internal control weaknesses and report them to the next supervisory level.	
8. Employees are regularly asked to state explicitly whether they comply with the agency's code of conduct or similar agency pronouncements of expected employee behavior. Consider the following:	
• Personnel periodically acknowledge compliance with the code of conduct.	
• Signatures are required to evidence performance of critical internal control functions, such as reconciliations.	

Separate Evaluations	Comments/Descriptions
1. The scope and frequency of separate evaluations of internal control are appropriate for the agency. Consider the following:	

Separate Evaluations	Comments/Descriptions

- Consideration is given to the risk assessment results and the effectiveness of ongoing monitoring when determining the scope and frequency of separate evaluations.

- Separate evaluations are often prompted by events such as major changes in management plans or strategies, major expansion or downsizing of the agency, or significant changes in operations or processing of financial or budgetary information.

- Appropriate portions or sections of internal control are evaluated regularly.

- Separate evaluations are conducted by personnel with the required skills that may include the agency's Inspector General or an external auditor.

2. The methodology for evaluating the agency's internal control is logical and appropriate. Consider the following:

- The methodology used may include self-assessments using checklists, questionnaires, or other such tools, and it may include the use of this Management and Evaluation Tool or some similar device.

- The separate evaluations may include a review of the control design and direct testing of the internal control activities.

- In agencies where large amounts of data are processed by the information and/or financial systems, separate evaluation methodology employs computer assisted audit techniques to identify indicators of inefficiencies, waste, or abuse.

- The evaluation team develops a plan for the evaluation process to ensure a coordinated effort.

- If the evaluation process is conducted by agency employees, it is managed by an executive with the requisite authority, capability, and experience.

Separate Evaluations	Comments/Descriptions

- The evaluation team gains a sufficient understanding of the agency's missions, goals, and objectives and its operations and activities.

- The evaluation team gains an understanding of how the agency's internal control is supposed to work and how it actually does work.

- The evaluation team analyzes the results of the evaluation against established criteria.

- The evaluation process is properly documented.

3. If the separate evaluations are conducted by the agency's Inspector General, that office has sufficient resources, ability, and independence. Consider the following:[10]

- The Inspector General has sufficient levels of competent and experienced staff.

- The Inspector General is organizationally independent and reports to the highest levels within the agency.

- The responsibilities, scope of work, and audit plans of the Inspector General are appropriate to the agency's needs.

4. Deficiencies found during separate evaluations are promptly resolved. Consider the following:

- Deficiencies are promptly communicated to the individual responsible for the function and also to at least one level of management above that individual.

- Serious deficiencies and internal control problems are promptly reported to top management.

[10]This particular point and the related subsidiary points are not expected to be assessed by agency management or the agency Inspector General. However, their consideration may be useful in outside reviews or peer reviews.

Audit Resolution[11] — Comments/Descriptions

1. **The agency has a mechanism to ensure the prompt resolution of findings from audits and other reviews. Consider the following:**

   - Managers promptly review and evaluate findings resulting from audits, FMFIA and FFMIA assessments, and other reviews, including those showing deficiencies and those identifying opportunities for improvements.

   - Management determines the proper actions to take in response to findings and recommendations.

   - Corrective action is taken or improvements made within established time frames to resolve the matters brought to management's attention.

   - In cases where there is disagreement with the findings or recommendations, management demonstrates that those findings or recommendations are either invalid or do not warrant action.

   - Management considers consultations with auditors (such as GAO, the Inspector General, and other external auditors), and reviewers when they are believed to be helpful in the audit resolution process.

2. **Agency management is responsive to the findings and recommendations of audits and other reviews aimed at strengthening internal control. Consider the following:**

   - Executives with the proper authority evaluate the findings and recommendations and decide upon the appropriate actions to take to correct or improve control.

   - Desired internal control actions are followed up on to verify implementation.

[11]Audit Resolution includes the resolution of findings and recommendations not just from formal audits, but also resulting from informal reviews, internal separate evaluations, management studies, and assessments made pursuant to the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996.

Audit Resolution	Comments/Descriptions
3. The agency takes appropriate follow-up actions with regard to findings and recommendations of audits and other reviews. Consider the following: • Problems with particular transactions or events are corrected promptly. • The underlying causes giving rise to the findings or recommendations are investigated by management. • Actions are decided upon to correct the situation or take advantage of the opportunity for improvements. • Management and auditors follow up on audit and review findings, recommendations, and the actions decided upon to ensure that those actions are taken. • Top management is kept informed through periodic reports on the status of audit and review resolution so that it can ensure the quality and timeliness of individual resolution decisions.	

Monitoring Summary Section
Provide General Conclusions and Actions Needed Here:

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OVERALL INTERNAL CONTROL SUMMARY

Control Environment	Assessment/Conclusions
Management and employees have a positive and supportive attitude toward internal control and conscientious management. Management conveys the message that integrity and ethical values must not be compromised. The agency demonstrates a commitment to the competence of its personnel and employs good human capital policies and practices. Management has a philosophy and operating style that is appropriate to the development and maintenance of effective internal control. The agency's organizational structure and the way in which it assigns authority and responsibility contribute to effective internal control. The agency has a good working relationship with Congress and oversight groups.	

Risk Assessment	
The agency has established clear and consistent entitywide objectives and supporting activity-level objectives. Management has made a thorough identification of risks, from both internal and external sources, that may affect the ability of the agency to meet those objectives. An analysis of those risks has been performed, and the agency has developed an appropriate approach for risk management. In addition, mechanisms are in place to identify changes that may affect the agency's ability to achieve its missions, goals, and objectives.	

Control Activities	
Appropriate policies, procedures, techniques, and control mechanisms have been developed and are in place to ensure adherence to established directives. Proper control activities have been developed for each of the agency's activities. The control activities identified as necessary are actually being applied properly.	

Information and Communications

Assessment/Conclusions

Information systems are in place to identify and record pertinent operational and financial information relating to internal and external events. That information is communicated to management and others within the agency who need it and in a form that enables them to carry out their duties and responsibilities efficiently and effectively. Management ensures that effective internal communications take place. It also ensures that effective external communications occur with groups that can affect the achievement of the agency's missions, goals, and objectives. The agency employs various forms of communications appropriate to its needs and manages, develops, and revises its information systems in a continual effort to improve communications.

Monitoring

Agency internal control monitoring assesses the quality of performance over time. It does this by putting procedures in place to monitor internal control on an ongoing basis as a part of the process of carrying out its regular activities. It includes ensuring that managers know their responsibilities for internal control and control monitoring. In addition, separate evaluations of internal control are periodically performed and the deficiencies found are investigated. Procedures are in place to ensure that the findings of all audits and other reviews are promptly evaluated, decisions are made about the appropriate response, and actions are taken to correct or otherwise resolve the issues promptly.

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RELATED PRODUCTS

These related products address three main categories: internal control, financial management systems, and financial reporting (accounting standards). We have developed these guidelines and tools to assist agencies in improving or maintaining effective operations and financial management.

Internal Control

Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999.

Streamlining the Payment Process While Maintaining Effective Internal Control, GAO/AIMD-00-21.3.2, May 2000.

Determining Performance and Accountability Challenges and High Risks, GAO-01-159SP, November 2000.

Financial Management Systems

Framework for Federal Financial Management System Checklist, GAO/AIMD-98-21.2.1, May 1998.

Inventory System Checklist, GAO/AIMD-98-21.2.4, May 1998.

System Requirements for Managerial Cost Accounting Checklist, GAO/AIMD-99-21.2.9, January 1999.

Core Financial System Requirements Checklist, GAO/AIMD-00-21.2.2, February 2000.

Human Resources and Payroll Systems Requirements Checklist GAO/AIMD-00-21.2.3, March 2000.

Direct Loan System Requirements Checklist, GAO/AIMD-00-21.2.6, April 2000.

Travel System Requirements Checklist, GAO/AIMD-00-21.2.8, May 2000.

Seized Property and Forfeited Assets Requirements Checklist, GAO-01-99G, October 2000.

Guaranteed Loan System Requirements Checklist, GAO-01-371G, March 2001

Financial Reporting (Accounting Standards)

"Checklist for Reports Prepared Under the CFO Act," (Section 1004 of the GAO/PCIE *Financial Audit Manual* (FAM), July 2001). This is a checklist containing agency financial statement reporting requirements.

These documents are available on the Internet on GAO's home page (www.gao.gov) under the heading "Other Publications" and the subheading "Accounting and Financial Management." They can also be obtained from GAO, 700 4th Street NW, Room 1100, Washington DC 20548, or by calling (202) 512-6000 or TDD (202) 512-2537.

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