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ADS Chapter 596

Management's Responsibility for Internal Control

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ADS 596 – Management’s Responsibility for Internal Control

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ADS 596 – Management’s Responsibility for Internal Control

596.1 OVERVIEW

Effective Date: 08/01/1997

The purpose of this ADS chapter is to provide policy directives and required procedures to improve the accountability and effectiveness of USAID’s programs and operations by establishing, assessing, correcting, and reporting on internal controls.

596.2 PRIMARY RESPONSIBILITIES

Effective Date: 10/09/2007

a. The Administrator

- Ensures the Agency's commitment to an appropriate system of internal controls which facilitates the achievement of results and safeguards the integrity of Agency programs; and
- Submits an annual statement of assurance to the Office of Management and Budget (OMB) and Congress on the overall effectiveness of USAID's internal controls.

b. The Deputy Administrator

- Chairs the Agency's Management Control Review Committee (MCRC); and
- Resolves disagreements between Agency management and the Office of Inspector General (OIG).

c. The Chief Operating Officer

- Serves as the vice/alternate chair for the MCRC
- When serving as the vice/alternate chair for the MCRC, resolves disagreements between Agency management and the OIG.

d. The Agency Management Control Review Committee (MCRC)

- Serves as a policy-making body in internal control and audit matters;
- Reviews and approves the Agency's strategy, policies, and procedures for governing internal control activities;
- Provides oversight for the identification, correction, and reporting of internal control and audit deficiencies; and

- Ensures that audit follow-up responsibilities are effectively managed by senior staff (See [ADS 595](#), Audit Management Program).
- Accepts or rejects recommendations from MCRC and SAT committee members.

e. The Senior Assessment Team (SAT)

- Serves as a subset of the Agency MCRC, providing oversight to the assessment of internal controls over financial reporting, as required by Appendix A of [OMB Circular A-123](#);
- Ensures that the assessment objectives are clearly communicated throughout the Agency and that the assessment is carried out in a thorough, effective, and timely manner in accordance with the [Implementation Guide for OMB Circular A-123 Appendix A “Internal Control over Financial Reporting”](#);
- Identifies and ensures that adequate funding and resources are made available for the assessment of internal controls over financial reporting; and
- Determines the scope, design, and methodology of the Appendix A assessment.

f. The Chief Financial Officer (CFO)

- Serves as the SAT Chair, and
- Provides technical oversight and recommends activities and processes to ensure compliance with the [Federal Managers Financial Integrity Act \(FMFIA\)](#) and [OMB Circular A-123](#).

g. The Chief Information Officer (CIO) participates as a member of the SAT to monitor and review the testing and documentation of information technology (IT) controls related to financial reporting.

h. The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC)

- Serves as the support staff for the Agency MCRC;
- Develops and maintains Agency policies and procedures on management’s responsibility for internal control and audit management;

- Provides guidance on conducting periodic risk assessments;
- Provides guidance on assessing the adequacy of internal controls;
- Provides instructions for annually reporting the status of internal controls;
- Monitors the progress of actions to correct deficiencies in internal controls to ensure timely and effective results;
- Prepares the Agency's Federal Managers' Financial Integrity Act (FMFIA) report as a part of the annual Performance and Accountability Report (PAR); and
- Provides guidance to Bureaus, Independent Offices, and Missions to facilitate the completion of final action on audit recommendations (See [ADS 595](#)).

i. The Office of Inspector General (IG)

- Conducts or supervises investigations and audits of Agency programs and operations (See [ADS 590](#), Audit);
- Provides advice to Agency staff to facilitate corrective action for deficiencies in internal controls; and
- Recommends improvements to internal controls to promote economy, efficiency, and effectiveness; and to prevent and detect fraud, waste, and abuse in Agency programs and operations.

j. Assessable Units

- Appoint an Internal **Control** Official (ICO) who oversees and coordinates management accountability and control issues within the organizational unit;
- Conduct periodic risk assessments of operations;
- Continuously perform internal control assessments in accordance with instructions issued by M/CFO/APC, identifying deficiencies in operations and in the implementation of programs;
- Develop corrective action plans to address deficiencies and track progress to ensure timely and effective results; and

- Report annually on the status of weaknesses identified during internal control reviews and daily operations.

k. Agency/Cognizant Managers

- Ensure that internal controls are incorporated into strategies, plans, guidance, and procedures that govern programs and operations;
- Ensure that internal control standards are maintained in the implementation of activities to achieve Agency program goals and objectives;
- Ensure the quality and timeliness of program performance and that programs are managed with integrity and in compliance with applicable law; and
- Ensure that assessable units are properly established and identified. All Missions, Bureaus, and Independent Offices are designated assessable units. USAID/W Bureaus and Independent Offices have the flexibility to (1) designate lower-level organizational units as assessable units or (2) use an alternative means of ensuring a comprehensive report on the status of controls in the Bureau. (See section **596.3.6**, Assessable Unit Reporting)

l. USAID/W Bureaus/Independent Offices

- Review and coordinate subordinate units' annual certifications on internal controls; and
- Consolidate the annual Bureau/Independent Office report using information submitted by subordinate units.

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

- Develop, update, clear, and continuously maintain specific Agency policy directives and required procedures; and
- Determine the need for additional or revised policy directives and required procedures based on identified internal control deficiencies or legislative, regulation, or policy changes that determine current Agency policy directives and required procedures (see [ADS 501](#), the Automated Directives System (ADS)).

596.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective date: 10/09/2007

596.3.1 Establishing Internal Controls

Effective Date: 10/09/2007

USAID managers and staff must develop and implement appropriate, cost-effective internal controls for results-oriented management and assurance of financial integrity over transactions, which reasonably ensure that the following are met:

- Obligations and costs comply with applicable laws and regulations;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures are properly recorded and accounted for; and
- Liabilities of the Government are properly stated in the financial statements.

USAID's internal controls must be consistent with the following standards:

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

b. Internal control must provide an assessment of the risks the Agency faces from both external and internal sources. A precondition to risk assessment is the establishment of clear, consistent Agency objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving Agency objectives, and the formation of a basis for determining how risks should be managed. Once risks have been identified, they must be analyzed by the responsible officials (Agency managers). Analysis includes the following:

- estimating the risk's significance,
- assessing the likelihood of its occurrence, and
- Deciding how to manage the risk and what actions should be taken.

(See Additional Help Reference "[Risk Assessment Guide](#)" for optional guidance.)

c. Internal control activities help ensure that management directives are carried out. The control activities must be effective and efficient in accomplishing the Agency's control objectives. Control activities include the following:

- Top-level reviews of actual performance,
- Reviews by management at the functional or activity level,
- Management of human capital,
- Controls over information processing,
- Physical control over vulnerable assets,
- Establishment and review of performance measures and indicators,
- Segregation of duties,
- Proper execution of transactions and events,
- Accurate and timely recording of transactions,
- Access restrictions to and accountability for resources and records, and
- Appropriate documentation of transactions and internal control.

d. Information on internal control activities must be recorded and communicated by assessable units to the next level of management and others within the organizational unit. It must be presented in a form and within a timeframe that enables management to carry out their internal control and other responsibilities.

e. Internal control monitoring by assessable units must assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

596.3.2 Assessing the Adequacy of Internal Controls

Effective Date: 08/01/1997

USAID managers and staff must continuously assess and improve the effectiveness of internal controls associated with the Agency's programs and operations by using a variety of information sources. 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 internal controls or for other purposes with an assessment of internal controls as a by-product of the review;
- c. Office of Inspector General (OIG) 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 [CFO Act of 1990](#), as amended, including information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal control, and compliance with laws and regulations; and any other materials prepared relating to the statements;
- f. Reviews of financial systems and applications conducted pursuant to the [Federal Financial Management Improvement Act of 1996](#) (FFMIA) and [OMB Circular A-127](#), Financial Management Systems;
- g. Evaluations and reports pursuant to the [Federal Information Security Management Act](#) (FISMA) and [OMB Circular A-130](#), Management of Federal Information Resources;
- h. Annual performance plans and reports pursuant to the [Government Performance and Results Act of 1993](#);
- i. **Program Assessment Rating Tool (PART)** is a government-wide systematic method of assessing the performance of program activities across the Federal government.
- j. Annual reviews and reports required by the [Improper Payments Information Act of 2002](#) (IPIA);
- k. Financial and performance audit reports;
- l. Reports and other information provided by congressional committees; and
- m. Other reviews relating to Agency operations.

596.3.3 **Management Control Review Committee (MCRC)**

Effective Date: 08/01/1997

The Agency must establish a Management Control Review Committee (MCRC) to provide oversight for the Agency's audit and internal control processes.

596.3.3.1 Agency Management Control Review Committee
Effective Date: 08/01/1997

The Agency's MCRC convenes at least quarterly to assess and monitor deficiencies in internal controls.

The Committee is chaired by the Deputy Administrator. The permanent membership is comprised of all of the Bureau Assistant Administrators, Independent Office Directors, and selected business process leaders. (See [Management Control Review Committee \(MCRC\) Charter](#) for more information.)

Most issues will be decided by consensus as determined by the MCRC Chair or Vice Chair. When a consensus cannot be reached, the issue resolution will be voted on by the MCRC members. A quorum of MCRC members (a simple majority) is needed to vote on issues.

596.3.3.2 Mission Management Control Review Committee
Effective Date: 10/09/2007

Each USAID Mission must establish a MCRC to provide oversight for the Mission's audit and internal control processes.

The Mission Director must determine the composition of the Mission MCRC and ensure that meetings are conducted at least semi-annually.

596.3.3.3 Senior Assessment Team
Effective Date: 10/09/2007

It reviews the results of the OMB Circular A-123, Appendix A, assessment and makes recommendations to the MCRC.

596.3.4 Corrective Action Plans
Effective Date: 08/01/1997

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

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

Cognizant managers must track progress to ensure timely and effective results. The cognizant manager makes the determination that a deficiency has been corrected when sufficient corrective actions have been taken and the desired results achieved.

M/CFO/APC must monitor the implementation of corrective actions for Agency-level material weaknesses and significant deficiencies and keep the Agency MCRC informed of progress to correct the deficiencies.

596.3.5 Annual Reporting on Internal Controls

Effective Date: 08/01/1997

The Administrator must annually submit the following items to OMB and Congress via the Agency Performance and Accountability Report (PAR):

- An assurance statement on the effectiveness of the Agency's internal controls;
- A summary of material weaknesses; and
- A summary of corrective action plans.

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

596.3.6 Assessable Unit Reporting

Effective Date: 10/09/2007

To support the Administrator's annual assurance statement, each assessable unit must provide an annual certification, to the next management level, on the overall adequacy and effectiveness of internal controls. Each assessable unit must consider information from the sources described in **596.3.2** in assessing the status of controls. The certification must include the following:

- a. A statement on whether there is reasonable assurance that internal controls are achieving their intended objectives;
- b. A description of control deficiencies that represent significant deficiencies in the design or operation of internal control that could adversely affect the assessable unit's ability to meet its internal control objectives. These are categorized as significant deficiencies and must be internally tracked and monitored by activity managers within USAID; and
- c. Corrective action plans and target completion dates for significant deficiencies.

596.3.6.1 Bureau/Independent Office Certification

Effective Date: 08/01/1997

Assistant Administrators and Independent Office Directors must review certifications submitted by subordinate assessable units to

- determine the relative importance of each deficiency identified, and
- whether identified deficiencies are of such significance that they should be included in the certification to the Administrator.

Management and Internal Control deficiencies are classified as material weakness or significant deficiencies. Each Assistant Administrator and Independent Office Director must then submit a certification to the Administrator that reflects the deficiency at that level, using the same format described in **596.3.6**. A copy of the Bureau or Independent Office certification must be provided to M/CFO/APC.

596.3.6.2 Management Control Review Committee (MCRC) Review of Deficiencies

Effective Date: 08/01/1997

The Agency MCRC must review the deficiencies reported by Assistant Administrators and Independent Office Directors. The Agency MCRC must then recommend to the Administrator which deficiencies are deemed to be material to the Agency as a whole and must be reported outside the Agency as a material weakness in the annual FMFIA assurance statement and the Performance Accountability Report.

When determining whether a significant deficiency should be designated as an Agency material weakness, the MCRC will be guided by whether the deficiency is characterized by the following:

- a. Significant impairment in the Agency's ability to achieve its objectives;
- b. Use of resources is inconsistent with the Agency's mission;
- c. Violation of statutory or regulatory requirements;
- d. Significant lack of safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets;
- e. Impairments in the ability to obtain, maintain, report, and use reliable and timely information for decision making;
- f. Improper ethical conduct; or
- g. Conflict of interest.

In identifying and assessing the relative importance of significant deficiencies, consideration must be given to the views of the IG. Agency managers and staff are encouraged to identify control deficiencies, as this reflects positively on the Agency's commitment to recognizing and addressing management problems. The MCRC should

carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines.

596.3.6.3 The Administrator's Report on Management's Responsibility for Internal Control

Effective Date: 08/01/1997

M/CFO/APC prepares the Administrator's report on management assurances for the annual PAR based on MCRC decisions. The report must include the following:

- a. A statement on whether there is reasonable assurance that the Agency's controls are achieving their intended objectives (the annual Statement of Assurance),
- b. A summary of material weaknesses and significant deficiencies, and
- c. A summary of corrective action plans.

The Administrator's Statement of Assurance represents his or her informed judgment about the overall adequacy and effectiveness of internal control within USAID. The Statement of Assurance must take one of the following forms:

- a. Unqualified statement (no material weaknesses reported);
- b. Qualified statement of assurance, considering the exceptions explicitly noted; or
- c. Statement of no assurance (no internal control processes in place or there are pervasive material weaknesses).

596.3.7 Evaluation of Staff Performance on Internal Control Responsibilities

Effective Date: 08/01/1997

Annual employee Evaluation Forms must reflect internal control responsibilities as set forth in this chapter, and employees must be evaluated on their effectiveness in carrying out the responsibilities.

USAID managers must ensure that performance appraisals reflect the effectiveness of USAID staff in establishing, assessing, correcting, and reporting on internal controls.

596.4 MANDATORY REFERENCES

Effective date: 10/09/2007

596.4.1 External Mandatory References

Effective date: 10/09/2007

- a. [Federal Managers' Financial Integrity Act \(FMFIA\) of 1982 \(Pub. L. 97-255\)](#)
- b. [OMB Circular A-123, Management Accountability and Control, December 12, 2004](#)

596.4.2 Internal Mandatory References

Effective date: 10/09/2007

- a. [ADS 501, The Automated Directives System \(ADS\)](#)
- b. [ADS 590, Audit](#)
- c. [ADS 595, Audit Management Program](#)
- d. [Management Control Review Committee \(MCRC\) Charter](#)

596.5 ADDITIONAL HELP

Effective date: 10/09/2007

- a. [Risk Assessment Guide](#)
- b. [Chief Financial Officer's \(CFO\) Act of 1990, Public Law 101-576, November 15, 1990](#)
- c. [Federal Financial Management Improvement Act of 1996 \(FFMIA\), Public Law 104-208, September 30, 1996](#)
- d. [OMB Circular A-127, Financial Management Systems, July 23, 1993](#)
- e. [Federal Information Security Management Act of 2002 \(FISMA\), Public Law 107- 347, December 17, 2002](#)
- f. [OMB Circular A-130, Management of Federal Information Resources, November 28, 2000](#)
- g. [Government Performance and Results Act of 1993 \(GPRA\), Public Law 103-62](#)
- h. [Improper Payment Information Act of 2002 \(IPIA\), Public Law 107-300](#)

***596.6 DEFINITIONS**
Effective Date: 05/09/2008

The terms and definitions listed below have been included into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

Agency Management Control Review Committee

A group of senior USAID officials who provide oversight on the Agency's internal control program. The oversight includes the identification, correction, and reporting on internal control deficiencies. The Agency MCRC also provides oversight and assistance regarding audit management issues. (Chapters 595, 596)

Assessable unit

An organizational unit within USAID, i.e., Mission, Bureau, or Independent Office, that is required to submit a statement of assurance on the status of internal controls to the next management level. All Missions, Bureaus, and Independent Offices are assessable units. Additionally, lower-level organizational units are assessable units, as designated by responsible Bureaus. (Chapter 596)

***Corrective Action Plan**

Management's plan of action that describes the internal control deficiency and provides a schedule, including milestones and target dates, to remediate the deficiency. Corrective actions should be cost beneficial to correct. (OMB Circular A-123)

***Control Environment**

The organizational structure and culture created by management and employees to sustain operational support for effective internal control. (OMB Circular A-123)

***Control Deficiency**

A control deficiency exists when the design or operation of an administrative, programmatic, operational, accounting and/or financial control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively. (FMFIA of 1982 and OMB Circular A-123)

Internal controls

The organization, policies, procedures, and tools used to reasonably ensure that (a) programs achieve their intended results; (b) resources are used in accordance with the Agency's mission; (c) programs and resources are protected from 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. (OMB Circular A-123)

Internal Control Official

(This replaces the former term “Management Control Official”)

The employee within each assessable unit that is responsible for coordinating all of the internal control activities within that unit, i.e., guidance, assessments, and reporting. (Chapter 596)

Internal control standards

The standards for internal control within the Federal government developed and issued by the Government Accountability Office. (Chapter 596)

Management accountability

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 problems are managed with integrity and in compliance with applicable law. (Chapter 596)

Management Control Review Committee

A group of senior officials at the Mission, Bureau, or Independent Office level who provide oversight and assistance for the management control program and audit management issues. (Chapters 595, 596)

***Material weakness**

A significant deficiency or combination of significant deficiencies that is significant enough to be reported to OMB and Congress. Generally such a weakness would a) significantly impair the organization's ability to achieve its objectives; b) result in the use of resources in a way that is inconsistent with Agency mission; c) violate statutory or regulatory requirements; d) result in a significant lack of safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; e) impair the ability to obtain, maintain, report, and use reliable and timely information for decision making; or f) permit improper ethical conduct or a conflict of interest. (Chapter 596)

***Non-Conformance**

Instances in which financial management systems do not substantially conform to established financial systems requirements. Financial management systems include both financial or financially-related (or mixed) systems. (FMFIA Section A, OMB Circular A-123)

Performance Accountability Report

This report provides performance and financial information that enables Congress, the President, and the public to access the performance of the Agency relative to its mission and the stewardship of the resources entrusted to it.

***Risk Assessment**

An internal management process for identifying, analyzing and managing risks relevant to achieving the objectives of safeguarding assets, compliance with relevant laws and regulations and reliable financial reporting. (OMB Circular A-123)

***Significant deficiency**

(This replaces the former term “Reportable Condition”)

A deficiency in internal control, or a combination of deficiencies, that in management’s judgment, should be communicated to the next level of management because they represent significant weaknesses in the design or operation of an administrative, programmatic, operational, accounting and/or financial internal control that could adversely affect Agency’s overall internal control objectives. (Chapter 596)

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