



Chief Information Officer Managers' Internal Control Program



INFORMATION BULLETIN

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Special Note:

One of the real joys of the Holiday Season is the opportunity to say Thank You. At the MIC Program Office, we agree and would like to say a special thanks to everyone involved with the MIC Program for all their hard work and dedication.

We would also like to extend our warmest thoughts and best wishes for a wonderful holiday and a very Happy New Year.



"Internal controls need not be elaborate or expensive to be effective."

Finding Time for Internal Controls

Finding time to develop or update internal controls is challenging. There's no denying that writing Standard Operating Procedures, internal policies, or other internal controls is time consuming. However, in the long-run, investing more time and effort in developing well-documented internal controls will reap dividends that yield more time for managers and office personnel to focus on mission related goals and objectives.



Conversely, the consequences of poor internal controls often result in an

increase of nonvalue-added activities that drain time from personnel, such as: fixing errors, performing rework, revising reports, resolving audit findings, addressing issues of noncompliance, or violations of law, etc.

Finding time for internal controls is like performing routine maintenance on your car. While maintenance does require time and money, it keeps your vehicle running better, longer, and minimizes the need for more time-consuming and costly repairs.

Adopting the strategy that

internal controls are built "into", not "onto" business processes counters the perception that internal controls take time away from mission essential activities and personnel. In a well-designed internal control system, business processes become more standardized. The benefit of standardized and documented processes is that they take less time to manage, improve governance, and ultimately free up time for managers and staff to identify value-added activities that contribute to the organization's mission.

Excerpts from the Vermont Internal Control News

External vs. Internal Controls

External controls are the laws, regulations, and other external guidance that provide, in general terms, the authority and responsibilities that government agencies have and the requirements that they are obligated to follow. They identify what is to be done, who is to do it, and the purpose to be achieved. What they don't define, in detail, is how this is to be accomplished. **Internal** controls answer the



question of 'How?'

Internal controls are all the methods by which an organization governs its activities to accomplish a defined purpose. They help managers ensure that the organization's programs; operations; and administrative, accounting, and financial management activities are effectively and efficiently managed in conformity with applicable laws and

regulations. **Internal** controls also serve as the first line of defense against fraud, waste, and mismanagement.

When developing **internal** controls, it is important to consider the laws and regulations (**external** controls) that govern a given activity. However, **external** controls should not take the place of **internal** controls. **Internal** controls are the established

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External vs. Internal Controls cont.

plans, processes, and procedures that will help an organization ensure compliance with **external** controls.

Internal controls include internal policies, procedures, guidance, instructions, and other techniques that are put in place to help mitigate or prevent risks. Additional examples include: Standard Operating Procedures (SOPs); check lists; databases; operational checks and balances; separation of duties; and delegations of authority.



To further illustrate the difference between **internal** and **external** controls, consider the OCIO Purchase Card Policy and an office's Purchase

Card SOP. These are examples of **internal** controls. The Contracting Center of Excellence (CCE) is the office in charge of DoD purchase cards. The CCE's Purchase Card Operating Procedures is an example of an **external** control, providing guidance for overall management of purchase cards. The OCIO

policy and office SOPs provide specific guidance and procedures for managing purchase card accounts.



All offices should have internal controls in place to help ensure that their mission goals and objectives are accomplished in the most effective and efficient manner.

Tips for Developing Internal Controls

Documenting processes and procedures (internal controls) is an activity that most offices struggle with. Time is usually the biggest constraint and since adding more hours to the work day isn't the most desirable option for most of us, the MIC Program Office is providing the following **tips for developing internal controls**.

- 1 Commit:** Whether it is committing to one hour a week or to completing one procedure a month...set a goal and stick to it.
- 2 Start:** To gain momentum and a sense of accomplishment, start with a less complicated procedure. Focus should then shift to ensuring that the procedures for the office's most critical processes are documented.
- 3 Format:** Use a standardized format (e.g. header, numbering, layout, etc.). This will make the documents more user-friendly and easier to maintain.
- 4 Outline:** For each procedure, identify the objective and begin with an outline of key steps, then fill in the details.



- 5 Details:** Procedures should include step-by-step instructions for accomplishing the objective (e.g. who does it, what is done, when it's done, where it's located/performed, and why it's necessary).
- 6 Skill Level:** In writing procedures, assume a consistent skill level based on the typical employee performing the procedure (e.g. if employees have Excel skills, it may be sufficient to just state "sort the data" versus writing step-by-step Excel instructions).
- 7 Location:** Make sure procedures are readily accessible and staff know where to find them. Use of a shared drive or intranet site is often easier for maintenance and distribution.
- 8 Test Drive:** To identify gaps or missing steps, have an employee who doesn't regularly perform the procedure try to complete the procedure using the written instructions. This is also an excellent cross-training opportunity.
- 9 Changes:** Make sure documentation is updated as necessary and that affected staff are informed when changes have been made. **Review procedures at least annually to ensure they are still valid.**
- 10 Risk: Procedure documentation reduces the organization's risk and gives managers comfort by knowing that during unexpected absences or vacancies critical functions can still be performed.**
- 11 Next:** Even exemplary employees, who know their job from top to bottom without the aid of written procedures, will leave some day...**having written procedures and documentation will greatly help the next person hired as well as the rest of the office.**



Source: *Vermont Internal Control News*

When Retirement Plans Go Bad



Milton K. Dial, a former Deputy Associate Director at the Department of the Interior (DOI), is currently facing up to five years in prison and a fine of \$250,000 for felony violation of post government employment restrictions. Approximately six months after his retirement, Dial accepted a position as a subcontractor working and representing a company in a contract with DOI. Before he retired, Dial created the

evaluation criteria for the contract, served on the selection committee, and served as the contracting officer's technical representative for the contract.

On November 14, 2008, Jimmy W. Mayberry, the owner of the company that received the contract, was sentenced to two years probation and a \$2,500 fine for a

felony violation of the criminal conflict of interest law. While preparing for his retirement from the DOI, Mayberry and his supervisor created a consulting position that, although was subject to open and fair competition, was designed and intended specifically for Mayberry. Mayberry also admitted to creating the statement of work for the contract that he was ultimately awarded.



Assessable Unit Managers' Corner

One of the many responsibilities of the Assessable Unit (AU) Manager is to ensure that internal control reviews (ICRs) and testing are conducted properly and in a timely manner. The ICR type utilized by the MIC Program Office is the Self Assessment Review (SAR). The SAR is designed to assess the organization's internal controls and



determine if they are effective, efficient, and operating as intended.

Testing of the primary internal controls is an important and **required part of the SAR**. It involves ensuring that controls are: 1) actually being used as designed; and 2) accomplishing the desired objectives. Testing will also help to identify internal control

weaknesses requiring corrective action and/or provide each manager with the opportunity for implementing new internal controls or initiating improvements to existing controls.

Offices with AUs scheduled for review this fiscal year must complete a SAR by February 27, 2009.

Audit Reviews Highlight Internal Control

It has been over 10 years since the enactment of the Federal Financial Management Improvement Act (FFMIA) of 1996. According to the GAO's 2008 financial management report, the majority of agencies still do not have financial management systems that substantially comply with the requirements of the FFMIA, including processes, procedures, and controls. In FY 2007, agency auditors reported that 13 out of the 24 Chief Financial Officer Act agencies' systems did not substantially comply with the FFMIA requirements. In FY 2006, there were 17 agencies that lacked compliance with these requirements. As with past FFMIA reports, the GAO remains concerned that the criteria for assessing substantial compliance with the FFMIA are not well defined or implemented across agencies. In response to GAO's concerns, OMB is in the process of updating Circular A-127, Financial Management Systems, and the implementation guidance for FFMIA. To read more about this report (GAO-08-1018), please visit <http://www.gao.gov/new.items/d081018.pdf>.

In the first of a series of audits on Contractor Common Access Cards (CACs), the DoD IG determined that additional internal controls are needed and existing controls need improvement. Generally, contractor CACs were not consistently approved, issued, reverified, revoked, or recovered across DoD. The IG also found that: Government sponsors had inadequate evidence to link contractors to a contract or justify a CAC expiration date; some contractors received CACs without undergoing background checks or receiving appropriate Government approval; CAC issuers changed information approved by Government sponsors; and DoD did not always recover revoked contractor CACs. In addition, it was found that a large number of contractors were misclassified as Government employees on CACs. In one agency, the lack of internal control was classified as a material weakness. Overall, CAC life-cycle weaknesses were found to pose a potential national security risk that may result in unauthorized access to DoD resources, installations, and sensitive information. To read more about this report (D-2009-005), please visit <http://www.dodig.osd.mil/Audit/reports/fy09/09-005.pdf>.



"An ounce of prevention is worth a pound of cure"

Ben Franklin



In this Holiday Season, the MIC Program Office offers the following thoughts:



Human Resources

Internal Control is everyone's responsibility and is necessary for the successful operation of each office. Everyone must do their part.

Organizational Functions & Activities

Subdivisions of Assessable Units that cover all mission areas, further defining the Assessable Unit.

Laws & Regulations

Federal Managers' Financial Integrity Act, OMB Circular No. A-123, DoDI 5010.40, and GAO Standards for Internal Control in the Federal Government require the development and use of Internal Controls.

Internal Controls

All the control methods used to ensure the organization's mission is achieved in the most effective and efficient manner, and to mitigate identified risks.

Documentation

The assessments, reviews, and reports which demonstrate the use and effectiveness of internal controls.

Annual Statement of Assurance

An annual report, required by the FMFIA, stating that an evaluation of the organization's internal controls was conducted and taken as a whole, it provides reasonable assurance that controls are in place and operating effectively.

Yearly Reviews

Internal controls are tested and weaknesses are addressed.