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# Internal Control Drives Mission Success

A Fresh Perspective for Every Federal Employee



  
**MANAGEMENT  
CONCEPTS**

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## Introduction

Every financial professional understands the need for checks and balances. A duplicated transaction, incorrect payment, or uncounted asset will result in significant miscalculations—and potential penalties—for an organization. Now, consider the impact of such errors in **executive branch agencies** allocated between **12 billion** and 1.2 trillion dollars in **FY2021 budget proposals**. With such large sums at stake, it is not difficult to understand why it was necessary to implement a system that would ensure that the efforts of each agency led to the achievement of their mission objectives.

As we stand in awe of the magnitude of projects and programs that are run by our federal agencies, we might think of a simpler time, a time when these United States were just getting started. Our executive branch agencies have evolved over time, and global and national events have had a hand in shaping our society and our government.

According to the Constitution, the purpose of the federal government is to "...establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity." As the nation has matured, our need for sophisticated, purpose-built federal organizations has grown.

Many agencies began as a part of another agency and were adapted to meet these changing needs. The first executive branch agencies, established in 1789, were the Department of State, the Department of Treasury, the Department of War, and the Attorney General. In 1903 the Department of Commerce and Labor was established. When the military forces were unified under one department in 1947, they were called the National Military Establishment. Despite the importance of healthcare and education, the Department of Health, Education, and Welfare was not established until 1953. This clearly demonstrates that the needs of our society continue to evolve, even now.

Yet with this increased specialization comes increased complexity, both within the agencies and across the government. The ability to manage this level of complexity is an effective argument for a more formal internal control process that does not rely on a single individual or department.

Reflecting on this intention, we launch our in-depth exploration of internal control in the federal government—why it exists and how each federal employee can ensure the American people realize the justice, tranquility, protection, preservation, liberty, and prosperity that was envisioned by our founders.

## Definitions

- **Internal Control** is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.
- **An Internal Control System** is a continuous built-in component of operations, effected by people that provides reasonable assurance that an entity's objectives will be achieved.
- **Federal Managers** establish, maintain, and improve controls within the scope of responsibility and setting the tone to support a good internal control program.
- **Public Service Workers** and Military Personnel implement controls within their environments.

Source: GAO Standards for Internal Control in the Federal Government

## What Is Internal Control?

Simply stated, internal control can be defined as an action that causes a desirable effect or prevents an undesirable effect. The **Government Accountability Office** (GAO) and the **Office of Management and Budget** (OMB) provide much more complex explanations, but really, it all comes down to intention.

When we act with intent, we control (or at least try to control) our results. This perspective is not limited to finance. It applies to every decision we make every day, personally and professionally, regardless of rank, position, or years of experience. When we lock our doors at home, we intend to prevent an undesirable situation, thus initiating a personal internal control.

### Guidance

While the **Federal Managers Financial Integrity Act of 1982** (FMFIA) requires executive branch agencies to perform annual internal control evaluations and submit assurance statements based on those reviews, it is the GAO that has developed **Standards for Internal Control in the Federal Government**.

**OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control** provides guidance that ensures that agencies apply the standards. Because every agency's mission is different, each federal agency should develop a tailored internal control program for their managers to use as a guide. For the best results, agency leaders should also develop and maintain tailored guidance for internal use to fully align internal control requirements with the strategic goals and mission of their agency.

### Intention

This document is intended to provide federal government employees, at all levels, a fresh perspective on how to contribute to an internal control program that communicates when and how internal controls increase the efficiency and effectiveness of federal agencies. We trust that you are well acquainted with the GAO's **Green Book**; therefore, we will move on and explore the process requirements that differentiate one internal control program from another.

The five major components of the GAO standards provide a logical progression for any program. A good manager, desiring to achieve agency goals, would understand that they would have to establish a process to accomplish the tasks. In designing the process, the manager implements measures to ensure desired outcomes. These measures are controls. The managers implement the first step, control environment, by establishing a legal process using competent staff to complete needed tasks. Doesn't every manager want to accomplish this?

The second step, risk assessment, is accomplished when the manager identifies things that could pose a threat to accomplishing the mission. The next step is determining that steps in the process would include procedures that prevent or at least greatly reduce the likelihood of the risks occurring. By adding those procedures, the manager implements the third step in GAO's standards—control activities. The fourth step, information and communication, is a big one if the manager wants to achieve success. The manager must communicate with the staff involved what they are to do and how they are to do it.

And then, what does the manager do last? The manager checks to be sure that the staff is doing what they are supposed to do. Some call it good supervision; some call it monitoring. Keeping the standards simple, we can see that they prescribe the commonsense approach to good management.

## Standards for Internal Control in the Federal Government

Each of the five components of internal control contains several principles. Principles are the requirements of each component.

### Control Environment

- Principle 1 – Demonstrate Commitment to Integrity and Ethical Values
- Principle 2 – Exercise Oversight Responsibility
- Principle 3 – Establish Structure, Responsibility, and Authority
- Principle 4 – Demonstrate Commitment to Competence
- Principle 5 – Enforce Accountability

### Risk Assessment

- Principle 6 – Define Objectives and Risk Tolerances
- Principle 7 – Identify, Analyze, and Respond to Risks
- Principle 8 – Assess Fraud Risk
- Principle 9 – Identify, Analyze, and Respond to Change

### Control Activities

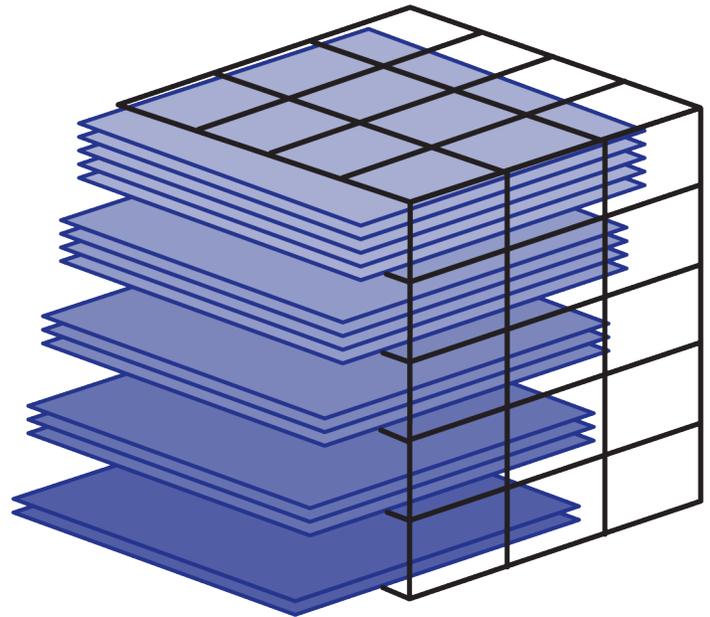
- Principle 10 – Design Control Activities
- Principle 11 – Design Activities for the Information System
- Principle 12 – Implement Control Activities

### Information and Communication

- Principle 13 – Use Quality Information
- Principle 14 – Communicate Internally
- Principle 15 – Communicate Externally

### Monitoring

- Principle 16 – Perform Monitoring Activities
- Principle 17 – Evaluate Issues and Remediate Deficiencies



## Leaders Prepare the Environment to Achieve Desired Outcomes Through Internal Control

Before we evaluate or design a mission-related process, we should first take a step back and look at the big picture. Where does the need for this process originate? What guidance do we have? What levels of the organization will be involved? And, most importantly, what expected outcomes are driving the process initiation? We must establish a mission or objective on which to focus.

### Culture

One way to ensure effective and efficient operations is through the organization's culture—how people relate to one another, from top-level executives to recruits. Leaders should model a sense of unity tied to the mission, their commitment to public service for the benefit of all Americans (Principle 1). It is of great importance that each federal employee aspires to exhibit admirable character traits, such as those listed in the **Senior Executive Service Executive Core Qualifications** and the **Program Management Improvement Accountability Act, Program, and Project Management Competencies**.

Most employees emulate the example of their leaders, so management must understand they are setting the tone of the organization's culture. An effective internal control program evaluates the level of support that management sets for the agency. Instead of hiding flaws, management should always be willing to openly identify and discuss deficiencies that are obstacles to strategic and program objectives and goals.

In addition to carrying out their duties, federal entities are obligated to carefully document and optimize all taxpayer-funded activities. Every individual involved with an internal control program—regardless of rank or classification—must demonstrate their dedication to improvement. It is not an easy task to deliberately seek out flaws and failures, but, as a result, managers will be able to improve the efficiency and effectiveness of their process and more easily achieve their objectives.

For example, the **Department of Navy** identified Segregation of Duties (SOD) conflicts within their financial management applications that enabled them to target resources in the out-year budgets, assisting in remediation actions and decreasing SOD conflicts.



## Examples of Leaders Preparing the Environment to Achieve Desired Outcome Through Internal Control

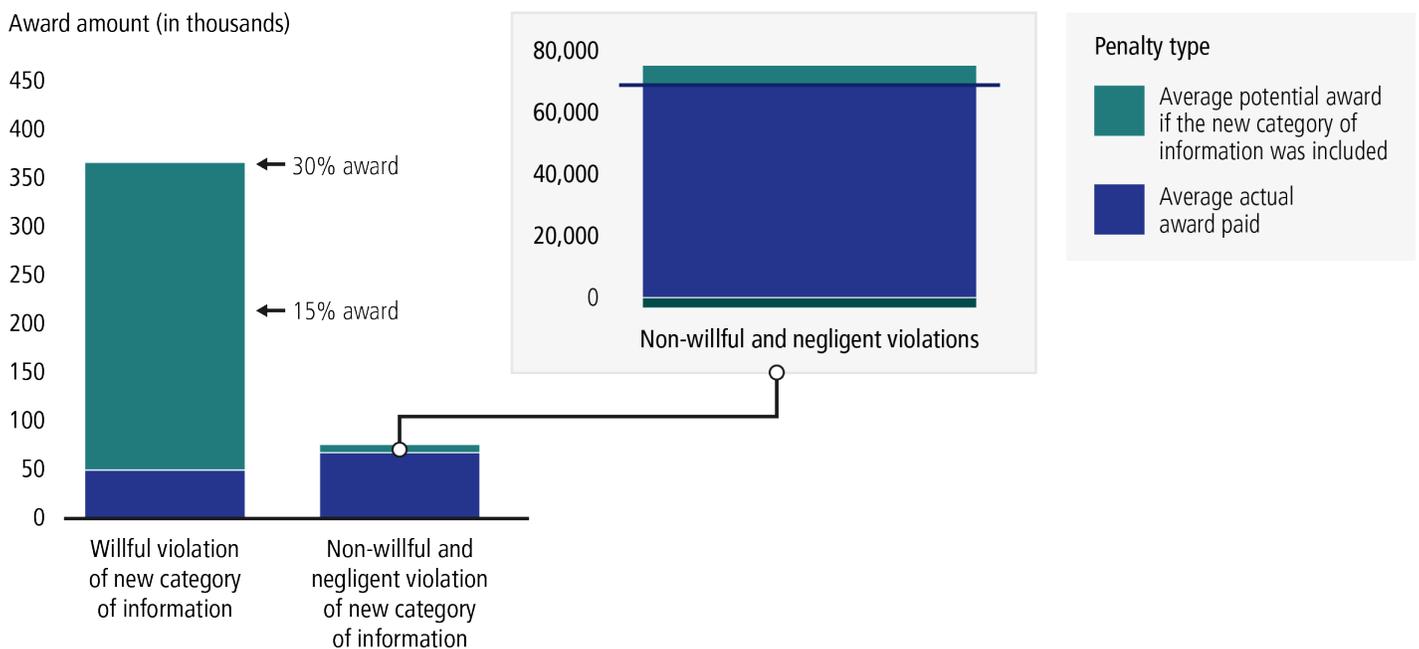
The following examples demonstrate the value and importance of commitment to excellence within federal agency culture.

### Improper Payments

For many years, whistleblowers have been rewarded by the government for providing certain kinds of information (Principles 4 & 5). **One agency** used a form to document the issues raised, the disposition of each issue, and the level of assistance provided by each whistleblower.

Recently, Congress enacted a statutory change that expanded the types of information that could be awarded. In response, the agency suspended award determinations for one week. Unfortunately, the agency resumed the program without updating the form and its instructions and failed to issue any internal guidance regarding the new information required on the form. As a result, relevant information was excluded from their whistleblower award decisions (ineffective Principle 9 – identify, analyze, and respond to change).

### Potential Average Award Amounts if New Category of Information Was Included in Collected Proceeds 2012–2017



Based on: GAO-18-698, pg. 21

Accountability, communication, and lack of follow-through are common concerns in many organizations. In this example, the agency’s failure to properly implement changes that provide monetary compensation to whistleblowers for specific types of information, contradicts their mission of providing “top quality service...with integrity and fairness to all.”

By disincentivizing certain types of feedback, they lost opportunities to increase accountability and attention to detail at all levels through an appropriate corrective action plan. Applying a stronger internal control process to the re-launch of the whistleblower program would have increased awards directly tied to service improvements. A **subsequent report** shows that the agency updated its operational policies and procedures, including updating the external website to assist enforcement of the whistleblower award program. They launched a more comprehensive data solution that improved whistleblower award determination.

## Time and Attendance

As the nation's largest employer, the federal government looks to every employee to account for their valuable work, but not all federal employees carry the torch of accountability. **In a recent report**, agencies reported time and attendance data that show how effectively they are monitoring employees and acting on misconduct. Failure to act on misconduct not only erodes the agency's ability to achieve its mission, but it can also result in loss of public trust in our government.

"Agencies and IGs also reported using a mix of other technologies to assess allegations of time and attendance misconduct, such as badge-in and -out data, video surveillance, network login information, and government-issued routers." GAO-20-640, pg. 2

According to agencies and stakeholders, technology for monitoring time and attendance can help prevent and detect fraud, but it may not be helpful when an employee intends to circumvent controls. Technology alone, they said, cannot prevent fraud. A solid internal controls process is needed to support tactical tracking. While the data provided by each agency reflects how well they adhere to their policies and regulations, it is the actions taken that provide effective deterrents for employees and contribute to process improvement.

Time and attendance is noted as one of the most common causes of disciplinary action taken on federal employees. To improve conduct, agencies should target ways to keep policies, procedures, and data easily accessible to enable supervisors and employees to be trained on the effective use of internal communication and the detrimental cost misreporting time and attendance has on an agency's mission.

The following is an example of time and attendance reporting:

### Department of the Treasury

**Table 42: Department of the Treasury Reported Instances of Misconduct Related to Time and Attendance Fraud**

**Agency employment (as of March 2019): 93,295 employees (large)**

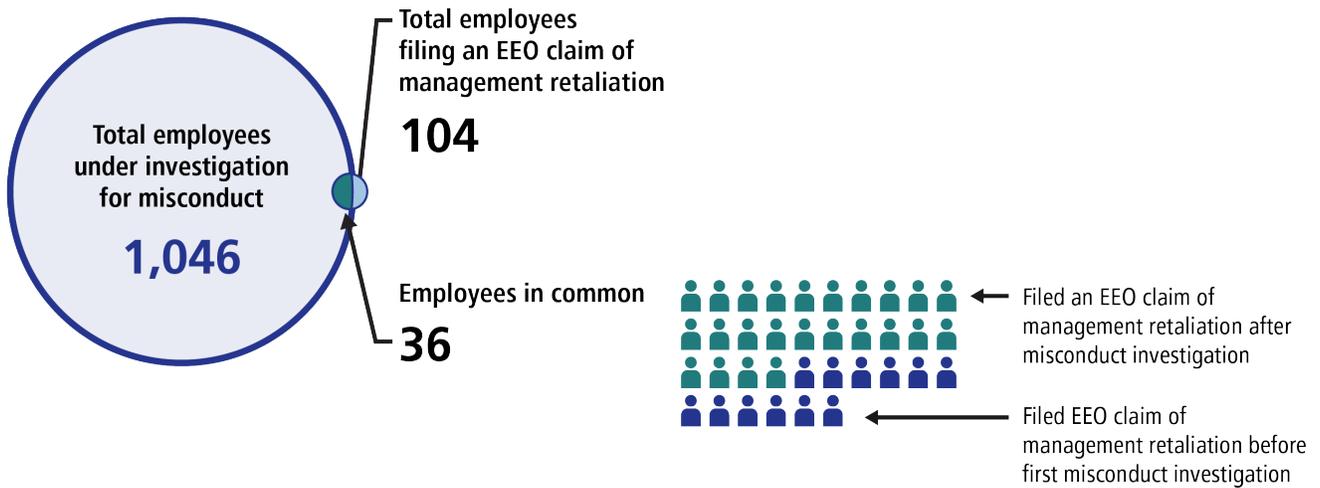
	Fiscal year				
	2015	2016	2017	2018	2019
<b>Bureau of Engraving and Printing</b>					
<b>Total misconduct cases (for all reasons)</b>	53	87	130	46	92
<b>Total misconduct cases related to time and attendance fraud resulting in agency action<sup>a</sup></b>	0	5	0	1	0
<b>Bureau of the Fiscal Service</b>					
<b>Total misconduct cases (for all reasons)</b>	184	171	172	100	196
<b>Total misconduct cases related to time and attendance fraud resulting in agency action<sup>b</sup></b>	15	15	11	6	13
<b>Financial Crimes Enforcement Network</b>					
<b>Total misconduct cases (for all reasons)</b>	3	2	1	3	4
<b>Total misconduct cases related to time and attendance fraud resulting in agency action<sup>c</sup></b>	1	0	0	0	1
<b>Internal Revenue Service</b>					
<b>Total misconduct cases (for all reasons)</b>	5,866	5,877	6,847	6,224	6,042
<b>Total misconduct cases related to time and attendance fraud resulting in agency action<sup>d</sup></b>	2	4	1	3	6

Source: GAO-20-640, pgs. 52-53

## Employee Misconduct

The importance of the daily application of policies and procedures was made apparent **in a recent report** about addressing allegations of employee misconduct within two law enforcement agencies. Not only was the way that the allegations were handled inconsistent, but a large number of cases also reported experiencing retaliation, a distressing implication about their organizations' cultures.

### Management Retaliation Claims Received by Agency A Equal Employment Opportunity (EEO) Office, FY 2014-2018



Note: The 1,046 individuals under investigation for misconduct is the number of unique individuals for the 1,581 investigations conducted FY 2014-2018. Based on: GAO-20-200, pg. 20

The success of any internal control program relies on open dialogue and participation from managers without punitive measures for disclosing deficiencies. With appropriate supervision and employee training, open dialogue improves operations and productivity. One of the most common deficiencies is the lack of training for employee misconduct actions and the agency's internal control program itself.

An agency leader who takes ownership of the internal control program and provides a clear, concise understanding of every employee's rights and responsibilities is rewarded with improved performance and operations. Updated policies go a long way toward making sure employees are following laws and regulations. When gaps occur, agencies should provide training in the areas of risk to create accountability, not only for misconduct but also to determine if the applied training and disciplinary actions improve the overall climate within the agency.

## Identify Risks That Could Threaten an Agency's Mission

Once managers understand that a robust internal control program drives mission success, they will recognize that identifying, evaluating, and addressing risk factors that could impede success is an integral part of internal control. Not every risk is the same. Repeating a step may impact efficiency, but it is not likely to impede progress. Failing to document a detail might impede progress, but it can also create a burdensome amount of unnecessary, non-value-added rework. The level of variance in the performance that is acceptable is referred to as risk tolerance. If a known issue is unlikely to occur, or if its impact is not significant, it may be considered tolerable. Management determines risk tolerances for organizations. How much variance from the norm will it allow?

### Enterprise Risk Management

When risk rises to the level that accomplishing the organization's strategic objectives may be impacted, **OMB Circular No. A-123** requires that an **Enterprise Risk Management** (ERM) framework and strategies be established, including a risk profile that lists the highest-level risks. An ERM framework ensures that senior leadership is engaged with managing risk and setting strategies integrated with performance and cost management practices.

### Inextricable Entanglement

If internal control means acting with the intent to control results, and factors that may negatively impact results are risks, then we can conclude that the goals of managing risk and internal control are intertwined. Properly implemented controls manage risk. For this reason, it is highly recommended that the top-level risk management and internal control offices within an organization fall under the same part of the organization so that they can work closely together without distraction or impediment.

## Examples of Identify Risks That Could Threaten an Agency's Mission

Here are a few examples that demonstrate the importance of identifying, evaluating, and addressing risks to ensure the success of an internal control program.

### Inventory Control

One of the difficulties all federal agencies face is acquisition efficiency and compliance. Each request needs to be matched with a purchase vehicle, which, among other factors, may cause lag time. When an agency's mission is related to securing the safety of our citizens or enforcing the law, decision-makers may choose more expeditious routes to meet urgent needs. This is one possible scenario that may have contributed to the findings of **a recent report** of 20 federal agencies that spent more than \$1.5 billion over the last decade on one type of sensitive item.

Though warranted at times, facilitating an expedited purchase became a great cause of concern when contract cost data for a few agencies did not match purchase records on USASpending.gov. In fact, the purchase dollar amount on USASpending.gov was eight times the amount held in one agency's inventory.

This discrepancy appears to be related to inaccurate accounting, reporting, and reconciliation across several agencies, which caused a number of problems: inaccurate budget reports, overspending, inaccurate asset inventory and tracking, poor asset management systems, and of course, a lack of accountability and transparency for federal purchases.

The following table describes some of the specific challenges that were discovered:

### Description of Challenges Compiling Spending Data Reported by 20 Federal Law Enforcement and Security Agencies

CHALLENGES	EXAMPLE OF CHALLENGE
Format of records created limited access	Extracting requested data required officials to review individually scanned documents or paper records manually.
Certain data fields were not retained in the agency data system	The record-keeping system does not track quantity, action type, or caliber data, or the system tracks assets in variable units, such as cases or individual pieces.
Older records were unavailable	Agency record retention policy is six years, or agency officials had low confidence that older data were complete.
Change in the record-keeping system	When officials implemented their current record-keeping system, older records from the previous system had fewer details, were incomplete, were difficult to access, tracked different data, or were unavailable.
Purchase card or micro-purchase records were incomplete or inaccessible	Records of items bought on purchase cards were not always included in agency data because officials could not identify what was bought, were not tracked in the current system, or were inaccessible or unavailable for certain years.
Location of records created limited access	Records of asset purchases made at field offices are stored locally. Because each office may have recorded them differently, officials could not access them, or officials had difficulty accessing all of them within a given timeframe.
Spending records included more than we requested	Spending records included costs for unrelated expenses, such as accessories, and officials could not separate these costs from the total cost.
Broad codes assigned to purchases	The codes officials used to pull requested data included other related items, such as office supplies, and officials could not separate these.
Some fields were estimated based on available information	Officials indicated that they estimated the amount spent, date purchased, or quantity of items.
Equipment categorizations may be over-inclusive	Officials included items that did not fit the narrow description of the asset category.

Based on: GAO-19-175, pg. 46

Only a few of the 20 agencies were found to have sufficient inventory controls for tracking, verifying, and securing these assets and following their policies and procedures. The asset inventories of all of the agencies are verified at least once a year by officials.

Because these sensitive items are essential to the missions of these agencies, they must identify their commonalities and develop internal controls such as a uniform standard to ensure that purchases—made by any means—are accurately recorded. Data need to meet the needs of the policymakers, operators, and the public to increase the accountability and transparency of federal spending. Failing to identify and manage risk correctly will leave the entire group vulnerable to theft, fraud, and grossly inaccurate financial and operational records, thus impacting the agencies' ability to achieve strategic and mission goals.

## Internal Control and Enterprise Risk Management

**One federal entity** is in the early stages of implementing Enterprise Risk Management (ERM) and has not fully incorporated it into its management practices. Until the implementation is complete, it will continue to utilize its existing governance and reporting structures. However, its current internal control program will need to be improved, particularly regarding mission-critical assets, because the following requirements are not being met:

- Evaluation of control design
- Assessment of each internal control element
- Test plans that specify how and when the test should be performed
- Sufficient explanation of test control procedures, results, and conclusions
- Key areas critical to meeting mission objectives need to be included in the planned assessments

Failure to address these deficiencies increases the risk that the statement of assurance (SoA) will not be adequately supported and that gross inaccuracies and risk of poor performance in all areas of the organization will not be addressed. The best remedy for this circumstance would be to provide training for all managers on how to design, develop, implement, and maintain an internal control program within their span of control.



## Design and Implement Controls to Prevent or Greatly Reduce Risk

Internal controls mitigate risk. Every member of a mission-driven federal organization is responsible for controlling factors that could negatively impact mission success by establishing, maintaining, and improving internal controls for activities within their scope of responsibility. An entity's internal control objectives are largely dependent upon its risk tolerance, which can vary between departments and agencies.

There may be some risk that lies outside a manager's control, such as lack of cooperation, insufficient communication, or unknown risks within a subcontractor's domain. It is still the management's responsibility to ensure that those risks are managed with properly executed controls. Risks that management determines to be significant enough to require management are mitigated by putting controls in place to prevent undesirable outcomes and ensure desirable outcomes, referred to as control objectives.

Management designs internal controls to meet the control objectives (Principles 10 & 11). Because a lack of training is the primary cause of deficiencies, management tells staff how to perform the controls (Principle 12). Controls are actions that being taken to meet the objective. They are what we do to ensure mission accomplishment. Controls are the fully integrated actions within our everyday processes that help us succeed.

### Examples of Designing and Implementing Controls to Prevent or Greatly Reduce Risk

Here are a few examples that demonstrate the importance of designing and implementing an internal control program to mitigate risks that could negatively impact the mission.

#### Contract Closeouts

According to **a recent report**, the contract closeout backlog of one federal agency had accumulated close to 1,900 contracts valued at nearly \$600M by failing to maintain effective contract closeout controls that reduced financial, operational, and compliance risks.

The documentation to support the performance of key contract closeout steps was insufficient. Without well-designed and implemented contract closeout controls, the agency's ability to prevent, detect, and recover from property loss, financial liability, and contractor overpayments was limited.

When this matter was initially addressed, the agency was able to significantly reduce the backlog by adding dedicated staff to complete backlogged closeouts with management oversight and monitoring through status reports. In addition, the agency implemented a contract closeout checklist. While these changes significantly improved the status of their contract closeouts, the agency remained at risk of non-compliance with Federal Acquisition Regulation (FAR)-related policies. The following additional actions were required:

	ISSUE	RESOLUTION
Records Retention	The agency needed to develop, document, and implement processes to ensure that records would be maintained for a specified number of years after the final payment has been made, including contract file handling, storing, and disposal procedures.	They began segregating and storing closed contract files in a room, labeling by year according to the last contract action date, to ensure compliance with destruction guidelines.
Contract Type	The agency needed to clearly identify contract type in the procurement system as firm-fixed-price or flexibly priced so that the level of oversight necessary, the complexity of tasks involved, and the time required to complete the tasks before close would be known.	Agency Contracting Officers and Contracting Specialists were given refresher training on assigning contract types.
Contract Closeout Checklist	The contract closeout checklist developed during the initial Corrective Action Plan (CAP) did not sufficiently address key closeout requirements. It needed to include the required monitoring of flexibly priced contracts, subcontractor settlements, and government-furnished property before closeout.	The agency's Standard Operating Procedures (SOP) were updated to reflect changes and improve contract type definitions, which Contracting Officers are required to review.

The following checklist is an example of the agency's revised contract closeout procedure:

### Contract Closeout Documentation

MILESTONES		STATUS
1	The Contract Type field was entered accurately.	
2	All services or supplies were satisfactorily received and accepted.	
3	The contractor returned all government property.	
4	The contractor's performance was evaluated.	
5	The prime contractor settled subcontracts.	
6	A contract closeout letter was sent to the contractor.	
7	The contractor's final invoice was received and reviewed.	
8	Contract funds were reviewed, and excess funds deobligated.	
9	A contract modification was issued to convert the contract to a closed status.	
10	Flexibly priced Contracts Closeout Requirements;	
	a. Evidence that adequate surveillance/oversight was performed: a detailed review of invoices' supporting documentation, contract audit was performed, or Quick Closeout Procedures were documented.	
	b. All interim costs or costs disallowed during invoice review or related audits were settled.	
	c. For Cost Reimbursable and Time-and-Material contracts: Any applicable indirect costs rates were settled.	
11	A closeout completion statement or closeout checklist was completed.	

Fortunately, this agency was able to mitigate risks related to its contract closeout successfully. If the requirement to review processes to identify potential risks did not exist, this situation might have gone on longer, impacting many contractors, impeding the agency's effectiveness and efficiency, and costing the agency the loss or expiration of resources.

### Big Data

In the past, **an agency** had established policies and procedures that enabled them to effectively oversee the restricted sale and distribution of one product category. While these products had always been closely scrutinized, their increasing popularity has created a demand of immense proportions, rendering their established processes ineffective.

The amount of data now available from industry and government needs to be analyzed to improve understanding about the nature of transactions in this product category. The agency needs to identify trends to help distributors and retailers recognize potential violations in real-time.

They have begun the process of establishing a data governance framework and workflows to:

- Use algorithms to identify problematic transaction patterns proactively
- Ensure that the agency is maximizing its management of industry-reported transaction data
- Establish measurable performance goals for diversion activities
- Identify an enhanced database tool that will ensure that registrants can easily identify and report questionable transactions

By taking a comprehensive approach of process review, risk identification, and control development and application, this agency will soon be among those that use big data to develop valuable insights that guide industry policy and standards.

## Leaders Must Communicate Internal Control Responsibilities

While GAO provides general guidance, by OMB and by the agency-level internal control office, each manager is responsible for overseeing the internal control program within their area of responsibility. This requires them to communicate what is expected, including how objectives need to be approached and achieved. It seems to be straight forward until you consider how processes are communicated throughout an organization.

Let's look at how the amount of detail we provide can impact outcomes. For example, we will consider what we think we communicate a basic request, such as asking for a turkey and cheese sandwich. On the receiving end of this request, we intuitively know the basics: bread, turkey, and cheese, but there are many other factors to consider. Will the sandwich have tomatoes, mayonnaise, or pickles? Wouldn't it be better with alfalfa sprouts, avocado, or ranch dressing? What kind of bread should we use? Should it be toasted or grilled? What kind of cheese? Will we serve it whole, cut in half, or quartered? Will it come with French fries, potato chips, or fresh fruit? And of course, will it be served on a plate or packaged to-go?

It's about communication. When we say we would like a turkey and cheese sandwich, we assume that the person receiving this request understands what we want. Most likely, we will get a turkey and cheese sandwich, but the turkey and cheese sandwiches below demonstrate how different the message we conveyed may be interpreted.



The point of this exercise is to demonstrate how important it is for managers to provide very specific and detailed directions about documenting processes, identifying potential risks, developing internal controls, documenting observations, and status reporting. It also illustrates the need to identify the basic information requirements (Principle 13) before proceeding.

Communication of information is a necessary part of doing business; however, it also poses a risk of unintentionally disclosing information that should not be released. So, in considering what we communicate, we also must consider our audience. Is it in-house or external? Is it necessary for our business line, or would discussing it be outside of our authority? Does our staff need to be trained on proper communication lines and methods?

## Examples of the Need for Leaders to Communicate Internal Control Responsibilities

Let's look at a couple of real-life examples that demonstrate how important it is that all levels of management provide clear communications that inform staff and external contributors of their mission-driven internal control responsibilities.

### Contingency Planning

Of course, we would all like to avoid the possibility of a government shutdown. Thankfully, in most cases, this kind of wrestling match is resolved pretty quickly, but, as we have seen in recent years, it can go on much longer. Agencies need to be prepared.

**One Congressional committee** looked at four agencies under its jurisdiction to ensure that their contingency plans for shutdown scenarios included operations policies and procedures were aligned with relevant internal control principles.

Perhaps because a prolonged shutdown had once been rare, the agency contingency plans did not fully address changes that would need to be made in the event of a prolonged shutdown. While they had discussed, and planned for, anticipated operational changes, their documentation was focused on short-term operational needs. They had not yet developed formal, comprehensive plans that provided clear workforce expectations during any future shutdowns.

To correct this issue, the agencies needed to revise their contingency plans to align with the OMB guidelines in **OMB Circular No. A-11, Section 124**, for agency operations in the absence of appropriations for more than five days, such as shutdown processes, operations, furloughs, program activities, and oversight and disbursement of funds.

Because the law prohibits appropriation-funded, non-essential employees from working during a shutdown, one area of concern was limiting physical and virtual workspace access for employees. Recognizing that it would be difficult and costly to implement such controls, they reviewed access restriction options and communication plans to include tracking access and documentation of tasks performed during the shutdown. While this was not an ideal solution, it did greatly diminish the potential for misuse of government resources.

By communicating effectively with stakeholders, the agencies better understood their vulnerabilities and developed an internal control solution that would minimize their risk while enabling them to maintain communication with furloughed employees during an extended government shutdown.

The access to information is paramount to mission success in today's fast-paced environment. It could come down an employee's simply having access to roles and responsibilities during different work conditions, such as being recalled during a government shutdown. Even the most effective organization may not be the most efficient in how they provide timely information. An agency's Internal Control Program provides them that insider look to prevent misunderstandings even during times of government shutdowns.

### Selected Agency Components Varied in the Sufficiency of Their Internal Controls for Shutdown-Related Activities

SHUTDOWN-RELATED ACTIVITIES	AGENCY A	AGENCY B	AGENCY C	AGENCY D
Develop roles and responsibilities	✓	✓	✓	✓
Document roles and responsibilities	✓	✓	✗	✗
Develop shutdown preparation processes	✓	✓	✓	✓
Document shutdown preparation processes	✓	✓	✗	✗
Inform employees of shutdown processes	✓	✓	✓	✓
Develop employee recall processes	✓	✓	✓	✓
Document employee recall processes	✓	✓	✗	✗
Track the number of employees working	✗	✓	✓	✓
Control access to physical workspaces	✗	✗	✓	✗
Control access to virtual workspaces	✗	✗	✗	✗

Based on: GAO 20-377, pg. 19

## Statement of Assurance

In the cycle of internal control, every executive branch agency must report the status of their internal control effectiveness annually to Congress and the President in the form of a Statement of Assurance (SoA). While the GAO and OMB provide guidance, the contents of the SoA will vary based on the size and maturity of the department, the status of their internal control program, and their interpretations.

The following is an example of an SoA from the Department of Labor:

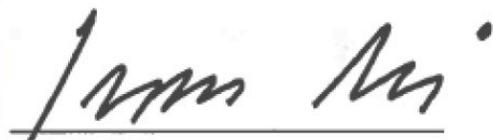
### Federal Managers' Financial Integrity Act of 1982

The Department of Labor's (DOL) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*. DOL conducted an assessment of its internal controls over the effectiveness and efficiency of operations as well as compliance with applicable laws and regulations in accordance with OMB Circular No. A-123. Based on the results of this evaluation, DOL can provide an unmodified statement of reasonable assurance that its internal controls over operations are operating effectively and efficiently and are in compliance with applicable laws and regulations as of September 30, 2019. No material weaknesses were found in the design or operation of the internal controls.

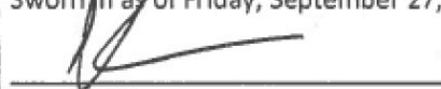
In addition, DOL conducted an assessment of the effectiveness of internal control over reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*. Based on the results of this evaluation, DOL can provide an unmodified statement of reasonable assurance that its internal controls over reporting were operating effectively. No material weaknesses were found in the design or operation of the internal control over financial reporting. DOL is also in conformance with Section 4 of FMFIA.

### Federal Financial Management Improvement Act of 1996

The *Federal Financial Management Improvement Act of 1996 (FFMIA)* requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. All DOL financial management systems substantially comply with FFMIA as of September 30, 2019.



Eugene Scalia  
Secretary of Labor  
Sworn in as of Friday, September 27, 2019

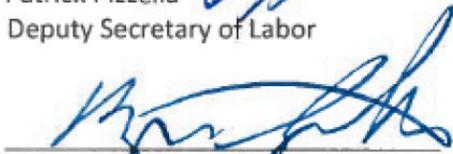


James Williams  
Chief Financial Officer

November 18, 2019



Patrick Pizzella  
Deputy Secretary of Labor



Bryan Slater  
Assistant Secretary for Administration and Management

Source: Department of Labor Agency Financial Report, 2019, pg. 29

## Verify the Effectiveness of Controls through Supervision and Monitoring

As the mission-driven processes are documented, agencies conduct risk assessments, design and implement mitigating controls, review, and improve outcome analyses. Once the documentation reaches the agency Internal Control Office, the data will be incorporated into a comprehensive statement of assurance that will then be presented to their governance body for approval before being submitted to Congress and the President.

While it is understood that this procedure is one part of the checks and balances of government, the outcomes may also have long-lasting implications that could impact the organization's mission success, especially in consideration of future requests or endeavors.

### Corrective Action Plans

The beauty of conducting a comprehensive review of processes is that revealed deficiencies can be addressed in an orderly fashion (instead of after they have triggered a crisis). A corrective action plan (CAP) describes when and how an agency will ensure that the identified risks are addressed. A CAP is developed by the manager responsible for the process and approved by the corresponding governance body. The target dates for each milestone must be set with consideration for the existing operational obligations and realistic expectations for cooperation with other stakeholders. The official requirement is to set milestones every three months but setting internal milestones as often as every two weeks helps to ensure that the CAP receives regular attention. By staggering internal control deadlines over time, contributors are better able to dedicate the time and attention they need while maintaining existing workloads.

### Ongoing Support

While the process of submitting an SoA is cyclical, the need to verify the effectiveness of internal controls is continuous. The idea of 'set it and forget it' is a fantasy. We are constantly moving forward, adding to our knowledge, incorporating new information, and adapting to technological advances and changing conditions. Reflect for a moment on how many changes you have witnessed during the last year, and you will understand why the control put in place eight months ago to manage a particular risk may no longer be effective. Just as Transportation Security Administration (TSA) closely monitors travelers at the airport, managers need to incorporate internal control verifications into their normal cadence to ensure that any element that could impact the agency's mission is addressed as soon as possible.

Receiving confirmation that things are running smoothly is certainly more desirable than being called on to solve a problem urgently. But if our internal controls are truly driving the success of our mission, leaders at every level of the organization will recognize that there is great value in early detection.



If you are really concerned about the welfare of the people who work for you, it shows in every act you do. Really try to put yourself in their place and encourage them to get something out of their jobs. Make them part of the whole—make them understand their jobs are important in the total picture. Everybody wants to do a good job. But they need to be assured that their jobs are important.

— Verne Orr, former Secretary of the Air Force

Exemplifies Principle 4

## Examples of Verifying the Effectiveness of Controls through Supervision and Monitoring

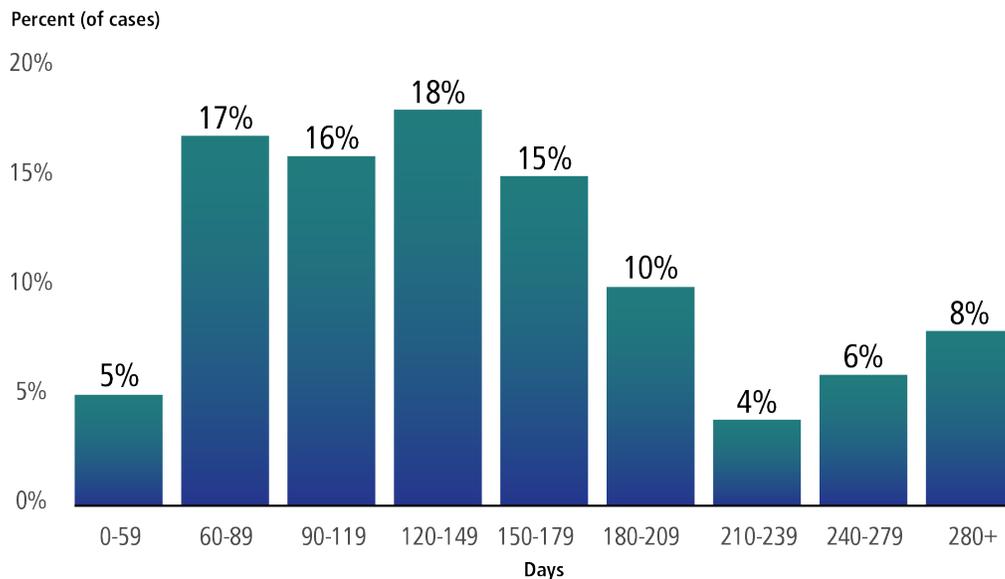
Here are a few examples that show how important it is to constantly monitor the design and performance of internal controls to ensure that they continue to achieve their intended outcomes effectively.

### Delay in Processing of Legal Documents

It was with good intentions that a **victim's compensation fund** was established, but the resulting process left much to be desired. Compensation requests go through four different entities before they are finalized. The entity that accepts the initial requests was not monitoring processing timelines. As a result, they were asked to address the following concerns:

- There was no documentation of the dates that requests were received.
- There was no tracking. Checks expired. Fees had to be waived.
- Factors contributing to processing delays were not being investigated.

### Number of Days for Agency to Complete Service Requests, 2007-2017



Note: Percentages do not sum to 100 percent due to rounding. The analysis is based on 229 cases for which there was sufficient data. Based on: GAO-19-139, pg. 12

The remedy seems simple. Design, document, and implement a system for processing and tracking the requests. That's exactly what they did, but it didn't go far enough. The corrective action plan that would help them succeed was all about monitoring. This is how they did it:

- They created documentation that explained how to complete the entire process, including timelines.
- They trained the staff members who handled these requests.
- They reviewed requests for accuracy and completeness.
- They used a database to track the progress of each request.
- They held weekly meetings to review requests and address related issues.
- They periodically analyzed the data to identify areas that could be improved.

Once these secondary corrective actions were implemented, the processing times improved from a minimum of five months to more than a year down to 115 days, which is just under four months. The delays that remain are largely attributed to outside entities that participate in the processing.

As you can see, this issue was solved by paying close attention to the process itself: working on setting timeline expectations, verifying the completeness and accuracy of the documentation, and ensuring that the processors knew what was expected of them. We can apply this lesson to any internal control that we implement. If we fail to maintain a close eye on our processes, we are likely to experience similar results.

## Procedure Assessment

Although the internal controls of **one regulatory agency** were active, the agency lacked a regular formal assessment of staff effectiveness in its regulatory reviews and related activities. This was easily remedied by instituting the following internal controls:

### Examples of Activities that Assessed Effectiveness of Staff Procedures FY2018

DIVISION OR OFFICE	ACTIVITY AND TIMING
Division 1	As necessary, Division 1 creates teams to assess existing or emerging risks to help identify issues that could have a material impact on the division's programs and activities.
	As necessary, Division 1 researches commercial industry standards and considers policy and procedure updates.
	As necessary, Division 1 interacts with companies and other stakeholders to obtain feedback on topics, including the effectiveness of the division's programs and activities.
	Every three years, Division 1 considers results from governance body review and address feedback on the effectiveness of procedures.
Division 2	On an ongoing basis, Division 2 monitors changes in the market and applicable laws to identify any necessary updates to policies and procedures.
	On an ongoing basis, Division 2's management and staff monitor the division's governance structure.
Office 1	Office 1 conducts multiyear reviews of its program manual and makes updates as needed.
	As necessary, Office 1 vets proposed changes to policies and procedures through its governance process, which includes review by the process advisory committee.
	As necessary, Office 1's Office of Chief Counsel Compliance Group conducts targeted reviews to assess the extent to which Office 2 staff complied with existing policies and procedures.
	Periodically, Office 1's Office of Chief Counsel Compliance Group holds meetings with Office 1 staff to obtain feedback on procedure effectiveness, among other subjects.
Office 2	On an ongoing basis, Office 2 management monitors the extent to which employees perform their duties, including implementing existing procedures. Performance evaluations are performed at least annually through Office 2's performance work plan process.
	On an ongoing basis, Office 2's management monitors the performance of its programs.
	As necessary, Office 2 management solicits feedback from staff to help enhance policies and procedures.
	Office 2 implemented an initiative to update the program manual, which includes program procedures.
	As necessary, Office 2 conducts informal benchmarking with other divisions and offices to validate underlying procedures applicable to staff who manage their programs.

Based on: GAO-20-115, pg. 16

These guidelines can be adapted to many other circumstances. Remember, internal controls can never be a 'set it and forget it' assignment. They must be continuously monitored to ensure that they remain effective.

## Conclusion

Every day, we make decisions and act to ensure that the outcomes we are hoping for are actualized and circumstances we'd like to avoid prevented. By locking our doors, using passwords, stopping at red traffic signals, performing vehicle maintenance, planning for a vacation, we are implementing internal controls. Ask yourself why you do what you do. If your answer includes something you want or don't want to happen, you have identified an internal control. We depend on these controls and expect them to work, but life is dynamic. When things change, we meet challenges by making adjustments and establishing new routines and new controls.

Similarly, federal organizations make decisions for the future, such as plans for mission accomplishments and strategic planning. Just as we adjust our lives and processes, they identify aspects that could threaten their ability to achieve their strategic goals and respond by putting countermeasures in place to manage the risk. The countermeasures are controls—decisions and actions that make desired actions happen and prevent undesirable actions.

Missions change. New laws and new demands create change. People who have deep institutional knowledge retire, and new recruits replace them. Old technology is updated or replaced. Yet, we still must attain our organization's goals, so we adjust. We make sure that we can attain success, even with the new risks we confront, by making decisions and designing processes to achieve our goals. We document these decisions through policies and procedures to provide necessary training and knowledge to employees who are then enabled to do their part. Then, we monitor the changed processes to be sure that they work as intended. Whether we call it reconciling accounts, following pre-flight checklists and inspections, installing controlled entry points, securing computer access, safeguarding assets and information, or approving leave, they are all internal controls.

For an agency to achieve success, achieve their mission, and manage risk, leaders throughout the organization need to understand that controls are countermeasures to obstacles. Once it is understood that controls drive mission success, those who create them, establish them, and perform them can appreciate their value and be motivated to monitor them continuously to ensure they are working.

Mission success is based on the team effort of every employee's desire to do a good job. By working to achieve the goals and objectives of their organizations and sound reporting, federal employees show taxpayers how precious federal resources enable them to achieve their agencies' missions.

The fresh perspective the internal control program is looking for is within you. Keep this document handy, so that when you need a different perspective, you can help your agency establish sound risk assessment and controls.

## ABOUT THE AUTHORS

**Mary Braun, CPA, CGFM, CICA**, has been a consultant instructor for Management Concepts for more than a decade. She develops Management Concepts course content and teaches federal financial management courses. During her career in public service, Mary held senior-level financial leadership positions at the Department of the Interior, Department of Defense, Army National Guard, and the Department of the Army. Her expertise lies in internal control, Fed SOX, and risk management, and she enjoys providing hands-on training of federal internal control requirements for both program operations and financial reporting.

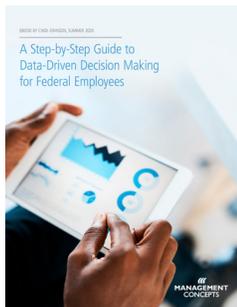
Mary holds a Master of Public Administration degree from Auburn University at Montgomery, a Master of Religious Education degree from Loyola University New Orleans, and a Bachelor of Arts degree in English from Jacksonville State University. She is also a certified public accountant (CPA) in the Commonwealth of Virginia, a Certified Government Financial Manager (CGFM), and a Certified Internal Control Auditor (CICA). She is a proud member of the Virginia Society of Certified Public Accountants, the Institute of Internal Controls, the American Society of Military Comptrollers, and the Association of Government Accountants.

**Thomas Devine, MBA, CDFM**, is a Subject Matter Expert and Instructor of Financial Management at Management Concepts where he develops and delivers course content. Most recently, Tom provided training and management consulting to government and commercial clients. Formerly, he invested more than 30 years as a leader in public service and commercial business at MIT Lincoln Laboratory, Massachusetts National Guard, and other roles. His expertise lies in appropriation law, internal control, auditing, accounting, and the Department of Defense planning, programming, budgeting, and execution.

Tom holds a Master of Business Administration (MBA) and a Bachelor of Science degree in business administration with a concentration on finance from Nichols College. He holds a Certified Defense Financial Manager (CDFM) and is a proud member of the American Society of Military Comptrollers.



# Additional Resources



## eBook

Learn how federal agencies, like the Big Data example, create and use data programs to drive mission success.

Our complimentary **A Step-by-Step Guide to Data-Driven Decision Making for Federal Employees** provides a clear path to creating and implementing an effective decision-making strategy, including success stories from the Department of Transportation and the Bureau of Health Workforce.



## Infographic

**Internal Control in the Federal Government** illustrates a fresh perspective on establishing a good internal control program to drive mission success.



## Job Aid

Enterprise Risk Management (ERM) is instrumental in supporting agency-wide internal control programs. Our **Understanding Enterprise Risk Management (ERM) in the Federal Government** job aid provides an actionable framework to identify, evaluate, and manage risk-related activities.

Whether you are just getting started or updating your existing ERM program, this convenient reference tool distills the main principles of the GPRM Modernization Act of 2010 (GPRAMA) and provides structure for effective ERM enablement.



## Blog Posts

- **The Five Components of Internal Control**
- **Knowledge Check – Internal Controls**
- **Fraud and the Role of Internal Controls**
- **Integrating Internal Controls with Best Practices**



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