MANAGEMENT ACCOUNTABILITY AND CONTROL

What sources of information should be used to assess the adequacy of controls?

Sources of information to identify deficiencies in management controls include: 1) management knowledge; 2) management reviews; 3) IG and GAO reports; 4) program evaluations; 5) reviews of financial systems; 6) reviews of computer systems and applications; 7) annual performance plans and reports pursuant to GPRA; and 8) Congressional reports.

What are the basic steps in conducting a management control assessment?

- Identify the potential problem by using available sources of information.
- Examine details by analyzing pertinent issues and consulting laws, Agency guidance and appropriate personnel.
- Document the problem by defining it in writing.
- Develop and implement a corrective action plan.
- Verify that desired results have been achieved.
- Document the results.

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U.S. Agency for International Development

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U.S. Agency for International Development

Management *Accountability* and Control

September 1997

Office of Management Planning & Innovation

Understanding Management Accountability and Control

The purpose of this brochure is to provide an overview of USAID's management accountability and control program. The complete set of policies and essential procedures are contained in ADS Chapter 596, "Management Accountability and Control."

What is FMFIA?

USAID's management accountability and control program is statutorily based on the Federal Managers' Financial Integrity Act (FMFIA) of 1982. FMFIA requires that Federal managers take systematic and proactive measures to: 1) develop and implement appropriate, cost-effective management controls for results-oriented management; 2) assess the adequacy of management controls in its programs and operations; 3) identify needed improvements; 4) take corresponding corrective action; and 5) report annually to the President and Congress. The implementing guidelines for FMFIA are provided in OMB Circular A-123, "Management Accountability and Control."

What are management controls?

Management controls are the organization, policies and procedures used to reasonably ensure that (a) programs achieve their intended results; (b) resources are used consistent with the Agency's mission; (c) programs and resources are protected against waste, fraud, and mismanagement; (d) laws and regulations are followed; and (e) reliable and timely information is obtained, maintained, reported and used for decision making.

What is management accountability?

Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, mitigating adverse aspects of Agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Who is responsible for developing and implementing USAID's management controls?

Agency managers have the primary responsibility for ensuring that basic management controls are incorporated into Agency programs and operations; that controls are continuously evaluated; and that needed improvements are made in a timely manner. However, every employee has a responsibility to understand, use and improve Agency management controls.

What are the standards for management accountability and control at USAID?

USAID's standards for management accountability and control are drawn, in large part, from the General Accounting Office standards for internal control in the Federal Government. The control standards are as follows: 1) program operations, obligations and costs must comply with applicable laws and regulations; 2) there must be reasonable assurance that assets are safe-guarded against waste, loss, unauthorized use, and misappropriation; 3) managers and employees must have personal integrity and be obligated to support the ethics programs of the Agency; 4) appropriate authority, responsibility and accountability must be defined and delegated to accomplish the Agency's mission; 5) an appropriate organizational structure must be established to effectively carry out program responsibilities; 6) key duties and responsibilities in authorizing, processing, recording and reviewing official Agency transactions must be separated among individuals; 7) access to resources and records must be limited to authorized individuals and accountability for resources should be assigned and maintained; 8) transactions must be promptly recorded, properly classified and accounted for; and 9) audit findings and other deficiencies should be promptly evaluated and proper actions taken.

What are some examples of USAID's management controls?

USAID's management controls range from those which have Agency-wide applicability to those established by specific missions or offices to facilitate effective operations. For example:

- The Agency's automated directives system outlines policies, essential procedures and supplementary references for Agency programs and operations.
- The new employee evaluation program reinforces the Agency's results-oriented operations by linking employee responsibilities to the achievement of organizational goals.
- The Results Review and Resource Request is used to assess overall progress toward the achievement of strategic objectives and to facilitate resource allocation decisions.
- Performance monitoring systems ensure that activities are proceeding as expected and contributing to intermediate results and strategic objectives.
- Mission orders and operating procedures are used at the mission or office level to document office-specific procedures.

MANAGEMENT ACCOUNTABILITY

AND CONTROL GUIDE

THE AGENCY FOR INTERNATIONAL
DEVELOPMENT

PREPARED BY: THE OFFICE OF MANAGEMENT
PLANNING AND INNOVATION

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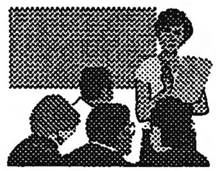
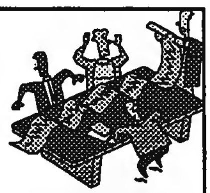
TRAINING OBJECTIVES



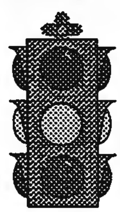
- Provide overview of management control mandates
- Inform staff of management accountability and control concepts and responsibilities

DEFINITIONS

- Management Accountability



- Management Controls

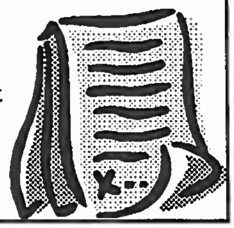


MANAGEMENT CONTROL MANDATES

- Accounting & Auditing Act of 1950
- Inspector General Act of 1978, as amended
- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- OMB Circular A-123
- OMB Circular A-127

MANDATES (CONT'D)

- OMB Circular A-130
- Government Performance and Results Act of 1993 (GPRA)
- Government Management Reform Act of 1994 (GMRA)
- Computer Security Act
- Federal Financial Management Improvement Act (FFMIA)

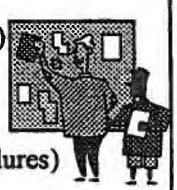


IMPORTANCE OF MANAGEMENT CONTROLS

- Proper Accountability
- Efficiency and Economy
- Achievement of Agency Objectives
- Public Trust
- Legal Requirement

MANAGEMENT CONTROLS

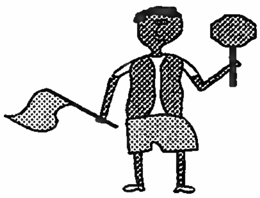
- Control Objectives (Policies)



- Control Techniques (Procedures)

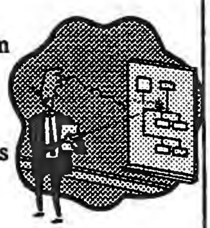
AGENCY GUIDANCE

- ADS Chapter 596 - Management Accountability and Control
- Training Manual
- Brochure



MANAGEMENT CONTROLS

- Automated Directives System
- Desk procedures
- Mission Orders
- Agency management systems



ROLES AND RESPONSIBLITIES

- USAID Management
- Assessable Units
- Employees
- Inspectors General

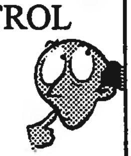
USAID'S MANAGEMENT CONTROL PROGRAM

- Managers develop cost effective management controls
- Assessable units conduct continuous reviews of adequacy of controls
- Assessable units take corrective action when deficiencies are found
- Report results annually according to Agency guidance and FMFIA

DEVELOP/REVISE CONTROL OBJECTIVES

- Control objectives (policies):
  - define what the unit expects to accomplish
  - include Agency policies
  - reduce risk

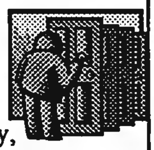
DEVELOP/REVISE CONTROL TECHNIQUES



- Control techniques (procedures):
  - tell how a unit plans to accomplish control objectives
  - must be evaluated to ensure that they accomplish the objectives
  - are necessary and accurate
  - are functioning as intended

FACTORS FOR DEVELOPING AU CONTROLS

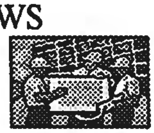
- Differences in objectives
- Managerial judgment
- Size and complexity of organization
- Political considerations
- Operational environment
- Sensitivity of data
- Requirements for system reliability, availability and performance



CONTROL LIMITATIONS

- Management override
- Collusion
- Poor judgment and mistakes
- Cost/benefit analyses
- Management's non-compliance with policy
- Management's failure to review and update controls
- Lack of or insufficient control techniques
- Failure to realize that no system of controls is perfect

CONDUCT MANAGEMENT CONTROL REVIEWS



- Management control reviews:
  - detailed evaluations of an operation (program, activity, function or system) to determine whether adequate control objectives and techniques exist and are implemented
  - should be scheduled to review high risks first, medium second and low last - in terms of order and frequency

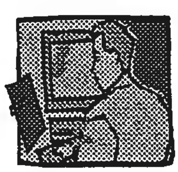
MANAGEMENT CONTROL REVIEW QUESTIONS

- Who will: conduct the tests, be observed, be interviewed?
- What will: be reviewed, be observed, be collected during interviews?
- When will: the tests be conducted?
- Where will: the observations/interviews be conducted?

MANAGEMENT CONTROL REVIEWS (CONT'D)

- Use existing sources of information
- Consider Management Control Checklist
- Develop corrective action plans and track progress
- Document review

SOURCES OF INFORMATION



- Management knowledge
- Management reviews
- OIG and GAO reports
- Program evaluations
- Reviews of systems and applications conducted pursuant to the A-130
- Other reviews

IDENTIFY MATERIAL WEAKNESSES

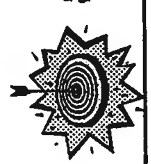
- Material weakness - a deficiency that is determined to be of such significance that it should be reported to the next management level

MATERIAL WEAKNESS CRITERIA

- Ability to achieve objectives impaired
- Resources not used consistent for objectives
- Statutory or regulatory requirements violated
- Programs/resources lack safeguards against waste, loss, and mismanagement
- Ability to report and use information impaired
- Improper ethical conduct or conflict of interest permitted

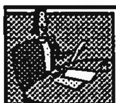
TAKE CORRECTIVE ACTION

- Develop corrective action plan for deficiencies
- Corrective action plans :
  - written
  - resources required identified
  - timetable included
  - validation procedure described



TRACK PROGRESS OF CORRECTIVE ACTIONS

- Management Accountability Official (MAO) in each assessable unit (AU) conducts corrective action review periodically throughout the year
- Review to confirm that actions have been taken, are being taken, and/or continue to be effective in correcting problem
- Revise target date as necessary



REPORT ON RESULTS

- All AUs certify to next management level
- Material weaknesses reported using the "Report on a Material Weakness" form
- Material weaknesses reviewed at each level
- MCRC determines Agency weaknesses
- Weaknesses described in USAID's Accountability Report annually

ACCOUNTABILITY REPORT

- Administrator's Message
- Overview
- Program Performance
- Management Performance
- Financial Highlights
- Management Controls
- Inspector General Audit Opinion
- Consolidated Financial Statements/Notes
- Supplemental Financial Information

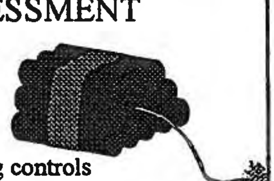
GAO CONTROL STANDARDS

- Control environment
- Risk assessment
- Control activities
- Information and communications
- Monitoring

CONTROL ENVIRONMENT

- Control environment - setting that influences quality of internal control
- Criteria affecting control environment:
  - Integrity and ethical values
  - Commitment to competence
  - Management's philosophy and operating style
  - Organizational structure
  - Delegations of authority and responsibility
  - Human resource policies and practices
  - Importance/impact of oversight entities

RISK ASSESSMENT



- First step in improving controls
- Screening device (early warning)
- Quick evaluation
- Documented review of susceptibility
- Risk identifier

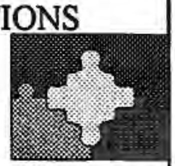
RISK RELATED QUESTIONS

- Have all risks been identified?
- Do the controls cover the risks?
- Are the controls working?

HAVE ALL RISKS BEEN IDENTIFIED?

- Segment operations
- Obtain historical information
- Identify inherent risks and factors

SEGMENT OPERATIONS



- Program Operations
- Financial Management
- Acquisition and Assistance
- Audit Management and Resolution
- Organizationand Human Resources Management
- Information Management
- Administrative Management
- Other

OBTAIN HISTORICAL INFORMATION

- Management knowledge
- Audit recommendations

- Management reviews

INHERENT RISK

- Potential for waste, loss, unauthorized use, or misappropriation due to nature of activity
- Causes include:
  - Purpose (lack of clear-cut legislation)
  - Budget level (large are more risky)
  - Impact outside Agency (external pressure)
  - Age/life of program (new, changing)
  - Special interest groups (influences, deadlines)
  - Prior reviews (historical record)
  - Management responsiveness (attitude)
  - Complexity

DO THE CONTROLS COVER THE RISKS?

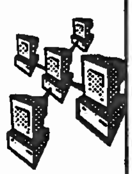
- Review/define control objectives
- Review/define control techniques

FACTORS AFFECTING RISK

- Key personnel turnover
- Reorganization of unit
- Downsizing of Agency or unit
- Heavy reliance on contractors for critical operations
- Management's inability/reluctance to establish appropriate priorities
- Rapid growth/expansion of duties
- Production or provision of new outputs

RISK FACTORS (CONT'D)

- Starting operations in new countries
- Reengineering Agency operating processes
- High decentralization of program operations
- Design or implementation of new information system
- Implementation of new performance measuring system
- Disrupted or ineffective information systems processing
- Lack of specific performance measures



RISK FACTORS CONT'D)

- Management concern about a control area
- History of improper program administration
- Officials obtaining financial or other benefits based on decisions or actions taken
- Grant/contract awarding by high ranking officials with inadequate review
- High default rates, write-offs, or poor inventory controls
- Domination of a group by a person or small group

ARE THE CONTROLS WORKING?

- Develop test checks
  - written policies and procedures
  - competent, well-trained personnel
  - performance standards
  - adequate control techniques to ensure objectives met

CONTROL ACTIVITIES

- Control activities - policies, procedures, techniques and mechanisms that enforce management's directives
- Control activities include:
  - Approvals
  - Authorizations
  - Verifications
  - Performance reviews
  - Reconciliations
  - Security maintenance

CONTROL ACTIVITIES

- Top level reviews of actual performance
- Activity or functional reporting
- Human resources management
- Controls over information systems
- Physical control over assets
- Establishment and review of performance measures and indicators

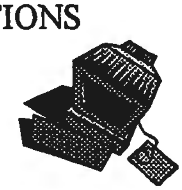
CONTROL ACTIVITIES (CONT'D)

- Segregation of duties
- Proper execution of transactions and events
- Accurate and timely recording of transactions and events
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions

CONTROL OVER INFORMATION SYSTEMS

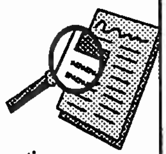
- Two types of control:
  - General control - applies to all information systems, i.e. mainframe, PCs, end-user environments
  - Application control - designed to help ensure completeness, accuracy, authorization, and validity of all transactions

INFORMATION AND COMMUNICATIONS



- Information systems
  - record
  - track
  - report
- Communications
  - vertical
  - horizontal

MONITORING



- Monitoring :
  - Assesses quality of performance over time
  - Ensures prompt resolution of findings of audits and other reviews
  - Should be continuous
  - Includes communicating, measuring performance, reconciliations, training, special evaluations and reporting.

Definitions:

- **Management accountability** is the expectation that managers are responsible for:
  - the quality and timeliness of program performance;
  - increasing productivity;
  - controlling costs and mitigating adverse aspects of Agency operations;
  - assuring that programs are managed with integrity and in compliance with applicable law.
- In simpler terms, **management accountability** is the expectation that things are done "right" and as effectively and efficiently as possible.
- **Management accountability** is achieved by implementing adequate management controls and integrating them into each system established by Agency management to guide and direct our operations.

- **Management controls** are the Agency's policies, procedures, organization and systems to provide reasonable assurance that:

  - ♦ programs achieve their intended results;
  - ♦ resources are used consistent with Agency mission;
  - ♦ program resources are protected from waste, fraud and mismanagement;
  - ♦ laws and regulations are followed; and
  - ♦ reliable and timely information is obtained, maintained, reported and used for decision making.

- The terms "management controls" and "internal controls" are synonymous. Throughout this document, "management controls", "internal controls", and "controls" are used interchangeably.

- **Management controls:**

    - ♦ provide the normal, common sense approach to the management and protection of various types of resources under our trust and care;

    - ♦ provide mechanisms by which we can function most effectively and efficiently;

    - ♦ should guide the Agency from Strategic Plan to achievement or realization of strategic objective;

    - ♦ are to be consistent with the General Accounting Office control standards.

- Controls that are no longer useful or necessary should be eliminated, but necessary ones should be established and followed.

- The objective is not to establish the largest possible number of management controls, but rather those that are most effective and efficient in meeting Agency objectives.

Legislation Mandating Adequate Management Controls

- Accounting and Auditing Act of 1950 - requires executive agency heads to maintain adequate systems of accounting and internal control, including audit.

- Inspector General Act of 1978, as amended, requires each agency to ensure proper resolution and implementation of audit recommendations.

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 - requires ongoing evaluation of agency management controls in accordance with GAO's guidelines, identification of material weaknesses and non-conformances and plans for correcting them, and annual reporting of the results to the President and Congress. (See Appendix A)

- OMB Circular A-123, Management Accountability and Control, Revised 6/21/95 - improves management accountability and effectiveness of federal programs and operations through integration of cost-effective controls into the design of management systems and by establishing, assessing, correcting, and reporting on management controls. (See Appendix B)

Other Federal Initiatives Related to Management Controls

- OMB Circular A-127, Financial Management Systems, (Revised 7/23/93) - prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management.

- OMB Circular A-130, Management of Federal Information Resources, (Revised 2/8/96) - provides uniform government-wide policy for the management of federal information resources.

- Government Performance and Results Act of 1993 (GPRA) - provides for the establishment of strategic planning and performance measurement in the federal government.

- Government Management Reform Act of 1994 (GMRA) provides a more effective, efficient, and responsive government by, inter alia, streamlining management controls and consolidating reporting requirements.

- Computer Security Act - provides minimum acceptable security practices for federal government computer systems, without limiting the scope of security measures already planned or in use.

- Federal Financial Management Improvement Act (FFMIA) -establishes requirements for financial management systems and auditors to report on agency compliance with those requirements, and for agencies to correct deficiencies within a certain time period.

How Management Controls Relate to Other Management Initiatives

- Management controls help achieve management accountability by integrating cost-effective measures into the design of management systems (planning, budgeting, management, information sharing, measuring performance, accounting, and auditing) to help ensure accountability for results.

  - The Government Performance and Results Act (GPRA) requires agencies to develop strategic plans, set performance goals and report annually on actual performance compared to goals.

  - The Chief Financial Officers (CFO) Act requires the preparation and audit of USAID's financial statements, a financial management system compliant with federal system requirements, and auditors to report on internal controls and compliance with laws and regulations.

  - The Inspector General Act provides for independent reviews of Agency programs and operations.

  - The National Performance Review (NPR) recommends streamlining management control systems for effectiveness and efficiency, emphasizing management controls as an integral function of management, and trimming excessive regulations (controls).

USAID Policy References

- Automated Directives System Chapter 596, Management Accountability and Control (Appendix C)

- Management Accountability Control Training Manual

- Management Accountability Control Brochure – "Pocket" overview

Steps in USAID's Management Control Process

- Organize the process (pages 24-26)
- Segment the Agency (page 27)
- Prepare a management control strategy (pages 28-34)
- Conduct management control reviews (pages 35-38)
- Take corrective action (pages 39-42)
- Track progress of corrective actions (page 43)
- Report on results (page 44)

▫ Organize the Process

- Management control responsibilities for the Agency are provided in ADS Chapter 596 (Appendix C).

- These responsibilities include the roles of the:

  - Administrator
  - Deputy Administrator
  - Management Control Review Committee
  - Office of Management Planning and Innovation
  - Office of the Inspector General
  - Assessable Units
  - Agency Managers
  - Regional Bureaus
  - Independent Offices
  - Author Offices for ADS Chapters
  - Strategic Objective Teams

- The management control process involves every USAID employee.

Roles and Responsibilities

- **The Management Control Review Committee (MCRC)**, comprised of the heads of bureaus, independent offices and "Management Bureau" offices, is responsible for:

    - ♦ setting policy for governing management control activities, and

    - ♦ providing oversight and final approval for the identification, correction, and reporting of Agency material weaknesses (see page 16).

- **The Office of Management Planning and Innovation (M/MPI)** provides support staff for the MCRC, including:

    - ♦ developing and maintaining Agency policies and essential procedures on management accountability and control;

    - ♦ providing guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls;

    - ♦ monitoring the progress of corrective actions for deficiencies in management controls to ensure timely and effective results; and

    - ♦ preparing the Agency's FMFIA portion of the annual Accountability Report to Congress and OMB.

- **Agency managers** are responsible for:
    - knowing the activities for which they are responsible;
    - taking systematic and proactive measures to develop and implement appropriate, cost-effective controls;
    - integrating management controls into each Agency system;
    - knowing the required procedures for controls over the assets and processes for which they are responsible;
    - reviewing management controls, determining their effectiveness, implementing new controls when needed; and
    - asking for help when needed.

❑ Segment the Agency

- USAID basically uses a hierarchical, organizational approach to segmenting the Agency for management control review and reporting purposes.

  - Missions (field assessable units): perform self-assessments periodically, continuously, and no less frequently than annually - and report to their respective geographic bureaus via FMFIA certification.

  - Geographic bureaus: conduct self-assessments, review their missions' FMFIA assessment certifications, determine to what extent to incorporate their missions' findings as a part of the bureau's vulnerabilities, and report to the Administrator via the FMFIA certification.

  - USAID/Washington central bureaus: certify to the Administrator based on their assessment and any assessments performed by subordinate offices/centers.

  - Independent bureaus and offices also report to the Administrator.

  - In addition to USAID/W organizations consolidating reported information to the Administrator, certain functional areas (such as financial management, information resources management, and administrative management via the Management Services Review Guidelines) are evaluated and reported.

Prepare a Management Control Strategy

Cost Effective Management Controls

- Automated Directives System
- Desk procedures
- Mission Orders
- Agency management systems

GAO Control Standards

- Control environment
- Risk assessment
- Control activities
- Information and communications
- Monitoring

- Establish **control objectives** and **control techniques** for each operation (function, activity, system and program).

- **Control objectives:**

  - define what the unit expects to accomplish;

  - include Agency policies; and

  - reduce risk.

- **Control objectives** should be simple, clear and measurable and must take into consideration:

  - the nature of the assessable unit,

  - statutory and regulatory restrictions,

  - staff limitations, and

  - the cost-benefit relationship of each control technique.

- **Control techniques** tell how a unit plans to accomplish the control objectives, i.e. what management processes and documents are necessary to accomplish a control objective. They include:

    - Agency policies and procedures manuals,
    - performance standards,
    - proper authorizations and approvals,
    - adequate training,
    - separation of essential duties,
    - periodic physical inventories and reconciliations,
    - audits, and
    - sufficient supporting documentation.

- **Control techniques** must be evaluated to ensure that they:

    - accomplish the objectives,
    - are both necessary and adequate, and
    - are functioning as intended.

- **Factors To Consider When Developing Assessable Unit Controls**

    - Differences in objectives
    - Managerial judgment
    - Size and complexity of organization
    - Political considerations
    - Operational environment
    - Sensitivity of data
    - Requirements for system reliability

- **Management control limitations** include:
  - management override (ignoring policy/ procedures, failure to follow control techniques);
  - collusion (secret plan to achieve an illegal end);
  - poor judgment and mistakes;
  - cost vs. benefits (the cost of a control should not exceed the benefits likely to be derived);
  - management's failure to officially enforce compliance with Agency management control policy (through inadequate or lack of evaluation, complacency or deliberate ignoring of policy/procedures);
  - management's failure to consistently review and update controls;
  - lack of or insufficient control techniques; and
  - failure to realize that no system of controls is perfect.

- Conduct **risk assessments** for each operation (function, activity, system and program).

- **Risk assessments** serve as:

  - ♦ the first step in improving management controls;

  - ♦ a screening device (early warning);

  - ♦ a quick evaluation;

  - ♦ a documented review of susceptibility; and

  - ♦ a risk identifier.

- Assessable units should record the degree of risk for each operation as high, medium, or low risk.

- A schedule for evaluating each operation should be provided based on the degree of risk, i.e. high risk areas should generally be evaluated more frequently than those of medium or low risk.

- Three important questions to ask:

  - ♦ Have all risks been identified?

  - ♦ Do the controls cover the risks?

  - ♦ Are the controls working?

- The first step in a **risk assessment** is for the manager of an AU to identify the unit's inherent susceptibility to:

    - mismanagement,

    - erroneous reports or data,

    - unauthorized uses of resources,

    - illegal or unethical acts, and

    - adverse or unfavorable public opinion.

- An **inherent risk** is the potential for waste, loss, unauthorized use, or misappropriation due solely to the nature of an activity itself. Examples include cash management, politically influenced situations, and dangerous environments.

- Managers should use existing knowledge, IG and GAO audit reports, management studies and other sources of information to help self-assess the risks in their unit.

- Risk assessments do not include the actual testing of management controls; testing comes with management control reviews.

- Additional guidance on conducting risk assessments has been included on pages 51-54.

▫ Conduct Management Control Reviews

- **Management control reviews** are detailed evaluations of an operation (program, activity, function, or system) to determine whether adequate control techniques exist and are implemented.

- They should be scheduled to review high risks first, medium second and low last - in terms of order and frequency.

- These reviews should be conducted as a part of normal operations, notwithstanding the degree of risk.

- Sources of information for these reviews include:

    - ♦ management knowledge gained from the daily operation of Agency programs and systems;

    - ♦ management reviews conducted for the purpose of assessing management controls or for other purposes with an assessment of management controls as a by-product of the review;

    - ♦ Office of Inspector General (OIG) and General Accounting Office (GAO) reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products;

    - ♦ program evaluations;

    - ♦ reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 and OMB Circular A-130, "Management of Federal Information Resources";

    - ♦ information sources used in preparing the Results Review and Resource Requests (R4s); and

    - ♦ other reviews of operations.

Sample Questions to be Answered in Conducting Reviews

- **Who will:**

  conduct the tests

  be observed

  be interviewed?

- **What will:**

  be reviewed

  be observed

  be collected during interviews?

- **When will:**

  tests be conducted?

- **Where will:**

  observations/interviews be conducted?

Steps in Testing Management Controls

- Identify the control objectives and control techniques in the program, activity, function and system.

- Define effective management controls by selecting a small sample of events (randomly or other method depending on the nature of the operation to be tested).

- Evaluate whether the sample event was in compliance with the management control objectives.

- Document the evaluation results - determine the probability that noncompliance will not be detected or prevented by the management controls.

Methods to Test the Adequacy of Controls when Conducting Management Control Reviews

- Analyze documents (review records, forms, reports, etc.)
- Observe (observe the performance of a control activity or function)
- Physically examine (perform actual examination of tangible assets to determine the status, i.e. existence, type, condition, etc.)
- Interview (hold discussions with key personnel)
- Test transactions (test by processing actual or dummy data)
- Use questionnaires (solicit information in writing)
- Obtain confirmations (request written or oral information)

▫ Take Corrective Action

- The results of management control reviews will assist management in (1) determining the adequacy of management controls and (2) identifying **material weaknesses.**

- A **material weakness** is a deficiency that is determined to be of such significance that it should be reported to the next management level.

- The following criteria describe aspects/impact of a **material weakness:**

    - ♦ the ability to achieve objective is significantly impaired;

    - ♦ resources are not used consistent with Agency mission;

    - ♦ statutory or regulatory requirements lack safeguards against waste, loss, and mismanagement;

    - ♦ the ability to obtain, maintain, report, and use reliable and timely information for decision-making is impaired;

    - ♦ improper ethical conduct or a conflict of interest is permitted.

- The head of an assessable unit must determine if deficiencies meet the definition and criteria to be classified as a material weakness, using sources of information.

- This determination should be made whenever the problem is identified, not just once a year in preparation of the FMFIA certification.

- Deficiencies that are reported to the next highest management level allow the chain of command structure to determine the relative importance of each efficiency, i.e. whether or not the deficiency needs to be reported further up the hierarchy.

- USAID should determine whether systemic problems exist that adversely affect management controls across organizational or program lines in addition to those weaknesses reported through the hierarchical chain.

- A deficiency that the Management Control Review Committee (MCRC) determines to be significant enough to be reported outside the Agency is a material weakness of USAID.

- Possible causes for deficiencies include:

    - excess turnover of personnel at any level,
    - emphasis on achieving program objectives at the expense of efficiency and controls,
    - diversity of operations,
    - ineffective or inefficient delegation of authority,
    - complexity of organizational structure,
    - failure to monitor and evaluate program performance,
    - excessive paperwork,
    - inadequate training, and
    - inadequate audit resources.

- For those operations where inadequate control objectives and/or techniques exist, appropriate controls must be established via a **corrective action plan**, and followed.

- **Corrective action plans** describe the proposed action necessary to improve/resolve/correct the deficiency or weakness, including target dates by which corrective action should be completed.

- **Corrective action plans** should be documented on the "Report on a Material Weakness" form.

- If controls have been established, but are not being adhered to, management should make a special effort to ensure that the controls are understood, communicated, and followed.

- If the reviews reveal controls that are outdated or otherwise not useful or necessary, the controls should be rescinded (subject to legal and regulatory requirements).

- A **corrective action plan:**

  - is a plan of action to correct a management control deficiency
  - includes a timetable for each action that is necessary to correct or improve the deficiency
  - identifies and commits resources required to correct the deficiency
  - is required for every material weakness
  - should be prepared for each deficiency identified because the plan will facilitate monitoring and correction of the deficiency
  - should be in writing and specify the time frame, resources needed and the responsible staff
  - should provide for the periodic assessment of progress against plans
  - should track progress to ensure timely and effective results
  - should contain appropriate milestones and identifiable benchmarks so that progress can be sufficiently monitored
  - should specify ways to validate the correction or improvement in the deficiency
  - should be reviewed by the Management Accountability Official prior to approval by the head of the assessable unit, and
  - should be approved by the manager who is held responsible for the assessable unit reporting the weakness.

▫ Track Progress of Corrective Actions

- Each assessable unit (AU) must appoint a Management Accountability Official (MAO) who is responsible for continuously monitoring the progress of corrective actions by conducting **corrective action reviews.**

- A **corrective action review** is a review of action taken to correct or improve a deficiency.

- The purpose of a **corrective action review** is to confirm that actions have been taken, are being taken, and/or continue to be effective in correcting the problem.

- **Corrective action reviews** should be conducted periodically throughout the year, with formal updates documented as actions are scheduled during the year.

- If the original target date in the corrective action plan cannot be met, the MAO should establish a realistic, revised date, and inform the AU chief and the Agency's FMFIA Coordinator prior to the original target date.

- **Corrective action reviews** should:

  - ♦ be held and completed no later than one year after material weaknesses have been reported as corrected;

  - ♦ include testing, when appropriate, to ensure that the intended objectives of the corrective action plan have been achieved;

  - ♦ include verification of the results, when testing is not appropriate; and

  - ♦ result in continued reporting of the material weakness, if the weakness still exists.

▫ Report on Results

- USAID is required to annually submit to the President and Congress:
    - ♦ a statement on whether there is reasonable assurance that USAID's controls are achieving their intended objectives, and
    - ♦ a report on material weaknesses in USAID's controls.

- In order to ensure that USAID has captured all necessary and appropriate information for the Agency to accurately complete its report, each assessable unit (mission, bureau, and independent office) is required to report FMFIA review results up through the Agency's hierarchical structure.
- At each management level, material weaknesses will be reviewed to determine if they should be reported as material to the next management level.
- Ultimately, the Agency's MCRC will review material weaknesses that have been reported to the Agency level (Administrator) to determine if they will go forward as USAID material weaknesses.
- USAID material weaknesses will be described in the Agency's annual Accountability Report, monitored, and updated by the MCRC until they are no longer considered material.
- As corrective actions are completed, the MAO should document them and change the materiality of the weakness as appropriate.
- If sufficient action has been completed to no longer classify a deficiency as a material weakness, the MAO should report the status to the AU head as well as to the FMFIA Coordinator in Washington, using the "Report on a Material Weakness" form.
- The MAO should also ensure that the cause of each material weakness has been identified and remedied so that recurrences of the same problem are not likely.

- **Accountability Report**
  - Administrator's Message
  - Overview
  - Program Performance
  - Management Performance
  - Financial Management
  - Management Controls
  - Inspector General Audit Opinion
  - Consolidated Financial Statements/Notes
  - Supplemental Financial Information

General Accounting Office Internal Control Standards

- The **GAO Standards:**
    - define the minimum level of quality acceptable for internal control in operations and
    - constitute the criteria against which management control is to be evaluated.
- The following standards determine or influence the adequacy of internal controls:
    - **control environment**
    - **risk assessment**
    - **control activities**
    - **information and communications**
    - **monitoring**

- The **control environment** is the setting that influences the quality of internal control.

- Management and employees should establish and maintain a control environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

- Seven criteria significantly affect the control environment:

  - Integrity and ethical values

    - Provide a code of conduct

    - Remove incentives for unethical behavior

    - Discipline violators

  - Commitment to competence

    - Specify and adhere to job duties

    - Identify appropriate knowledge and skills

    - Provide training and counseling

    - Base performance on critical factors, including internal control

- Management's philosophy and operating style

  - Evaluate management's willingness to accept risk and management's philosophy towards performance-based management.

  - Evaluate the degree to which USAID is governed by political, economic, or regulatory control in determining controls.

  - Maintain a positive attitude and responsiveness towards audits and other evaluations.

  - Maintain a positive, supportive and productive attitude toward information systems, accounting, personnel functions, monitoring operations, and reporting results.

  - Support the Agency's core values.

- Organizational structure

  - Establish an organizational structure that is conducive to effective and efficient planning, directing, and controlling its operations to achieve its objectives.

  - Clearly define key areas of authority and responsibility and establish appropriate lines of reporting.

- Delegations of authority and responsibility

  - Establish delegations of authority and responsibility for operating activities, reporting relationships, and authorization protocols.

  - Establish adequate, but not overly cumbersome, controls.

- Human resource policies and practices

  - Establish, continuously improve, and effectively manage practices for hiring, orienting, training, supervising, evaluating, counseling, promoting, compensating, and disciplining personnel.

  - Provide adequate supervision and accountability.

  - Use incentives to motivate and reward exceptional performances.

- Importance and impact of oversight entities
  - Understand the importance and impact of oversight groups, stakeholders and partners, including
    - Congress
    - Office of Management and Budget (OMB)
    - U.S. Treasury
    - General Services Administration (GSA)
    - Office of Personnel Management (OPM)
    - General Accounting Office (GAO)
    - Host Government Agencies or Implementing Organizations
    - Private Voluntary Organizations (PVOs)
    - Non-Governmental Organizations (NGOs)
    - Contractors, Grantees and Recipients
    - Inspectors General
    - Senior Management Councils

Basic Steps in Performing a Risk Assessment

- Identify operations (all functions, activities, systems, and programs) to be assessed
- Obtain historical information
- Identify inherent risks (see below)
- Define each operation's control objectives
- Identify control techniques
- Develop test checks
- Assess:
  - general control environment
  - inherent risk
  - existing safeguards (control techniques)
  - automated information systems considerations and
  - financial management.
- Determine degree of risk
- Follow-up by adding or strengthening controls and reviewing controls

Inherent Risk

- An inherent risk is the potential for waste, loss, unauthorized use, or misappropriation due solely to the nature of an activity itself.
- Examples of areas or conditions conducive to inherent risks include cash management, politically influenced situations, and dangerous environments.

Causes of Inherent Risk

- Purpose (lack of clear-cut legislation)
- Budget level (large budgets are more susceptible to risk)
- Impact outside the Agency (external pressures)
- Age and life expectancy (new, changing or phasing-out functions or programs more risky)
- Degree of centralization
- Special interest groups (influence, deadlines, etc.)
- Prior reviews (historical record)
- Management's responsiveness (attitude)
- Complexity
- Classified or sensitive material

Factors Affecting Risk

- Changing Agency, office, mission or other conditions necessitate a review of risks associated with the change.
- Some of the changes that might warrant special consideration include:
    - ♦ turnover of key personnel, high personnel turnover or a management change within an assessable unit;
    - ♦ creation of a new assessable unit or reorganization of an existing one;
    - ♦ downsizing of Agency or assessable unit operations;
    - ♦ heavy reliance upon contractors to perform critical Agency operations;
    - ♦ management's inability or reluctance to establish appropriate priorities;
    - ♦ rapid growth or expansion in responsibilities;
    - ♦ production or provision of new outputs;
    - ♦ starting operations in new countries;
    - ♦ reengineering Agency operating processes;
    - ♦ high decentralization of program operations;

Risk Factors Cont'd.

- design or implementation of a new or revised information system;
- implementation of a new or revised performance measuring system;
- disrupted or ineffective information systems processing;
- lack of specific performance measures;
- management concern about a control area;
- prior history of improper program administration;
- lack of an effective internal audit function;
- Agency officials obtaining financial or other benefits on the basis of decisions made or actions taken in an official capacity;
- awarding of grants/contracts by high ranking officials with an inadequate review of such transactions;
- high default rate on loans, high write-offs, or poor inventory controls; and
- domination of a group by a single person or small group.

- **Control activities** are the policies, procedures, techniques, and mechanisms that enforce management's directives.

- **Control activities** should be effective and efficient in addressing risk.

- **Control activities** include approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the maintenance of related records of activities.

- Examples of **control activities** include:

    - ♦ top level reviews of actual performance (GPRA, R4) - planned actions or objectives compared to achievements by the highest level of Agency management;

    - ♦ activity or functional management (reporting) - reviews of performance compared to objectives by Agency officials close to program activities;

    - ♦ human resources management - should be viewed as an Agency asset rather than an Agency cost, and skills and training should be adequate for assigned tasks;

    - ♦ controls over information processing systems - includes accuracy, completeness and appropriateness of transactions; edit checks and reconciliations; trackability; and access control to data, files and programs;

    - ♦ physical control over assets vulnerable to loss, waste, or unauthorized use - appropriate control and reconciliation of physical assets such as equipment, inventories, cash, etc.;

- Examples of **control activities** cont'd.

  - establishment and review of performance measures and indicators - control activities should be established so that comparisons and assessments can be made, weaknesses uncovered, and decisions made based on results;

  - segregation of duties - adequate checks and balances of key duties and responsibilities should be established, with separation among different staff to reduce the risk of error or fraud; (such duties include authorizing transactions, processing and recording them, reviewing them, and handling the related assets;

  - proper execution of transactions and events - transactions and events should be authorized and executed only by those persons acting within the scope of their authority; authorizations should be clearly communicated to managers and employees;

  - accurate and timely recording of transactions and events - transactions and events should be promptly recorded and properly classified t enable managers to make informed and timely decisions;

  - access restrictions to and accountability for resources and records - access to records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained to reduce risk; and

  - appropriate documentation of transactions - internal controls and all transactions and events should be clearly documented and the documentation should be easily accessible.

- USAID's internal control structure must be flexible enough to allow each assessable unit to tailor its controls to address the risks endemic to the unit.

- Factors that must be considered when developing controls to cover risks include:

  - differences in objectives;

  - managerial judgment;

  - size and complexity of the organization;

  - political considerations;

  - operational environment;

  - sensitivity of data; and

  - requirements for system reliability, availability and performance are all factors that must be considered when developing controls to cover risks.

- Control Over Information Systems

    - There are two types of control over information systems, **general control** and **application control**.

    - **General control** applies to all information systems, i.e. mainframe, PCs, end-user environments. This includes data center operations control, system software control, access security control, application system development, and maintenance control.

        - Job set-up and scheduling procedures, controls over operator activities, backup and recovery procedures, and disaster and contingency planning are included in data center and client-server operations control.

        - System software control includes control over the acquisition, implementation, and maintenance of all system software.

        - Access security control protects the systems and network from inappropriate access and unauthorized use. Specific control activities include frequent changes of dial-up numbers, password protection and firewalls to restrict access to assets, computers and networks by inappropriate persons.

        - Application system development and maintenance control provides the structure for safely developing new systems and modifying existing systems.

- **Application control** is designed to help ensure completeness, accuracy, authorization, and validity of all transactions in the processing of data.
    - Controls should also be installed at an application's interfaces with other systems to ensure that (1) all inputs are received and are valid and (2) outputs are correct and properly distributed. Computerized edit checks are an example.
- General and application control over computer systems are interrelated, i.e., one not working properly will adversely affect the other.
- As information technology evolves, control will have to be updated and revised; but the basic concept of controls remains valid. As computers become more powerful, more responsibility for data processing will be placed in the hands of the end users, necessitating more controls that validate data or persons authorized to perform related functions.

- **Information and Communications**

    - **Information** is needed throughout USAID to achieve the Agency's objectives in operations, financial reporting, and compliance.

    - **Information systems** should help control all of USAID's activities, record and track transactions and events, and maintain and report financial and other data related to operations and/or compliance objectives.

    - The quality of information gathered, maintained and reported by USAID will affect management's ability to control the Agency and meet its objectives.

    - **Communications** - information must be communicated by and to the proper personnel.

    - **Communications** must be vertical and horizontal. USAID must be aware of external entities to which it reports or communicates.

    - **Communications** should be tailored to meet the particular needs of the external group making a request.

- Communications can take various forms:
  - Policy and procedure manuals
  - Management directives
  - Memoranda
  - Bulletin board notices
  - Electronic mail
  - Grapevine, official and unofficial
- Effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

- **Monitoring** - a process that assesses the quality of performance over time and ensures that the findings of audits and other reviews are promptly resolved.

    - Continuous **monitoring activities** are performed and are an integral part of USAID's evaluations.

    - These activities include management and supervisory activities, program reviews, team discussions, comparisons, reconciliations, and other reviews.

    - Managers should be routinely informed as to whether internal controls are properly and efficiently working.

    - Operating reports should be integrated or reconciled with financial reporting system data and used to manage operations on an ongoing basis.

Federal Managers' Financial Integrity Act of 1982

An Act

To amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Federal Managers' Financial Integrity Act of 1982".

SEC. 2. Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) is amended by adding at the end thereof the following new subsection:

"(d)(1)(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that—

"(i) obligations and costs are in compliance with applicable law;

"(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

"(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

"(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

"(2) By December 31, 1982, the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.

"(3) By December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement—

"(A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or

"(B) that such systems do not fully comply with such requirements.

"(4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

"(5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is—

"(A) specifically prohibited from disclosure by any provision of law; or

"(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs,

such information shall be deleted prior to the report or statement being made available to the public.".

SEC. 3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C. 11), is amended by adding at the end thereof the following new subsection:

"(k)(1) The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1983, a separate statement, with respect to each department and establishment, of the amounts of appropriations requested by the President for the Office of Inspector General, if any, of each such establishment or department.

"(2) At the request of a committee of the Congress, additional information concerning the amount of appropriations originally requested by any office of Inspector General, shall be submitted to such committee.".

SEC. 4. Section 113(b) of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a(b)), is amended by adding at the end thereof the following new sentence: "Each annual statement prepared pursuant to subsection (d) of this section shall include a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of this Act.".

Approved September 8, 1982.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 21, 1995

Circular No. A-123
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

FROM: Alice M. Rivlin
Director

SUBJECT: Management Accountability and Control

1. Purpose and Authority. As Federal employees develop and implement strategies for reengineering agency programs and operations, they should design management structures that help ensure accountability for results, and include appropriate, cost-effective controls. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

The Circular is issued under the authority of the Federal Managers' Financial Integrity Act of 1982 as codified in 31 U.S.C. 3512.

The Circular replaces Circular No. A-123, "Internal Control Systems," revised, dated August 4, 1986, and OMB's 1982 "Internal Controls Guidelines" and associated "Questions and Answers" document, which are hereby rescinded.

2. Policy. Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

3. Actions Required. Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls.

4. Effective Date. This Circular is effective upon issuance.

5. Inquiries. Further information concerning this Circular may be obtained from the Management Integrity Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, 202/395-6911.

6. Copies. Copies of this Circular may be obtained by telephoning the Executive Office of the President, Publication Services, at 202/395-7332.

7. Electronic Access. This document is also accessible on the U.S. Department of Commerce's FedWorld Network under the OMB Library of Files.

- The Telnet address for FedWorld via Internet is "fedworld.gov".
- The World Wide Web address is "http://www.fedworld.gov/ftp.htm#omb".
- For file transfer protocol (FTP) access, the address is "ftp://fwux.fedworld.gov/pub/omb/omb.htm".

The telephone number for the FedWorld help desk is 703/487-4608.

Attachment

Attachment

I. INTRODUCTION

The proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement.

To support results-oriented management, the Government Performance and Results Act (GPRA, P.L. 103-62) requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. As the Federal government implements this legislation, these plans and goals should be integrated into (i) the budget process, (ii) the operational management of agencies and programs, and (iii) accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved.

Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls -- organization, policies, and procedures -- are tools to help program and financial managers achieve results and safeguard the integrity of their programs. This Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA, referred to as the Integrity Act throughout this document).

Framework. The importance of management controls is addressed, both explicitly and implicitly, in many statutes and executive documents. The Federal Managers' Financial Integrity Act (P.L. 97-255) establishes specific requirements with regard to management controls. The agency head must establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. 31 U.S.C. 3512(c)(1). In addition, the agency head annually must evaluate and report on the control and financial systems that protect the integrity of Federal programs. 31 U.S.C. 3512(d)(2).

The Act encompasses program, operational, and administrative areas as well as accounting and financial management.

Instead of considering controls as an isolated management tool, agencies should integrate their efforts to meet the requirements of the Integrity Act with other efforts to improve effectiveness and accountability. Thus, management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

For instance, good management controls can assure that performance measures are complete and accurate. As another example, the management control standard of organization would align staff and authority with the program responsibilities to be carried out, improving both effectiveness and accountability. Similarly, accountability for resources could be improved by more closely aligning budget accounts with programs and charging them with all significant resources used to produce the program's outputs and outcomes.

Meeting the requirements of the **Chief Financial Officers Act** (P.L. 101-576, as amended) should help agencies both establish and evaluate management controls. The Act requires the preparation and audit of financial statements for 24 Federal agencies. 31 U.S.C. 901(b), 3515. In this process, auditors report on internal controls and compliance with laws and regulations. Therefore, the agencies covered by the Act have a clear opportunity both to improve controls over their financial activities, and to evaluate the controls that are in place.

The **Inspector General Act** (P.L. 95-452, as amended) provides for independent reviews of agency programs and operations. Offices of Inspectors General (OIGs) and other external audit organizations frequently cite specific deficiencies in management controls and recommend opportunities for improvements. Agency managers, who are required by the Act to follow up on audit recommendations, should use these reviews to identify and correct problems resulting from inadequate, excessive, or poorly designed controls, and to build appropriate controls into new programs.

Federal managers must carefully consider the appropriate balance of controls in their programs and operations. Fulfilling requirements to eliminate regulations (**"Elimination of One-Half of Executive Branch Internal Regulations,"** Executive Order 12861) should reinforce to agency managers that too many controls can result in inefficient and ineffective government, and therefore that they must ensure an appropriate balance between too many controls and too few controls. Managers should benefit from controls, not be encumbered by them.

Agency Implementation. Appropriate management controls should be integrated into each system established by agency management to direct and guide its operations. A separate management control process need not be instituted, particularly if its sole purpose is to satisfy the Integrity Act's reporting requirements.

Agencies need to plan for how the requirements of this Circular will be implemented. Developing a written strategy for internal agency use may help ensure that appropriate action is taken throughout the year to meet the objectives of the Integrity Act. The absence of such a strategy may itself be a serious management control deficiency.

Identifying and implementing the specific procedures necessary to ensure good management controls, and determining how to evaluate the effectiveness of those controls, is left to the discretion of the agency head. However, agencies should implement and evaluate controls without creating unnecessary processes, consistent with recommendations made by the National Performance Review.

The President's Management Council, composed of the major agencies' chief operating officers, has been established to foster governmentwide management changes ("Implementing Management Reform in the Executive Branch," October 1, 1993). Many agencies are establishing their own senior management council, often chaired by the agency's chief operating officer, to address management accountability and related issues within the broader context of agency operations. Relevant issues for such a council include ensuring the agency's commitment to an appropriate system of management controls; recommending to the agency head which control deficiencies are sufficiently serious to report in the annual Integrity Act report; and providing input for the level and priority of resource needs to correct these deficiencies. (See also Section III of this Circular.)

II. ESTABLISHING MANAGEMENT CONTROLS

Definition of Management Controls. Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing, and controlling program operations. A subset of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets.

Developing Management Controls. As Federal employees develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls. The expertise of the agency CFO and IG can be valuable in developing appropriate controls.

Management controls guarantee neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with Federal programs and operations. To help ensure that controls are appropriate and cost-effective, agencies should consider the extent and cost of controls relative to the importance and risk associated with a given program.

Standards. Agency managers shall incorporate basic management controls in the strategies, plans, guidance and procedures that govern their programs and operations. Controls shall be consistent with the following standards, which are drawn in large part from the "Standards for Internal Control in the Federal Government," issued by the General Accounting Office (GAO).

General management control standards are:

- **Compliance With Law.** All program operations, obligations and costs must comply with applicable law and regulation. Resources should be efficiently and effectively allocated for duly authorized purposes.

- **Reasonable Assurance and Safeguards.** Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.

- **Integrity, Competence, and Attitude.** Managers and employees must have personal integrity and are obligated to support the ethics programs in their agencies. The spirit of the Standards of Ethical Conduct requires that they develop and implement effective management controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

Specific management control standards are:

- **Delegation of Authority and Organization.** Managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.

- **Separation of Duties and Supervision.** Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

- **Access to and Accountability for Resources.** Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

- **Recording and Documentation.** Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

- **Resolution of Audit Findings and Other Deficiencies.** Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

Other policy documents may describe additional specific standards for particular functional or program activities. For example, OMB Circular No. A-127, "Financial Management Systems," describes government-wide requirements for financial systems. The Federal Acquisition Regulations define requirements for agency procurement activities.

III. ASSESSING AND IMPROVING MANAGEMENT CONTROLS

Agency managers should continuously monitor and improve the effectiveness of management controls associated with their programs. This continuous monitoring, and other periodic evaluations, should provide the basis for the agency head's annual assessment of and report on management controls, as required by the Integrity Act. Agency management should determine the appropriate level of documentation needed to support this assessment.

Sources of Information. The agency head's assessment of management controls can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment. Sources of information include:

- Management knowledge gained from the daily operation of agency programs and systems.
- Management reviews conducted (i) expressly for the purpose of assessing management controls, or (ii) for other purposes with an assessment of management controls as a by-product of the review.
- IG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.
- Program evaluations.
- Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other materials prepared relating to the statements.
- Reviews of financial systems which consider whether the requirements of OMB Circular No. A-127 are being met.
- Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 (40 U.S.C. 759 note) and OMB Circular No. A-130, "Management of Federal Information Resources."
- Annual performance plans and reports pursuant to the Government Performance and Results Act.
- Reports and other information provided by the Congressional committees of jurisdiction.
- Other reviews or reports relating to agency operations, e.g. for the Department of Health and Human Services, quality control reviews of the Medicaid and Aid to Families with Dependent Children programs.

Use of a source of information should take into consideration whether the process included an evaluation of management controls. Agency management should avoid duplicating reviews which assess management controls, and should coordinate their efforts with other evaluations to the extent practicable.

If a Federal manager determines that there is insufficient information available upon which to base an assessment of management controls, then appropriate reviews should be conducted which will provide such a basis.

Identification of Deficiencies. Agency managers and employees should identify deficiencies in management controls from the sources of information described above. A deficiency should be reported if it is or should be of interest to the next level of management. Agency employees and managers generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency.

A deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e. included in the annual Integrity Act report to the President and the Congress) shall be considered a "material weakness."[1] This designation requires a judgment by agency managers as to the relative risk and significance of deficiencies. Agencies may wish to use a different term to describe less significant deficiencies, which are reported only internally in an agency. In identifying and assessing the relative importance of deficiencies, particular attention should be paid to the views of the agency's IG.

Agencies should carefully consider whether systemic problems exist that adversely affect management controls across organizational or program lines. The Chief Financial Officer, the Senior Procurement Executive, the Senior IRM Official, and the managers of other functional offices should be involved in identifying and ensuring correction of systemic deficiencies relating to their respective functions.

Agency managers and staff should be encouraged to identify and report deficiencies, as this reflects positively on the agency's

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[1]This Circular's use of the term "material weakness" should not be confused with use of the same term by government auditors to identify management control weaknesses which, in their opinion, pose a risk or a threat to the internal control systems of an audited entity, such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if the management of the audited entity would not report the weaknesses outside the agency.

commitment to recognizing and addressing management problems. Failing to report a known deficiency would reflect adversely on the agency.

Role of A Senior Management Council. Many agencies have found that a senior management council is a useful forum for assessing and monitoring deficiencies in management controls. The membership of such councils generally includes both line and staff management; consideration should be given to involving the IG. Such councils generally recommend to the agency head which deficiencies are deemed to be material to the agency as a whole, and should therefore be included in the annual Integrity Act report to the President and the Congress. (Such a council need not be exclusively devoted to management control issues.) This process will help identify deficiencies that although minor individually, may constitute a material weakness in the aggregate. Such a council may also be useful in determining when sufficient action has been taken to declare that a deficiency has been corrected.

IV. CORRECTING MANAGEMENT CONTROL DEFICIENCIES

Agency managers are responsible for taking timely and effective action to correct deficiencies identified by the variety of sources discussed in Section III. Correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency.

The extent to which corrective actions are tracked by the agency should be commensurate with the severity of the deficiency. Corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results. For deficiencies that are not included in the Integrity Act report, corrective action plans should be developed and tracked internally at the appropriate level.

A determination that a deficiency has been corrected should be made only when sufficient corrective actions have been taken and the desired results achieved. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials. (See also role of senior management council in Section III.)

As managers consider IG and GAO audit reports in identifying and correcting management control deficiencies, they must be mindful of the statutory requirements for audit followup included in the IG Act, as amended. Under this law, management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached. 5 U.S.C. Appendix 3. (Management must make a decision regarding

IG audit recommendations within a six month period and implementation of management's decision should be completed within one year to the extent practicable.) Agency managers and the IG share responsibility for ensuring that IG Act requirements are met.

V. REPORTING ON MANAGEMENT CONTROLS

Reporting Pursuant to Section 2. 31 U.S.C. 3512(d)(2) (commonly referred to as Section 2 of the Integrity Act) requires that annually by December 31, the head of each executive agency submit to the President and the Congress (i) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (ii) a report on material weaknesses in the agency's controls. OMB may provide guidance on the composition of the annual report.

- Statement of Assurance. The statement on reasonable assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of management controls within the agency. The statement must take one of the following forms: statement of assurance; qualified statement of assurance, considering the exceptions explicitly noted; or statement of no assurance.

  In deciding on the type of assurance to provide, the agency head should consider information from the sources described in Section III of this Circular, with input from senior program and administrative officials and the IG. The agency head must describe the analytical basis for the type of assurance being provided, and the extent to which agency activities were assessed. The statement of assurance must be signed by the agency head.

- Report on Material Weaknesses. The Integrity Act report must include agency plans to correct the material weaknesses and progress against those plans.

Reporting Pursuant to Section 4. 31 U.S.C. 3512(d)(2)(B) (commonly referred to as Section 4 of the Integrity Act) requires an annual statement on whether the agency's financial management systems conform with government-wide requirements. These financial systems requirements are presented in OMB Circular No. A-127, "Financial Management Systems," section 7. If the agency does not conform with financial systems requirements, the statement must discuss the agency's plans for bringing its systems into compliance.

If the agency head judges a deficiency in financial management systems and/or operations to be material when weighed against other agency deficiencies, the issue must be included in the annual Integrity Act report in the same manner as other material weaknesses.

Distribution of Integrity Act Report. The assurance statements and information related to both Sections 2 and 4 should be provided in a single Integrity Act report. Copies of the report are to be transmitted to the President; the President of the Senate; the Speaker of the House of Representatives; the Director of OMB; and the Chairpersons and Ranking Members of the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the relevant authorizing and appropriations committees and subcommittees. In addition, 10 copies of the report are to be provided to OMB's Office of Federal Financial Management, Management Integrity Branch. Agencies are also encouraged to make their reports available electronically.

Streamlined Reporting. The Government Management Reform Act (GMRA) of 1994 (P.L. 103-356) permits OMB for fiscal years 1995 through 1997 to consolidate or adjust the frequency and due dates of certain statutory financial management reports after consultation with the Congress. GMRA prompted the CFO Council to recommend to OMB a new approach towards financial management reporting which could help integrate management initiatives. This proposal is being pilot-tested by several agencies for FY 1995. Further information on the implications of this initiative for other agencies will be issued by OMB after the pilot reports have been evaluated. In the meantime, the reporting requirements outlined in this Circular remain valid except for those agencies identified as pilots by OMB.

Under the CFO Council approach, agencies would consolidate Integrity Act information with other performance-related reporting into a broader "Accountability Report" to be issued annually by the agency head. This report would be issued as soon as possible after the end of the fiscal year, but no later than March 31 for agencies producing audited financial statements and December 31 for all other agencies. The proposed "Accountability Report" would integrate the following information: the Integrity Act report, management's Report on Final Action as required by the IG Act, the CFOs Act Annual Report (including audited financial statements), Civil Monetary Penalty and Prompt Payment Act reports, and available information on agency performance compared to its stated goals and objectives, in preparation for implementation of the GPRA.

Government Corporations. Section 306 of the Chief Financial Officers Act established a reporting requirement related to management controls for corporations covered by the Government Corporation and Control Act. 31 U.S.C. 9106. These corporations must submit an annual management report to the Congress not later than 180 days after the end of the corporation's fiscal year.

This report must include, among other items, a statement on control systems by the head of the management of the corporation consistent with the requirements of the Integrity Act.

The corporation is required to provide the President, the Director of OMB, and the Comptroller General a copy of the management report when it is submitted to Congress.

Appendix C

Major Functional Series 500 Management Services
ADS 596 Management Accountability and Control

Major Functional Series 500 Management Services
ADS 596 Management Accountability and Control

596.1 Authority

1. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 (P.L. 97-255).
2. OMB Circular A-123, Management Accountability and Control, revised June 21, 1995.
3. Inspector General Act Amendments of 1988, Public Law 100-504, October 18, 1988.

4. Government Performance and Results Act (GPRA) of 1993, Public Law 102-62.
5. Chief Financial Officer's (CFO) Act of 1990, Public Law 101-576, November 15, 1990.

596.2 Objective

To provide policy and procedures for improving the accountability and effectiveness of USAID's programs and operations by establishing, assessing, correcting, and reporting on management controls.

596.3 Responsibility

1. The Administrator

a) Ensures the Agency's commitment to an appropriate system of management controls which facilitates the achievement of results and safeguards the integrity of Agency programs.

b) Submits a statement by December 31 of each year to the President and Congress on the overall adequacy and effectiveness of USAID's management controls.

2. The Deputy Administrator

Chairs the Agency's Management Control Review Committee (MCRC).

3. Management Control Review Committee:

a) Serves as the policy-making body in management control matters.

b) Ensures that audit follow-up responsibilities are effectively managed by senior staff.

c) Reviews and approves the Agency's strategy, policies and procedures for governing management control activities.

d) Provides oversight for the identification, correction and reporting of management control deficiencies.

e) Resolves audit disagreements between Agency management and the Office of the Inspector General.

4. Bureau for Management/Office of Management Planning and Innovation (M/MPI)

a) Serves as the support staff for the MCRC in all management control matters.

b) Develops and maintains Agency policies and essential procedures on management accountability and control.

c) Provides guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls.

d) Monitors the progress of actions to correct deficiencies in management controls to ensure timely and effective results.

e) Prepares the Agency's annual Federal Managers' Financial Integrity Act (FMFIA) report to the President and Congress.

5. Office of the Inspector General

a) Conducts or supervises investigations and audits of Agency programs and operations.

b) Provides advice to Agency staff to facilitate corrective action for deficiencies in management controls.

c) Recommends management controls to promote economy, efficiency and effectiveness; and to prevent and detect fraud and abuse in Agency programs and operations.

6. Assessable Unit

a) Appoints a Management Control Official (MCO) who oversees and coordinates management accountability and control issues within the organizational unit.

b) Continuously performs management control assessments in accordance with instructions issued by M/MPI, identifying deficiencies in programs and operations.

c) Develops corrective action plans to address deficiencies and tracks progress to ensure timely and effective results.

7. Agency Managers

a) Ensure that management controls are incorporated into strategies, plans, guidance and procedures that govern the programs and operations.

b) Ensure the quality and timeliness of program performance and that programs are managed with integrity and in compliance with applicable law.

8. Regional Bureaus/Independent Offices

a) Review and coordinate subordinate units' certifications.

b) Consolidate **Bureau/Office** report with reports from subordinate units.

9. Author Offices for the Automated Directives System (ADS)

a) Develop, update, clear and continuously maintain specific Agency policies and essential procedures.

b) Determine the need for additional or revised policies and essential procedures based on identified management control deficiencies or legislative or regulation changes that effect current Agency policy and essential procedure.

10. Strategic Objective Teams

a) Ensure that management control standards are maintained in the implementation of activities to achieve strategic objectives.

b) Continuously evaluate the effectiveness of management controls for the implementation of strategic objectives.

c) Establish internal management controls for team operations consistent with delegated authorities.

596.4 DEFINITIONS (See Glossary)

ASSESSABLE UNIT
MANAGEMENT ACCOUNTABILITY
MANAGEMENT ACCOUNTABILITY OFFICIAL
MANAGEMENT ACTION OFFICIAL
MANAGEMENT CONTROLS
MANAGEMENT CONTROL REVIEW COMMITTEE
MANAGEMENT CONTROL STANDARDS
MATERIAL WEAKNESS

596.5 POLICY

*** The statements contained within the .5 section of this ADS chapter are the official Agency policies and corresponding essential procedures** governing management accountability and control.

596.5.1 ESTABLISHING MANAGEMENT CONTROLS

USAID shall develop and implement appropriate, cost-effective management controls for results-oriented management which reasonably ensure that:

a) Obligations and costs comply with applicable law;

b) Assets are safeguarded against waste, loss, unauthorized use or misappropriation; and

c) Revenues and expenditures are properly recorded and accounted for.

USAID's management controls shall be consistent with the following standards:

a) All program operations, obligations and costs shall comply with applicable laws and regulations. Resources shall be efficiently and effectively allocated for duly authorized purposes.

b) Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

c) Management controls must be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.

d) Managers and employees must have personal integrity and be obligated to support Agency ethics programs.

e) Managers must ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that appropriate organizational structure is established to effectively carry out program responsibilities.

f) Key duties and responsibilities in authorizing, processing, recording, and reviewing official Agency transactions must be separated among individuals. Managers must exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

g) Access to resources and records shall be limited to authorized individuals, and accountability for the custody and use of resources shall be assigned and maintained.

h) Transactions must be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events shall be clear and readily available for examination.

i) Managers shall promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers shall complete, within established timeframes, all actions that correct or otherwise resolve deficiencies.

E596.5.1 Establishing Management Controls - N/A

E596.5.1a Cognizant Managers

Cognizant managers shall ensure that appropriate and cost-effective management controls are established to safeguard the integrity of the programs and operations and to facilitate the achievement of results.

E596.5.1b Author Offices of the Automated Directives System

Agency policies and essential procedures shall be incorporated into the Agency's Automated Directives System (ADS) by the designated author office. The designated office shall be notified by cognizant managers where a need for additional policies or essential procedures is identified as a result of the assessment of management controls. **(See also ADS 501).**

596.5.2 ASSESSING THE ADEQUACY OF MANAGEMENT CONTROLS

USAID shall continuously assess and improve the effectiveness of management controls associated with the Agency's programs and operations.

E596.5.2 Assessing the Adequacy of Management Controls

Agency managers and staff shall use a variety of information sources to assess management controls and identify deficiencies. Sources include, but are not limited to, the following:

a) Management knowledge gained from the daily operation of Agency programs and systems;

b) Management reviews conducted for the purpose of assessing management controls or for other purposes with an assessment of management controls as a by-product of the review;

c) Office of Inspector General (IG) and General Accounting Office (GAO) reports, including audits, inspections, reviews, investigations, outcome of hotline complaints or other products;

d) Program evaluations;

e) Audits of financial statements conducted pursuant to the Government Management Reform Act;

f) Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 and OMB Circular A-130, "Management of Federal Information Resources";

g) Reports on the progress in improving the efficiency and effectiveness of operations through the use of information technology pursuant to the Information Technology Reform Act of 1996;

h) Reviews of financial systems which consider whether the requirements of OMB Circular A-127 have been met.

i) Annual performance plans and reports pursuant to the Government Performance and Results Act;

j) Reports and other information provided by Congressional committees; and

k) Other reviews relating to Agency operations.

596.5.3 IMPROVING AND CORRECTING MANAGEMENT CONTROLS

Management officials shall take timely and effective action to improve or correct management control deficiencies in accordance with the corrective action plans developed by the responsible assessable unit.

E596.5.3 Improving and Correcting Management Controls - N/A

596.5.3a MANAGEMENT CONTROL REVIEW COMMITTEE (MCRC)

The Agency shall establish a central Management Control Review Committee (MCRC) to provide oversight for the Agency's audit and management control processes. USAID missions shall establish an MCRC to provide oversight at the mission level.

E596.5.3a Management Control Review Committee

The Agency's MCRC shall convene at least quarterly to assess and monitor deficiencies in management controls.

The Committee shall be chaired by the Deputy Administrator and the permanent membership shall be comprised of the following:

* Assistant Administrator for the Bureau for Management
* Assistant Administrator for Africa
* Assistant Administrator for Asia and Near East
* Assistant Administrator for the Bureau for Europe and the New Independent States
* Assistant Administrator for Latin America and the Caribbean
* Assistant Administrator for Global Programs, Field Support and Research
* Assistant Administrator for Humanitarian Response
* Assistant Administrator for Legislative and Public Affairs
* Assistant Administrator for Policy and Program Coordination
* General Counsel
* Inspector General
* Director, Office of Small and Disadvantaged Business Utilization
* Director, Office of Equal Opportunity Programs
* Director, Office of Management Planning and Innovation
* Director, Office of Administrative Services
* Director, Office of Budget
* Director, Office of Financial Management/Chief Financial Officer
* Director, Office of Human Resources
* Director, Office of Information Resources Management

* Director, Office of Procurement

* Chief of Staff

The mission director shall determine the composition of the mission MCRC and ensure that periodic meetings are conducted.

596.5.3b AUDIT RECOMMENDATIONS

Management action officials designated within each assessable unit for audit follow-up shall take action to reach agreement with the Office of the Inspector General on corrective actions to address audit recommendations within six months of the issuance of the audit report. A reasonable effort shall be made to complete corrective action on audit recommendations within one year of a management decision **(See also ADS 592, "Performance Audit Management" and ADS 591, "Financial Audits of U.S. Contractors, Grantees and Host Government Recipients.")**

E596.5.3b Audit Recommendations

For essential procedures pertaining to follow-up on audit recommendations see **ADS 592, "Performance Audit Management" and ADS 591, "Financial Audits of U.S. Contractors, Grantees and Host Government Recipients.**

596.5.3c CORRECTIVE ACTION PLANS

Assessable units shall develop corrective action plans for identified management control deficiencies and progress against the plans shall be periodically assessed and reported to the next management level.

Cognizant managers shall track progress to ensure timely and effective results. A determination that a deficiency has been corrected shall be made by the cognizant manager when sufficient corrective actions have been taken and the desired results achieved.

E596.5.3c Corrective Action Plans

The Office of Management Planning and Innovation shall monitor the implementation of corrective actions and keep the MCRC informed of progress.

596.5.4 REPORTING ON MANAGEMENT CONTROLS

The Administrator shall submit annually by December 31 to the President and Congress:

a) A statement on whether there is reasonable assurance that the Agency's controls are achieving their intended objectives; and

b) A report on material weaknesses in the Agency's controls.

The report shall encompass program, operational, and administrative areas, as well as accounting and financial management.

E596.5.4 Reporting on Management Controls N/A

E596.5.4a Designation of Assessable Units

All missions, bureaus and independent offices shall be designated assessable units. USAID/Washington regional and central bureaus shall have the flexibility to designate lower-level organizational units as assessable units or to use an alternative means of ensuring a comprehensive report on the status of controls in the bureau.

E596.5.4b Reporting on Management Controls by Assessable Unit

Each assessable unit shall provide an annual certification to the next management level (e.g., mission report to the cognizant Assistant Administrator) on the overall adequacy and effectiveness of management controls. Each assessable unit must consider information from sources described in E596.5.2 in assessing the overall status of controls **(See E596.5.2)**. The certification shall include the following:

1) A statement on whether there is reasonable assurance that management controls are achieving their intended objectives;

2) A description of deficiencies determined to be material weaknesses, including those that are not correctable within the assessable unit's authority and resources;

3) Corrective action plans and dates.

A weakness shall be designated as material if the assessable unit determines that it is of such significance that it should be reported to the next level. Generally such a weakness would:

1) Significantly impair the organization's ability to achieve its objectives;

2) Result in the use of resources in a way that is inconsistent with the Agency mission;

3) Violate statutory or regulatory requirements;

4) Result in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;

5) Impair the ability to obtain, maintain, report and use reliable and timely information for decision making; or

6) Permit improper ethical conduct or a conflict of interest.

E596.5.4c Bureau/Independent Office Certification

Assistant Administrators must review certifications submitted by missions or offices within their respective bureaus and determine whether identified weaknesses are of such significance that they should be classified as material weaknesses, and consequently included in the bureau's certification to the Administrator.

Each Assistant Administrator and Independent Office Director must submit a consolidated certification to the Administrator which includes the information described in E596.5.4b. A copy of the bureau or independent office certification must be provided to M/MPI.

E596.5.4d Management Control Review Committee (MCRC) Review of Deficiencies

The Management Control Review Committee shall review the deficiencies reported by Assistant Administrators and Independent Office Directors and recommend to the Administrator which deficiencies are deemed to be material to the Agency as a whole and must, therefore, be included in the annual FMFIA report to the President and the Congress. Any deficiencies identified by the Office of the Inspector General as potential material weaknesses shall also be considered by the Committee.

The MCRC shall also review corrective action plans to ensure that they are adequate to address the deficiencies.

E596.5.4e The Administrator's Report

M/MPI shall prepare the Administrator's report to the President and Congress based on the MCRC decisions. The report must include the following:

1) A statement on whether there is reasonable assurance that the Agency's controls are achieving their intended objectives;

2) A report on material weaknesses and corrective action plans; and

3) A statement on whether the Agency's financial management systems conform to government-wide requirements and plans for bringing non-conforming systems into compliance.

The Administrator's statement of assurance shall take one of the following forms:

a. Statement of reasonable assurance that the management controls are overall adequate and effective;

b. A qualified statement of assurance considering the exceptions explicitly noted; or

c. Statement of no assurance.

596.5.5 EVALUATION OF STAFF PERFORMANCE ON MANAGEMENT CONTROL RESPONSIBILITIES

Annual Evaluation Forms (AEFs) shall reflect management control responsibilities as set forth in this chapter, and employees shall be evaluated on their effectiveness in carrying out the responsibilities.

E596.5.5 Evaluation of Staff Performance on Management Control

Responsibilities

USAID managers shall ensure that work elements and performance appraisals reflect the effectiveness of USAID staff in establishing, assessing, correcting, and reporting on management controls.

596.6 Supplementary Reference

Agency General Notice: Automated Directives System Chapter 596 - Management Accountability and Control

596.7 Mandatory Reference - N/A