

Internal Control Management and Evaluation Tool

INTRODUCTION

As SUNY New Paltz administrators strive to achieve the college's mission and goals and to provide accountability for their operations, they need to continually assess and evaluate their internal control structure to assure that it is well designed and operating effectively, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the department 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 the college'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 by the Federal Government Accountability Office (GAO). The 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 their standards. 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 department 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 college's ability to achieve its mission and goals.

Beside each point and subsidiary point, users may 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 department 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 department's internal control as it pertains to its particular standards. In this regard, the user may modify this tool to provide specific issues and/or concepts that require 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 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 department. Not all of the points or subsidiary points need to be considered for every department 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 department 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.

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Tool Usefulness

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 department, such as administration, human capital management, financial management, acquisition and procurement, and provision of goods or services.

The Internal Controls Act directs each state agency to provide an annual statement as to whether the agency's internal controls comply with the prescribed standards. Essentially, this requires the campus to make a declaration and certify to the agency that the campus as a whole and the departmental effectiveness of its internal control accomplishments comply with such requirements. In addition, the report is to identify material weaknesses, plans and schedules for correcting those weaknesses.

This tool discusses internal control from a broad, overall department perspective based on the internal control standards and focusing on management's operational and program objectives. Although the focus may vary, the concepts should remain complementary.

This Management and Evaluation Tool was developed using many different sources of information and ideas. The primary source was the 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 Departments of the Treadway Commission (COSO), issued in September 1992.

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 department 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 department or activity within the department. 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 department 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.
- 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 department and has been communicated throughout the department. Consider the following:

- Management fosters and encourages an department 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, employees, suppliers, auditors, and others are conducted on a high ethical plane. Consider the following:

- Financial, budgetary, and operational/programmatic reports to SUNY Administration, OSC, DOB, 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 department 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.
- The types of disciplinary actions that can be taken are widely communicated throughout the department 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:

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

3. The department 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 department 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.

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 risktaking, 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 department'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:

- The financial accounting and budgeting operations are considered essential to the well-being of the department and viewed as methods for exercising control over the department's various activities.
- Management regularly relies on accounting/financial and programmatic data from its systems for decisionmaking 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 senior financial managers 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 auditors, other evaluations and studies and is responsive to information developed through such work.

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

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

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 department.
- 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.

Departmental Structure Comments/Descriptions

1. The department's departmental structure is appropriate for its size and the nature of its operations. Consider the following:

- The departmental structure facilitates the flow of information throughout the department.

- The departmental 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 department. Consider the following:

- Executives in charge of major activities or functions are fully aware of their duties and responsibilities.
- An accurate and updated departmental 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 departmental structure and makes changes as necessary in response to changing conditions.

5. The department 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 department appropriately assigns authority and delegates responsibility to the proper personnel to deal with departmental goals and objectives. Consider the following:

- Authority and responsibility are clearly assigned throughout the department 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 department 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 department 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 department'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.
- 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 department, there are mechanisms in place to monitor and review operations and programs. Consider the following:

- The department has a committee or workgroup that reviews internal controls and coordinates closely with management and/or external auditors.

2. The department generally maintains a close relationship with SUNY New Paltz and the SUNY Administration. Consider the following:

- The department provides SUNY with timely and accurate information to allow monitoring of SUNY New Paltz activities, including review of the department's (1) mission and goals, (2) performance reporting, and (3) financial position and operating results.
- High-level department officials meet regularly with senior management staff to discuss major issues affecting operations, internal control, performance, and other major department 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 department goals and objectives at both the department level and at the activity (program or mission) level. Once the objectives have been set, the department needs to identify the risks that could impede the efficient and effective achievement of those objectives at the department level and the activity level. Internal control should provide for an assessment of the risks the department 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 department or activity within the department. 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 Department-wide Objectives Comments/Descriptions

1. The department has established department-wide objectives that provide sufficiently broad statements and guidance about what the department is supposed to achieve, yet are specific enough to relate directly to the department. Consider the following:

- Management has established overall department-wide objectives in the form of mission, goals, and objectives, such as those defined in strategic and annual performance plans.
- The department-wide objectives relate to and stem from program requirements established by legislation. The department-wide objectives are specific enough to clearly apply to the department instead of applying to all agencies.

2. Department-wide objectives are clearly communicated to all employees, and management obtains feedback signifying that the communication has been effective.

3. There is a relationship and consistency between the department's operational strategies and the department-wide objectives. Consider the following:

- Strategic plans support the department-wide 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 department's historical experience and current circumstances.

4. The department has an integrated management strategy and risk assessment plan that considers the department-wide 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 department's department-wide objectives and strategic plans. Consider the following:

- All significant activities are adequately linked to the department-wide 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 department processes. Consider the following:

- Objectives have been established for all the key operational activities and the support activities.
- 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 department's operations.

4. Activity-level objectives include measurement criteria.

5. Department 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 department-wide objectives. Consider the following:

- Management has identified the things that must occur or happen if the department-wide 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 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 department arising from external factors. Consider the following:

- The department considers the risks associated with technological advancements and developments.
- Consideration is given to risks arising from the changing needs or expectations of Congress, department officials, and the public.
- Risks posed by new legislation or regulations are identified.
- Risks to the department 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 department carefully considers any risks resulting from its interactions with various other federal entities and parties outside the government.

3. Adequate mechanisms exist to identify risks to the department arising from internal factors. Consider the following:

- Risks resulting from downsizing of department operations and personnel are considered.
- The department 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 department 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 department operations are identified.

- The department 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 department or program activity to function effectively, and the inadequacy of compensation and benefit programs to keep the department competitive with the private sector for labor.
- 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 department is exposed. Consider the following:

- Management considers any risks related to past failures to meet department 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 department 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 department-wide and for each significant activity-level of the department.

Risk Analysis Comments/Descriptions

1. After the risks to the department 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 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 department to another depending upon variances in risks and how much risk can be tolerated, but seems appropriate to the department.
- 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 department-wide and at each activity level, and their implementation is monitored.

Managing Risk During Change Comments/Descriptions

1. The department 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 department-wide or activity-level goals and objectives. Consider the following:

- All activities within the department that might be significantly affected by changes are considered in the process.
- Routine changes are addressed through the established risk identification and analysis processes.
- Risks resulting from conditions that are significantly changing are addressed at sufficiently high levels within the department so that their full impact on the department is considered and appropriate actions are taken.

2. The department gives special attention to risks presented by changes that can have a more dramatic and pervasive effect on the department and may demand the attention of senior officials. Consider the following:

- The department 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 department begins the production or provision of new outputs or services.
- Risks resulting from the establishment of operations in a new geographical area are assessed.

Provide General Conclusions and Actions Needed Here:

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 department'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 department. 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 department'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 department may vary considerably from those used in a different department. 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 departmental complexity;
- (4) differences in department 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 departmental structures, they would employ different control activities. This is due to individual judgment, implementation, and management. All of these factors affect an department's internal control activities, which should be designed accordingly to contribute to the achievement of the department'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 department or activity within the department. 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 department's internal control activities.

General Application Comments/Descriptions

1. Appropriate policies, procedures, techniques, and mechanisms exist with respect to each of the department'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.

Common Categories of Control Activities Comments/Descriptions

1. Top-Level Reviews . Management tracks major department 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 including measuring and reporting results against those plans and targets.
- Major department initiatives are tracked for target achievement and follow-up actions are taken.

2. Management Reviews at the Functional or Activity Level . Department 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 department effectively manages the department's workforce to achieve results. Consider the following:

- A clear and coherent shared vision of department 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.
- The department 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 department.
- The department 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 department 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 department, 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 department's performance management system is given a high priority by top-level officials, and it is designed to guide the workforce to achieve the department's shared vision/mission.
- Procedures are in place to ensure that personnel with appropriate competencies are recruited and retained for the work of the department, including a formal recruiting and hiring plan with explicit links to skill needs the department 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 departmental 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.
- The department 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 department's goals.
- Management conducts succession planning to ensure continuity of needed skills and abilities.

4. Information Processing . The department employs a variety of control activities suited to information processing systems to ensure accuracy and completeness. Consider the following:

- 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 department employs physical control to secure and safeguard vulnerable assets. Consider the following:

- Physical safeguarding policies and procedures have been developed, implemented, and communicated to all employees.
- The department has developed a disaster recovery plan, which is regularly updated and communicated to employees.
- The department has developed a plan for the identification of and protection of any critical infrastructure assets.
- 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.
- 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 department has established and monitors performance measures and indicators. Consider the following:

- Performance measures and indicators have been established throughout the department at the department-wide, activity, and individual level.
- The department periodically reviews and validates the propriety and integrity of both departmental 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.
- 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.

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 department and format of information on original documents (hardcopy paper or electronic) and summary records from which reports and statements are prepared.
- 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 department 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:

- Written documentation exists covering the department'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 department'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.
- 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.

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 department'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 department'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: department-wide 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.

Department-wide Security Management Program Comments/Descriptions

1. The department 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 department has developed a plan that clearly describes the department-wide security program and policies and procedures that support it.

3. Senior management has established a structure to implement and manage the security program throughout the department, and security responsibilities are clearly defined.

4. The department has implemented effective security-related personnel policies.

5. The department 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 department 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 department has established physical and logical controls to prevent or detect unauthorized access.

4. The department 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 department 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 department 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 department 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 department 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 department has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures including offsite 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 department 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.

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 department'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 department to run and control its operations, it must have relevant, reliable information, both financial and non-financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the department 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 department 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 department'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 department or activity within the department. 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 department's reporting on operational performance relative to established objectives. Consider the following:

- Internally generated information critical to achieving the department's objectives, including information relative to critical success factors, is identified and regularly reported to management.
- The department 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:

- 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 department'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 internal communications occur. Consider the following:

- Top management provides a clear message throughout the department that internal control responsibilities are important and must be taken seriously.
- 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 department.
- 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 department 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 department, 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.
- 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 department products and services.

- All outside parties dealing with the department are clearly informed of the department'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 department has methods to ensure compliance with third party agencies.
- 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 third party regulatory agencies and other auditors and evaluators are fully considered and that actions are implemented to correct any problems or weaknesses they identify.
- Communications with SUNY Administration, OSC, DOB and other state, federal and local government agencies, the media, the public, and others provide information relevant to the requesters needs so that they can better understand the department's mission, goals, and objectives, better understand the risks facing the department, and thus better understand the department.

Forms and Means of Communications Comments/Descriptions

1. The department 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 department and its demonstrated support of internal control.

2. The department 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 department's overall strategic plan.
- A mechanism exists for identifying emerging information needs.
- As part of the department's information management, improvements and advances in technology are monitored, analyzed, evaluated, and introduced to help the department respond more rapidly and efficiently to those it serves.
- 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:

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 department'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 department or activity within the department. 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 managers that they have responsibility for internal control and that they should monitor the effectiveness of control activities as a part of their regular duties.
- The monitoring strategy includes methods to emphasize to program managers 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, department 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.
- Communications from vendors and monthly statements of accounts payable are used as control monitoring techniques.
- Supplier complaints about any unfair practices by department purchasing agents are investigated.
- Congress and oversight groups communicate information to the department 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 departmental 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 department head and does not conduct department 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.
- 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 department's code of conduct or similar department 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 department. Consider the following:

- 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 department, 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 department's Inspector General or an external auditor.

2. The methodology for evaluating the department'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 department employees, it is managed by an executive with the requisite authority, capability, and experience.
- The evaluation team gains a sufficient understanding of the department's missions, goals, and objectives and its operations and activities.
- The evaluation team gains an understanding of how the department'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 department's Inspector General, that office has sufficient resources, ability, and independence. Consider the following:

- The Inspector General has sufficient levels of competent and experienced staff.
- The Inspector General is departmentally independent and reports to the highest levels within the department.
- The responsibilities, scope of work, and audit plans of the Inspector General are appropriate to the department'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.

This particular point and the related subsidiary points are not expected to be assessed by department Management. However, their consideration may be useful in outside reviews or peer reviews.

Audit Resolution - Comments/Descriptions

1. The department 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, 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 and other reviewers when they are believed to be helpful in the audit resolution process.

2. Department 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.

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.

3. The department 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:

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 department 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 department's departmental structure and the way in which it assigns authority and responsibility contribute to effective internal control. The department has a good working relationship with Congress and oversight groups.

Risk Assessment

The department has established clear and consistent department-wide 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 department to meet those objectives. An analysis of those risks has been performed, and the department has developed an appropriate approach for risk management. In addition, mechanisms are in place to identify changes that may affect the department'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 department'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 department 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 department's missions, goals, and objectives. The department 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

Department 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.