

Internal control comprises the plans, methods, policies and procedures used to fulfill the mission, strategic plan, goals and objectives of the Agency.

Internal Control Objectives*

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved, including:

- **Operations** – Effectiveness and efficiency of operations
- **Reporting** – Reliability of reporting for internal and external use
- **Compliance** – Compliance with applicable laws and regulations
 - **Fraud Awareness** – Safeguarding of assets from willful intent to deceive for personal gain.

Why is an Internal Control System Important?

- It is the law. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the agency heads to design, implement and maintain an effective system of internal control.
- A good internal control system gives the Agency protection against waste, fraud abuse, and mismanagement.
- Agency employees are accountable to many stakeholders, including taxpayers, Congress, OMB, and other federal agencies. It is important to use the resources provided wisely, and to demonstrate that we have done our best to achieve the objectives of the state and our agencies. Implementing an effective internal control system will provide us with that reasonable assurance.
- The complexity and sheer size of the USAID team necessitates reliance on the work of many employees around the world.
- An internal control system provides a method of ongoing monitoring to ensure procedures are followed.



Internal Control Components*

USAID is required to use the *Standards for Internal Control in the Federal Government (Green Book)** as its internal control standard for designing, implementing and maintain an effective system of internal control. The Green Book consists of 5 internal control components and 17 principles:

1. **Control Environment** begins with the “tone at the top” – the tone set by agency executives, managers and supervisors that influence employee attitudes and behaviors. (5 principles)
2. **Risk Assessment** consists of identifying, analyzing, and managing risks that could prevent or hinder the agency from achieving its goals and objectives. (4 principles)
3. **Control Activities** include policies, procedures and actions the agency establishes to achieve expected results and mitigate risks. (3 principles)
4. **Information and Communication** addresses the need within an agency to identify, capture, and communicate pertinent information in a timely manner to the right people. This component overlaps all other components. Management must establish clear lines of communication throughout the agency at all levels and with outside partners and stakeholders. (3 principles)
5. **Monitoring** enables management to evaluate and revise internal controls on an ongoing basis. Internal controls decrease over time as processes and risks change and previously effective control activities cease to operate as intended. (2 principles)

Levels of Organizational Structure*

A direct relationship exists among an entity's objectives, the 5 components of internal control, and the organizational structure of an entity. Objectives are what an entity wants to achieve. Objectives are what an entity wants to achieve. The 5 components of internal control are what are required of the entity to achieve the objectives. Organizational structure encompasses the operating units, operational processes, and other structures management uses to achieve objectives. The cube has 4 scalable organizational levels:

- **Entity** – Bureau or Independent Office (B/IO), or U.S. Embassy
- **Division** – USAID Regional Mission, USAID Mission, B/IO Division
- **Operating Unit** – Mission Office, B/IO Branch
- **Function** – Operational, program or business process.

Responsibilities

The responsibility for internal controls lies with everyone.

Management Responsibilities:

- Ensuring internal controls are established, properly documented, maintained, tested, and followed.
- Providing leadership and direction in setting objectives, assessing risks and periodically evaluating controls.
- Strengthening controls when weaknesses or deficiencies are detected and implementing recommendations to findings issued by auditors.
- Providing adequate supervision to ensure internal controls are operating as intended.
- Obtaining internal control training for all USAID employees, including management.

Employee Responsibilities:

- Performing all internal control activities as required and assigned.
- Reporting significant internal control deficiencies to your supervisor or other Agency channels, as designated.

The 17 Green Book Principles of the Internal Control Components*

Control Environment Component

1. Demonstrate commitment to integrity and ethical values
2. Exercise oversight responsibility
3. Establish structure, responsibility, and authority
4. Demonstrate commitment to competence
5. Enforce accountability

Risk Assessment Component

6. Define objectives and risk tolerances
7. Identify, analyze, and respond to risk
8. Assess fraud risk
9. Analyze and respond to change

Control Activities Component

10. Design control activities
11. Design activities for the information system
12. Implement control activities

Information and Communication Component

13. Use quality information
14. Communicate internally
15. Communicate externally

Monitoring Component

16. Perform monitoring activities
17. Evaluate issues and remediate deficiencies

Key Points

- Employees at every level affect internal control.
- Effective internal control helps the Agency achieve its operations, reporting and compliance goals and objectives.
- Internal control systems are continually evolving and changing as USAID's internal and external environment change.
- Internal control can provide only reasonable assurance, not absolute assurance, regarding the achievement of the Agency's goals and objectives.

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Federal Managers' Financial Integrity Act (FMFIA)

31 U.S.C. 3512(d) (2), (Section 2 of the FMFIA)

Section 2. Agency head responsibilities.

Requires that the head of each Executive Agency annually submit to the President and the Congress (i) a signed statement on whether there is reasonable assurance that the Agency's internal controls are achieving their intended objectives; and (ii) a report on material weaknesses in the Agency's controls and describing the plans and schedule for correction.

- Statement of Assurance. The statement of assurance represents the Agency head's informed judgement as to the overall adequacy and effectiveness of internal control within the Agency related to operations, reporting, and compliance. The statement must take one of the forms:
 - unmodified statement of assurance (no material weakness or lack of compliance reported);
 - modified statement of assurance, considering exceptions explicitly noted (one or more material weaknesses or lack of compliance reported); or
 - statement of no assurance (no processes in place or pervasive material weaknesses).

31 U.S.C. 3512(d) (2) (B), (Section 4 of FMFIA)

Section 4. For CFO Act Agencies only, a separate report on whether the Agency's financial management systems comply with government-wide requirements. These financial systems requirements are mandated by Section 803 (a) of the Federal Financial Management Improvement Act of 1996 (FFMIA) and Appendix D to OMB Circular No. A-123, *Compliance with the FFMIA of 1996*. Section 803 (a) requirements include compliance with FFMIA requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Agency's financial systems that do not comply with FFMIA requirements must report the lack of compliance noted and provide the Agency's plan for bringing financial or financial-related (mixed systems) into compliance.



USAID
FROM THE AMERICAN PEOPLE

The Executive's Internal Control Pocket Reference

**Documented and tested
internal controls
reasonably ensure
employees do the right
job, for the right reason,
at the right time.**

Developed by:

USAID Office of the Chief Financial Officer
Audit, Performance and Compliance Division (M/CFO/APC)

Internal Control Quality Assurance Team (ICQAT)

Based on the:

U.S. Government Accountability Office's (GAO)
*Standards for Internal Control in the Federal
Government, "Green Book"*

*(<http://www.gao.gov/greenbook/overview>)