



State Assessment of Internal Controls

Final Report

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EXECUTIVE SUMMARY

This report describes the development and pilot of the State Internal Control Self-Assessment Instrument (Instrument). This report highlights the background and objectives, the potential benefits to States and Federal Staff, and the methodology used to develop and implement the pilot in Kansas, the initial pilot State. The major part of this report focuses on nine additional pilot States and includes lessons learned and associated costs from implementing the Instrument.

A. Background

In response to the Improper Payment Information Act of 2002, the U.S. Department of Health and Human Services (HHS), Office of the Inspector General, Administration for Children and Families (ACF), as well as the Office of Management and Budget (OMB) developed an Erroneous Payment Assessment Plan. The plan identified the Child Care Program as being at high risk of errors that could result in improper payments caused by mistakes, inadequate controls, fraud, waste, or abuse.

Since 2003, the Child Care Bureau (CCB) has taken a systematic approach to addressing the issue of improper payments in the Child Care Development Fund (CCDF). The CCB has examined the policies and practices in 11 partner States, conducted an error rate pilot in nine pilot States, and analyzed associated costs. The current pilot examines the feasibility of implementing a State Internal Control Self-Assessment Instrument (Instrument) to assist States in identifying potential gaps and problems within the Child Care Program.

In 2004, the Government Accountability Office (GAO) issued a report describing the strategies implemented by 16 States to address improper payments in the CCDF and Temporary Assistance for Needy Families (TANF) block grant programs. The GAO studied what States were doing to manage improper payments and how the U.S. Department of Health and Human Services (HHS), which oversees the TANF and CCDF programs, helps States identify and address improper payments in these programs. The GAO concluded, “HHS lacks adequate information to assess risk and assist States in managing improper payments.”¹

The GAO report, The Improper Payments Information Act of 2002, the President’s Management Agenda goal of “Improved Financial Performance,” related OMB guidance and recommendations from the President’s Council on Integrity and Efficiency² all stress that Federal and State agencies should prioritize the creation of an effective control environment within their programs using resources and incentives to support this effort. According to GAO, HHS needs mechanisms to gather information on State internal

¹ Government Accountability Office. (June 2004.) *TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments*. (GAO Publication No. GAO-04-723). Washington, DC: U.S. Government Printing Office.

² Full descriptions of strong internal control environments are provided in OMB Circular A-123, *Management’s Responsibility for Internal Control* (December 21, 2004), available at http://www.whitehouse.gov/omb/circulars/a123/a123_rev.pdf and *Standards for Internal Control in the Federal Government* (November 1999), available at <http://www.gao.gov/special.pubs/ai00021p.pdf>.

control activities, including steps that States take to minimize or eliminate risks, in order to detect and minimize errors that could result in improper payments.

B. Objectives for Developing a Process to Examine State Internal Controls

The Government Accountability Office (GAO) identifies assessing internal controls as an important strategy to assist States in efforts to minimize erroneous payments. Assessment of risk through an internal control self-assessment process is an activity that entails a comprehensive review and analysis of program operations to determine where risks exist, identify those risks, and then measure the potential or actual impact of those risks on program operations. The information gathered from this assessment can determine the nature and type of corrective actions needed, and provides baseline information for measuring progress in reducing errors that could result in improper payments.

In response to the GAO directive, the CCB organized a Federal Project Team that included staff from Regional offices, the State of Kansas, the CCB central office and Walter R. McDonald & Associates, Inc. (WRMA) to draft an approach to address internal controls, using GAO's *Internal Control Management and Evaluation Tool* as a model.³

C. Potential Uses of the Self-Assessment

The CCB views the State Internal Control Self-Assessment Instrument as a promising tool for both State and Federal managers. The Instrument can provide the CCB, Regional Offices, and States with a systematic method for reviewing and documenting the adequacy of a State's internal control system, identifying internal control weaknesses, and providing documentation of findings and possible corrective actions.

ACF Regional Office program specialists and grants officers along with representatives from nine States/Territories and WRMA were an integral part of the development and piloting of the Instrument. The State and Federal Project Teams who participated in the pilot identified the following benefits of the Instrument implementation process:

1. Benefits to States

- Enables the States to evaluate their internal controls against GAO standards;
- Can be adapted for use in other program areas;
- Combines into a single document a wide variety of information that can be used to monitor internal controls and prevent errors;
- Documents areas needing ongoing monitoring or other corrective action activities;
- Can become a "virtual document" that continually updates through hyperlinks to the State's Internet or Intranet site each time the State changes a supporting materials;
- Addresses the core processes affecting the child care program, when used in conjunction with the State Plan;
- Documents when necessary internal controls exist and function adequately to minimize the risk of errors that could result in improper payments; and

³ Available at <http://www.gao.gov/new.items/d011008g.pdf>.

- Can be adapted to meet the unique requirements of a particular State and adapted to other State programs.

2. Benefits to ACF Staff in Regional Offices

- Assists States in performing oversight and supporting the CCDF program;
- Identifies areas for technical assistance with States, individually or in regional meetings;
- Highlights areas that States identify as weaknesses, which when combined with the State Plans, audits and other reports, can develop and support corrective actions; and
- Provides a vehicle for sharing of best practices both within and across Regions.

D. Conceptual Design of the Instrument

The purpose of the Instrument is to provide a supplemental guide for States to assess the adequacy of internal controls and to identify issues that may contribute to errors in the administration of the Child Care and Development Fund (CCDF). This Instrument provides a starting point for States to modify to fit the circumstances, conditions, and risks relevant to each agency. States can review their internal controls and procedures using the relevant factors and elements in the Instrument and document responses as appropriate to their particular agency circumstances.

Using the GAO tool as the base, the State Internal Control Self-Assessment Instrument has five sections corresponding to the five standards for internal controls:

- Control environment
- Risk assessment
- Control activities
 - Common categories of control activities
 - Control activities specific to information systems general
 - Control activities specific to information systems application control
- Information and communications
- Monitoring

Each section of the Instrument contains a list of major elements or criteria for States to consider when reviewing internal controls as they relate to each particular standard. By reviewing each element, States can first determine the applicability of the item to local circumstances. If applicable, the Instrument provides standards against which States can assess performance, identify any resultant gaps or weaknesses, and determine the extent to which the element influences the agency's ability to achieve its mission and goals. The results of this assessment can guide States in developing processes, procedures, or other measures to improve internal controls in order to meet the intent of the IPIA and ACF's need to document improvements. State assessment results can help provide a framework for ongoing technical assistance, when shared with ACF staff in Regional Offices.

E. Instrument Development

The Federal Project Team, consisting of Federal CCB staff from Central Office, Region VII and WRMA, worked with Kansas as a partner State in the review, modification, and

initial pilot test of the Instrument. Alice Womack, State Child Care Administrator, agreed to lead the State Self Assessment of Internal Controls Project Team, which included staff representing Program, Fiscal, Policy, Human Resources, Information Technology, and Auditing Divisions, at both the central office and field office levels.

Federal Project Team members visited Kansas in November 2005 and conducted a two-day working session to orient the Kansas Project Team to the project and work together to tailor the Instrument for use in reviewing the child care program. The Kansas and Federal Project Teams reviewed every section, element, and criterion in the initial draft Instrument and, through consensus, modified and tailored the Instrument. The Project Teams deleted several of the elements and their associated criteria from the original document. The Project Teams came to consensus on all modifications to the Instrument before making any changes. The Project Team members chose to delay further refinement and modification of the Instrument until after State pilot implementation.

F. Initial Pilot State: Kansas

Kansas participated in the development of the Instrument and agreed to be the first State to pilot the Instrument from November 21, 2005 to January 13, 2006. Following completion, the Federal Project Team conducted a debriefing call to discuss the Kansas experience. After considerable discussion, the Kansas Project Team made several recommendations for successful implementation of the Instrument, including:

1. Composition and Responsibilities of the State Project Team

- Select one overall project coordinator.
- Have a high-level management staff member recruit team members and act as organizational sponsor.
- Form a broad-based team. See Appendix B for a listing of potential team member's functional assignments.
- Designate adequate support/clerical staff to be involved from the beginning of the project, especially for tracking and compiling data and information
- See "Suggested Section Assignments," Appendix C for more guidance on forming the State Project Team.

2. Orientation Meetings and Ongoing Communication

- Hold an initial team meeting to explain the purpose, process, and benefits of participation and uses for future work within the agency.
- Hold additional orientation meetings, if staff members who will complete sections of the Instrument are not at the orientation meeting.

3. Gathering and Recording Information

- Discuss the procedures for gathering documentation, including: the use of hyperlinks to both the State Internet and Intranet Web sites; and how hard copy attachment options are to be coordinated with all team members.
- Provide all team members with an electronic version of the document to use to enter all information and send to the coordinator who can then assign support staff to compile into one document. More than one team member may complete some sections, which will require integration by the coordinator.

4. Finalizing and Submitting the Completed Assessment

- Have support staff edit the completed Instrument for errors, grammar, and writing style consistency.
- When completed, hold a wrap-up meeting with all team members to share completed documents and receive comments and feedback; make changes to document as agreed upon in discussion.
- Have high-level management staff/team review the completed Instrument to ensure that it is consistent with agency mission and can be integrated with agency strategic or business plan.

G. Training of Federal Staff in ACF Regional Offices

Upon completion of the Kansas pilot, the CCB convened a one-and-a-half day training session in Kansas City, MO for Regional grants officers and program specialists from CCB Central Office and all ten ACF Regional Offices. Members of the Kansas Project Team also attended the training.

The purpose of the training was to involve the ACF Regional Offices in provision of technical assistance to the States during the Instrument pilot and to demonstrate how they could use the results for monitoring purposes. At the conclusion of the session, the CCB invited an additional nine Regions and States or Commonwealths to participate in the pilot, including Maine (Region I), Puerto Rico (Region II), Kentucky (Region IV), Illinois (Region V), Arkansas (Region VI), Kansas (Region VII), Montana (Region VIII), Nevada (Region IX), and Washington (Region X).

The Federal Project Team conducted site visits in eight of the nine jurisdictions; Maine chose not to have a site visit due to timing issues. Instead, the Federal Project Team conducted a conference call with the Maine Project Team to answer questions and prepare team members for completing the Instrument.

H. Conclusions

Based on the self-assessment process, the nine pilot States offered the following conclusions for future pilots:

A successful Instrument implementation process needs involvement across program areas. States realized that the scope of the self-assessment process was broad, requiring the involvement of common supporting areas that cross walk several different programs, such as Human Resources and Information Technology. As a result, the commitment of all parts of the organization is critical to the success of the self-assessment process.

High-level management support is important for optimal implementation. For those States without the necessary organizational support, the self-assessment process was a greater challenge. The States that found the self-assessment process most rewarding were those States that had a high level of commitment from the top State organizational level.

Redundancies in the Instrument did not serve a useful purpose. All nine pilot States expressed a need to streamline the Instrument and eliminate the redundancies. States also

requested creating a section specific to the child care program. WRMA revised the Instrument as explained in the section below.

States need to allow adequate time to complete the self-assessment process. States recommended establishing an agreed upon timeframe to ensure timely and thoughtful completion of the Instrument. Most States indicated that a 90-day timeframe for Instrument completion was adequate. Several States recommended scheduling the self-assessment process to occur within a timeframe that does not conflict with other major agency activities. Most States recommended updating the Instrument every two years.

States may use hyperlinks to refer to documents on the State's Internet and/or Intranet Web site to ensure that the Instrument stays current by linking dynamically to continuously updated documentation. Most States indicated that combining all of the documentation in a single document was helpful. Using the hyperlink rather than printing the complete set of documentation was beneficial because the link will route to the most current version of a document. This is important as many policy documents are on a regular schedule for updates. The Illinois Project Team recommended establishing an area on the CCB Web site for States to provide links for sharing internal control documentation, which is not available on either the Internet or the State agency Intranet.

Agency allocation of an overall project coordinator is critical to the self-assessment process. The project coordinator needs to have top-down management support, sufficient authority to set deadlines, availability during the entire process to provide clear instructions, answer questions, consult with team members and coordinate with top agency leadership.

I. Estimated Costs

Despite the scope and complexity of the Instrument, the costs of conducting a State Internal Control Self-Assessment are relatively modest. Kentucky and Maine estimated costs of approximately \$3,000, while Montana and Washington estimated between \$8,000 and \$9,500. The range for all States was \$3,032 through \$9,445. The costs for the Commonwealth of Puerto Rico were significantly higher, due to several factors. Puerto Rico involved the greatest number of personnel in the site visit and in the Instrument implementation process. Puerto Rico also expanded the scope of the self-assessment process to examine areas needing attention as identified in a prior audit.

J. Revisions to the Instrument

The nine pilot States recommended elimination of the redundancies and the tailoring of certain elements to the child care program. Based on the advice of the participating States and ACF staff in Regional Offices, WRMA modified the Instrument. The objective of the modifications was to reduce the redundancy, clarify the instructions, and tailor Section III to include elements specific to the child care program. In order to involve all pilot States in the process of Instrument modification, WRMA shared the revised Instrument with the States and the ACF staff in the Regional Office who drafted the initial Instrument. Following receipt of all of the comments, WRMA made further revisions to the Instrument. Appendix M contains the revised Instrument.

The modifications to the Instrument included:

- Eliminating or combining 23 elements in Section I and II (Control Environment and Risk Assessment) for a reduction of 23%;
- Reviewing and clarifying all instructions for each section of the Instrument;
- Revising Section III: Common categories of control activities to specifically focus on the child care program; and
- Making minor changes to Sections IV and V.

The modifications did not affect the integrity of the Instrument.

K. Recommendations

The Instrument can provide the CCB staff in the Central and in Regional Offices and States with a systematic method for reviewing and documenting the adequacy of a State's internal control system, identifying internal control weaknesses, and providing documentation of findings and possible corrective actions. Recommendations include:

- *Obtain the commitment of all parts of the organization prior to initiation of the process.* A successful Instrument implementation process needs involvement across program areas. States realized that the scope of the self-assessment process was broad, requiring the involvement of common supporting areas that cross walk several different programs.
- *Market the Instrument to programs in addition to the child care program.* Some States adapted the Instrument to meet other needs beyond the child care program. Puerto Rico used the self-assessment process to re-examine fiscal areas highlighted in a previous audit, and included an action plan with the Self-Assessment findings. Maine intends to strengthen its Performance Evaluation System (PER) by including a section focusing on ethics and personal integrity.
- *Consider involving an external entity to review the accuracy and validity of State responses.* Arkansas recommended enlisting an external entity to validate the self-assessment responses from the agency. Puerto Rico and Maine also recommended developing a verification or validation process to ensure that responses were accurate and appropriate. Several States recommended the involvement of the Regional Offices to assist with the validation process.
- *Consider integrating the self-assessment process with the agency's strategic or business plans.* High-level management support is important for broader implementation of the self-assessment process. States may choose to involve senior management staff initially to determine the applicability of the self-assessment process with the broader agency mission or strategic planning process. Within the child care program the Instrument can be combined with the CCDF State Plan to serve as a biannual update of State efforts towards the prevention of errors that could result in improper payments. Senior management staff can review responses to ensure consistency with agency mission and strategic and business plans.

L. Recommended Steps for Successful Implementation

Based on the first pilot State experience, Kansas offered several logistical steps that can maximize the effectiveness of the methodology process. The following steps provided useful guidance for the nine pilot States' implementation experience and support the above recommendations. The steps include:

1. Select one overall project coordinator. It is critical that the project coordinator is available during the entire process to answer questions, consult with team members and coordinate with the CCB or WRMA.
2. Select a full range of State Project Team members. The following list includes potential County and Contractor staff for States where that may be appropriate. Appendix B provides a table listing potential team members and their functions. Potential team members may include:
 - a. High and Middle Level Management;
 - b. Audits;
 - c. Human Resources;
 - d. Information Technology;
 - e. Program Staff including those working on systems for programs if different than IT staff;
 - f. Quality Assurance;
 - g. Eligibility staff (State, County or contractors);
 - h. Licensing Staff;
 - i. Finance/Accounting;
 - j. Operations;
 - k. Public Information Officer;
 - l. Legislative Liaison; and
 - m. County management staff if County Administered.
3. Hold an initial team meeting to explain purpose, process and sell the project. If possible, have a senior level management staff person kick-off the project at this meeting. Go over each section of the document and make specific assignments to the team members for each section of the document. States that performed this step reported that it was very important to successful completion of the document.
4. Hold additional follow-up meetings to ensure that all participants tasked with completing sections of the assessment understand the purpose and process.
5. Make sure the identified coordinator is available during the entire process to answer questions, hold conference calls, consult with team members and coordinate with the CCB or WRMA.
6. Designate and involve support staff at the beginning for tracking and compiling data and information, editing for errors, checking grammar, and providing writing style consistency.
7. Provide all team members with an electronic version of the document to use in completing their assigned sections. Have all information entered on the electronic document and sent to coordinator who can then assign support staff to integrate it into one document. If more than one team member completes a section, integration with oversight from coordinator may be necessary.
8. Establish an agreed upon type style and font size so that responses can be inserted into the master document easily.

9. Discuss documentation: Web sites (hyperlink to both Internet and Intranet) and hard copy attachment options with all team members.
10. Hold additional meetings with all team members or sub-groups to share the completed document, receive comments and feedback, and make changes to document as needed.
11. Have senior management staff review responses to ensure consistency with agency's mission and strategic or business plans.

I. INTRODUCTION

In response to the Improper Payments Information Act (IPIA) of 2002 and guidance from the Office of Management and Budget (OMB), the Child Care Bureau (CCB) launched the project: Measuring Improper Payments in the Child Care Program. The purpose of this project is to identify and describe methods that could help States identify, measure, and minimize errors in the administration of the Child Care and Development Fund (CCDF).

This report describes the development and pilot of the State Internal Control Self-Assessment Instrument (Instrument). This report highlights the background and objectives, the potential benefits to States and Federal Staff, and the methodology used to develop and implement the pilot in Kansas, the initial pilot State. The major part of this report focuses on nine additional pilot States and includes lessons learned and associated costs from implementing the Instrument.

A. Background

Since 2003, the Child Care Bureau (CCB) has taken a systematic approach to addressing the issue of improper payments in the Child Care Development Fund (CCDF). The CCB has examined the policies and practices in 11 partner States, conducted an error rate pilot in nine States, and analyzed associated pilot costs. The current pilot examines the feasibility of implementing an Instrument to assist States in identifying potential gaps and problems within their State Child Care Programs.

In 2004, the Government Accountability Office (GAO) issued a report describing the strategies implemented by 16 States to address improper payments in the CCDF and Temporary Assistance for Needy Families (TANF) block grant programs. The GAO studied what States were doing to manage improper payments and how the U.S. Department of Health and Human Services (HHS), which oversees the TANF and CCDF programs, helps States identify and address improper payments in these programs. The GAO concluded that “HHS lacks adequate information to assess risk and assist States in managing improper payments.”⁴

The GAO report, The Improper Payments Information Act of 2002, the President’s Management Agenda goal of “Improved Financial Performance,” related OMB guidance, and recommendations from the President’s Council on Integrity and Efficiency⁵ all stress that Federal and State agencies should prioritize the creation of an effective control environment within their programs using resources and incentives to support this effort. According to GAO, HHS needs mechanisms to gather information on State internal

⁴ Government Accountability Office. (June 2004.) *TANF and child care programs: HHS lacks adequate information to assess risk and assist States in managing improper payments*. (GAO Publication No. GAO-04-723). Washington, DC: U.S. Government Printing Office.

⁵ Full descriptions of strong internal control environments are provided in OMB Circular A-123, *Management’s Responsibility for Internal Control* (December 21, 2004), available at http://www.whitehouse.gov/omb/circulars/a123/a123_rev.pdf and *Standards for Internal Control in the Federal Government* (November 1999), available at <http://www.gao.gov/special.pubs/ai00021p.pdf>.

control activities, including steps that States take to minimize or eliminate risks, in order to detect and prevent errors that could result in improper payments.

B. Objectives for Developing a Process to Examine State Internal Controls

GAO identifies assessing internal controls as an important strategy to assist States in efforts to prevent errors that could result in improper payments. Assessment of risk through an internal control self-assessment process is an activity that entails a comprehensive review and analysis of program operations to determine where risks exist, identify those risks, and then measure the potential or actual impact of those risks on program operations. The information gathered from this assessment can be used to determine the nature and type of corrective actions needed, and provides baseline information for measuring progress in reducing errors that could result in improper payments.

In response to the GAO directive, the CCB organized a Federal/State team that included CCB staff from central and regional offices, the State of Kansas, and Walter R. McDonald & Associates, Inc. (WRMA) to draft an approach to address internal controls, using GAO's *Internal Control Management and Evaluation Tool* as a model.⁶

The CCB views the Instrument as a promising tool for both State and Federal managers. The Instrument can provide the CCB and States with a systematic method for reviewing and documenting the adequacy of a State's internal control system, identifying internal control weaknesses, and providing documentation of findings and possible corrective actions.

This report describes the development of an Instrument to assess the adequacy of internal controls and to identify issues that may contribute to errors in the administration of the Child Care and Development Fund (CCDF). The following chapter describes the benefits of using the Instrument for staff in States and ACF Regional Offices.

⁶ Available at <http://www.gao.gov/new.items/d011008g.pdf>.

II. POTENTIAL USES BY STATE AND FEDERAL STAFF

States can view completed internal control Instruments as living documents, making revisions as circumstances, conditions, and risks change. The CCB views the State Internal Control Self-Assessment Instrument as a promising tool for both State and Federal managers. The Instrument provides the CCB and States with a systematic method for reviewing and documenting the adequacy of a State's internal control system, by identifying internal control weaknesses, and providing documentation of findings, and possible corrective actions. The CCB believes this Instrument can complement other Federal activities aimed at helping States become more vigilant and prevention-oriented in an overall effort to reduce errors that could result in improper payments.

A. Benefits of the Instrument

ACF Regional Office program specialists and grants officers, along with representative from nine States/Territories and WRMA, were an integral part of the development and piloting of the Instrument. The State and Federal Project Teams who participated in the pilot identified the following benefits of the Instrument implementation process:

1. Benefits to States

- Enables the States to evaluate their internal controls against GAO standards;
- Can be adapted for use in other program areas;
- Combines into a single document a wide variety of information that can be used to monitor internal controls and prevent errors that could result in improper payments;
- Documents areas needing ongoing monitoring or other corrective action activities;
- Can become a "virtual document" that continually updates through hyperlinks to the State's Internet or Intranet site each time the State changes supporting material;
- Addresses the core processes affecting the child care program, when used in conjunction with the State Plan;
- Documents when necessary internal controls exist and function adequately to minimize the risk of errors that could result in improper payments; and
- Can be adapted to meet the unique requirements of a particular State and adapted to other State programs.

2. Benefits to ACF Staff in Regional Offices

- Assists States in performing oversight and supporting the CCDF program;
- Identifies areas for technical assistance with States, individually or in regional meetings;
- Highlights areas that States identify as weaknesses, which when combined with the State Plans, audits and other reports, can develop and support corrective actions; and
- Provides a vehicle for sharing of best practices both within and across Regions.

This Instrument can be a major source document for multiple parts of the organization and benefit a broad range of program areas. Exhibit 1 provides an example of how Kentucky used hyperlinks for documentation sources in Column 3 so that when a part of the organization updates its documents, it can simultaneously update the Instrument. Kentucky also used Column 4 from the Instrument to explain how the State will address an area or take a corrective action if needed.

Exhibit 1. Use of Hyperlinks & Follow-up as Documentation

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
11. Management ensures all transactions and other significant events are clearly documented with respect to each of the agency's overall activities and those activities related to the Child Care Program.	Management maintains written documentation that is readily available, complete, useful, properly managed, maintained, and periodically updated.	Operational manuals and hard copies of documentation are maintained according to Cabinet guidelines. Contract oversight branch: http://eprocurement.ky.gov/servlet/KYECServlet?object=ECOMMERCE&action=showMain Page	Continue to respond to findings (if applicable) from results of Single audit as required by contract

The following chapter describes in more detail the methodology used to develop the initial draft Instrument.

III. METHODOLOGY

This chapter describes the various components of the pilot methodology and the process that the Federal Project Team used to develop and pilot test the State Internal Control Self-Assessment Instrument. The chapter describes the make-up of the Federal Project Team, examines the conceptual design and Instrument development process, and explains the initial pilot in Kansas and the training for ACF staff in Regional Offices.

A. Project Team

Because of the intended use of the State Internal Control Self-Assessment Instrument for both States and ACF staff in Regional Offices, it was important to involve both State and ACF Regional staff in the development and pilot process. The Federal Project Team consisted of Region VII financial/grants management and program staff, CCB policy and program staff, and WRMA staff. Kansas agreed to participate in the design as well as conduct a pilot of the Instrument. After the project team finalized the Instrument, Kansas staff proceeded to select State team members.

B. Conceptual Design

The Federal Project Team conducted an extensive review and analysis of existing applicable documentation as the first step in developing a baseline tool.^{7,8,9} The Government Accountability Office (GAO) Internal Control Management and Evaluation Tool provided the conceptual model used to design the State Internal Control-Assessment Instrument.¹⁰ In addition, the Project Team reviewed several other risk assessment Instruments, including tools used by Virginia, Illinois, and Federal agencies such as the Department of Transportation. Elements from these tools were included in the draft Instrument.

The purpose of the Instrument is to provide a supplemental guide for States to assess the adequacy of internal controls and to identify issues that may contribute to errors in the administration of the Child Care and Development Fund (CCDF). States can modify this tool to fit the circumstances, conditions, and risks relevant to each agency. States can review their internal controls and procedures, using the relevant factors and elements in the Instrument, and document responses as appropriate to their particular agency circumstances.

⁷ Improper Payment Information Act of 2002, Pub. L. No. 107–300, § 2, 116 Stat. 2350.

⁸ Office of Management and Budget. (2003). The Improper Payment Information Act, Public Law No: 107–300 [On-line]. Available: <http://www.whitehouse.gov/omb/memoranda/m03-13-attach.pdf>.

⁹ Government Accountability Office. (June 2004) *TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments*. (GAO Publication No. GAO–04–723). Washington, DC: U.S. Government Printing Office.

¹⁰ Government Accountability Office. (August 2001) *Internal Control Management and Evaluation Tool* (GAO Publication No. GAO–01–1008G). Washington, DC: U.S. Government Printing Office.

The Instrument has five sections corresponding to the five standards for internal control outlined by the GAO.¹¹ The following section provides a brief description of each of the five standards. The third standard, Control Activities, is further broken down into three additional sections: one dealing with Common Activities and two dealing with Information Systems.

- *Control environment:* This standard addresses how the State establishes and maintains an environment throughout the organization that sets a positive and supportive attitude towards internal control and conscientious management. Major factors affecting the control environment include:
 - Integrity and Ethical Values;
 - Commitment to Competence;
 - Management Philosophy and Operating Style;
 - Organizational Structure;
 - Assignment of Authority and Responsibility;
 - Human Resource Policies and Practices; and
 - Oversight Groups.
- *Risk assessment:* This standard addresses the importance of establishing clear and consistent goals and objectives at both the organizational and program level. When an agency has established, well-articulated objectives, it can then assess any risks that could impede the efficient and effective achievement of those goals and objectives. Once the agency identifies and analyzes the potential risks, it can develop a plan to minimize, eliminate, or mitigate those risks. The design of this section or standard assists States in this effort.
- *Control activities:* This standard applies to the policies, procedures, techniques, and mechanisms used by States to mitigate the risks identified during the risk assessment process. Effective control activities are integral to an agency's planning, implementation, and review processes. In addition, internal control activities are essential in achieving accountability, and efficient program results.
 - *Common categories of control activities:* Control activities include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. The agency can determine whether the proper control activities have been established, whether they are in sufficient number, and the degree to which those controls are operating effectively.
 - *Control activities specific to information systems general:* Some internal control activities apply specifically to information systems, including the structure, policies, and procedures that apply to the agency's overall computer operations. These activities apply to all aspects of the information systems operations, including mainframe, network, Internet, and end-user environments. General control governs the environment in which the agency's application systems operate. The six major factors or categories of information systems control activities within general information systems controls are: agency wide security management, access control, application

¹¹ Government Accountability Office. (October 2001) *Strategies to manage improper payments: Learning from public and private sector organizations* (GAO Publication No. GAO-02-69G). Washington, DC: U.S. Government Printing Office.

software development and change, system software control, segregation of duties, and service continuity.

- *Control activities specific to information systems application control:* Application control involves the structure, policies, and procedures designed or adopted by the agency to ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Controls include both the routines contained within the computer programming code, as well as the policies and procedures associated with end-user activities. The four major categories of control activities are authorization control, completeness control, accuracy control, and control over integrity of processing and data files.
- *Information and communications:* The fourth standard assesses the degree to which the State has relevant and reliable information, both financial and non-financial, relating to external and internal events. Information and communication must be broad based, accountable, reliable, continuous, appropriate, and secure, whether manual or automated.
- *Monitoring:* The final standard allows the State to examine and evaluate the performance of contract and non-contract providers administering child care and other related services. This standard provides elements to gauge the effectiveness of the program, audits, and other monitoring activities.

Each section of the Instrument contains a list of major elements or criteria for States to consider when reviewing internal controls as they relate to each particular standard. By reviewing each element, States can first determine the applicability of the item to local circumstances. If applicable, the Instrument provides standards against which States can assess performance, identify any resultant gaps or weaknesses, and determine the extent to which the element influences the agency's ability to achieve its mission and goals. The results of this assessment can guide States in developing processes, procedures, or other measures to improve internal controls in order to meet the intent of the IPIA and ACF's need to document improvements. State assessment results can help provide a framework for ongoing technical assistance, when shared with ACF staff in Regional Offices.

C. Instrument Development

The Federal Project Team, consisting of Federal CCB staff from Central Office and Region VII and WRMA, used an interactive approach to develop the Instrument. Beginning with the basic Internal Control Management and Evaluation Tool (GAO-01-1008G), the Project Team reviewed other assessment tools, including those developed by Illinois and Virginia, and verified that relevant information contained in those Instruments were also contained in the draft Instrument. This process took place over several weeks through conference calls and e-mails to produce and refine the initial draft Instrument.

Kansas participated as a partner State in the review, modification, and initial pilot test of the Instrument. Alice Womack, State Child Care Administrator, agreed to lead the State Self Assessment of Internal Controls Project Team, which included staff representing

Program, Fiscal, Policy, Human Resources, Information Technology, and Auditing Divisions, at both the central office and field office levels.

Federal Project Team members consisting of Federal staff from Central Office, Region VII, and WRMA visited Kansas in November 2005. The Federal Project Team conducted a two-day working session to orient the Kansas Project Team to the project and work together to tailor the Instrument for use in reviewing the child care program. The Kansas and Federal Project Teams reviewed every section, element, and criterion in the initial draft Instrument and, through consensus, modified and tailored the Instrument. The Project Teams deleted several of the elements and their associated criteria from the original document. The Project Teams came to consensus on all modifications to the Instrument before making any changes. In all cases, the deletion of elements occurred because the team members considered the element redundant and so it did not add value to the Instrument.

Several elements had no associated criteria. The Project Teams reviewed each of these and only added criteria when the teams determined that the element needed clarification. The Instrument repeats some elements across issues and several sections have the same criteria, but used in a different context. The Project Team members chose to delay further refinement and modification of the Instrument until after State pilot implementation.

D. Initial Pilot State: Kansas

Kansas piloted the Instrument from November 21, 2005 to January 13, 2006. Following completion, the Federal Project Team conducted a debriefing call to discuss the Kansas experience. After considerable discussion, the Kansas Project Team made several recommendations for the future pilot States.

1. Initial Pilot Observations

The Kansas Project Team expressed that the pilot was “rewarding” and required only a nominal investment of State staff time and resources. Kansas recruited team members from a broad range of program areas to participate on the Kansas Project Team. The Kansas Project Team recognized that the Instrument had relevance across program offices and some of the team members indicated that they planned to share this information more widely in their respective divisions to make process improvements. Kansas anticipates that these improvements will occur as the other program areas absorb the ramifications of the Instrument.

Kansas offered the following recommendations for future pilots:

a. Composition and Responsibilities of the State Project Team

- Select one overall project coordinator. Make sure the coordinator is available during the entire process to answer internal questions, arrange conference calls with the team, consult with team members, and coordinate status and technical assistance call with the contractor when necessary.
- Have a high-level management staff member recruit team members and act as organizational sponsor.

- Form a broad-based team. Include members from: High and Middle Level Management, Audits, Personnel/Human Resources, Information Technology, Program Staff (including those working on the systems for programs if different than IT staff), Quality Assurance or Quality Control, Staff who do Eligibility Determination (workers and/or contractors), Licensing Staff, Finance/Accounting, Operations, Public Information Officer, Legislative Liaison, and County Management/Staff (if county administered). See Appendix B for a listing of potential team member's functional assignments.
 - Designate adequate support/clerical staff to be involved from the beginning of the project, especially for tracking and compiling data and information.
 - See "Suggested Section Assignments," Appendix C for more guidance on forming the State Project Team.
- b. Orientation Meetings and Ongoing Communication**
- When forming the State Project Team, hold an initial team meeting to explain the purpose, process, and sell the project (explain benefits of participation and uses for future work within the agency). Include the organizational sponsor to kick-off the meeting.
 - Hold additional orientation meetings, if necessary, to ensure that all persons involved in completing sections of the assessment understand the purpose and process. This is particularly important if staff members who will complete sections of the Instrument are not at the site visit meeting.
- c. Gathering and Recording Information**
- Discuss the procedures for gathering documentation, including: the use of hyperlinks to both the State Internet and Intranet Web sites; and how hard copy attachment options are to be coordinated with all team members.
 - Provide all team members with an electronic version of the document to use in completing their assigned sections. Have them enter all information onto the electronic document and send to the coordinator who can then assign support staff to compile into one document. More than one team member may complete some sections, which will require integration by the coordinator.
 - When recording supporting documentation, use hyperlinks to the State's Internet or Intranet sites (URL's) to reduce the amount of hard copy attachments and to facilitate future updates.
- d. Finalizing and Submitting the Completed Assessment**
- Have support staff edit the completed Instrument for errors, grammar, and writing style consistency.
 - When completed, hold a wrap-up meeting with all team members to share completed documents and receive comments and feedback; make changes to document as agreed upon in discussion.
 - Have high-level management staff/team review the completed Instrument to ensure that it is consistent with agency mission and can be

integrated with agency strategic or business plan. Kansas had high-level support for this project and shared all findings with top management.

2. Training for Federal Staff in ACF Regional Offices

Upon completion of the Kansas pilot, the CCB convened a one-and-a-half day training session in Kansas City, MO for Regional grants officers and program specialists from CCB Central Office and all ten ACF Regional Offices. Members of the Kansas Project Team also attended the training.

The session covered the background and genesis of the Instrument followed by an explanation of the initial pilot experience by members of the Kansas Project Team. Participants reviewed and discussed each element of the Instrument. The session concluded with a discussion of how the staff in the ACF Regional Offices would provide technical assistance to States during the Instrument pilot and how they could use the results for monitoring purposes. At the conclusion of the session, the CCB selected an additional nine States to invite to participate in the pilot.

Exhibit 2. State, Commonwealth, and Regional Participation

REGION	STATE
I	Maine
II	Puerto Rico
III	None ¹²
IV	Kentucky
V	Illinois
VI	Arkansas
VII	Kansas*
VIII	Montana
IX	Nevada
X	Washington

* Kansas was the original pilot State

3. Site Visit Protocols

To plan the site visit, WRMA convened a planning conference call with each pilot State and corresponding ACF staff in the Regional Office. Prior to the call, WRMA shared with each pilot State an overview of pilot process and a copy of the Instrument completed by Kansas. These documents provided concrete examples of potential State responses and suggested the level and types of staff who needed to attend the initial technical assistance and training site visit. This information also provided

¹² Originally, the CCB intended for one State, Territory, Commonwealth, or District from each of the ten Federal Regions to participate in the next phase of the pilot process; however, due to a number of compelling factors, there was difficulty in securing a pilot state in Region III. After discussions, the CCB, decided to proceed with the pilot with eight States and the Commonwealth of Puerto Rico.

useful “lessons learned” from the Kansas experience regarding team composition and the need for top-level administrative support to assure pilot success. Each State then identified and selected team members and scheduled a site visit.

The Federal Project Team conducted site visits in eight of the nine jurisdictions; Maine chose not to have a site visit due to timing issues. Instead, the Federal Project Team conducted a conference call with the Maine Project Team to answer questions and prepare team members for completing the Instrument.

While the Federal Project Team originally planned a one-and-a-half day site visit, it became apparent that one day was sufficient and remaining site visits were adjusted accordingly. This minimized the disruption to the State. The Federal Project Team consisted of representation from Central and ACF Regional Offices and staff from WRMA.

During the site visit, Federal staff and WRMA provided an item-by-item review of the Instrument. The members from the State Project Team identified as most knowledgeable in a given area volunteered to respond to each section of the Instrument. Team members also addressed the logistics and timeframes for Instrument completion. States also identified who would provide administrative assistance to consolidate the document.

IV. RESULTS OF ADDITIONAL PILOT STATES

A. Arkansas

1. Review Team Process

After reviewing the Kansas recommendations for team composition, the Arkansas Project Team convened a large group of key managers from all parts of the agency, to obtain buy-in during the initial site visit. Convening key managers from each division of the agency for the initial site visit provided participants with the necessary background for each element, making it easier for the Arkansas project coordinator to make the appropriate contact during completion of the Instrument.

The Arkansas Project Team took a different approach to completing the Instrument compared to other States. The Arkansas project coordinator went through each section of the Instrument and answered all of the questions possible. The Arkansas project coordinator then contacted the critical staff in each of the other areas whenever there were questions or a need for additional clarification.

2. Benefits of the Instrument

One of the highlighted strengths of the Instrument was the inclusion of sections of internal controls relating to computer security. A previous audit of the agency had identified several issues with computer security. The Instrument addressed areas of concern identified in the previous audit and assisted them in preparing their responses for their next security audit. Team members also indicated that the Instrument helped identify additional weaknesses, such as the inadvertent release of confidential information through e-mail.

The information technology section provided a useful framework for a State engaged in a system development effort, for developing system requirements, and for ensuring compliance after a system is completed. Arkansas suggested that the Instrument could be a companion tool for strategic planning.

3. Changes to the Instrument

The Arkansas Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy;
- Adding a section specific to child care; and
- Streamlining criteria to include more checklists.

4. Recommendations

The Arkansas Project Team recommendations included:

- Allowing 90 days to complete the instrument;
- Enlisting an external entity to validate the self-assessment responses from the agency;
- Using this Instrument with other agency planning tools;
- Working with the ACF staff in the Regional Office to validate the self-assessment process; and
- Including a discussion about the strengths and weakness, as well as lessons

learned from using the Instrument, as part of the annual State Administrator's Meetings.

B. Illinois

1. Review Team Process

The Illinois Project Team struggled with the Instrument. Although representatives from multiple parts of the Department of Human Services (DHS) attended the site visit, the Illinois Project Team had difficulty making assignments because so many of the elements within the Instrument dealt with areas outside of child care. The Illinois Project Team attributed their difficulty with assignments to not having buy-in from a high enough administrative level, which prevented implementation of the Instrument in other areas of the agency.

2. Benefits of the Instrument

Illinois paid particular attention to its relationship with contractors in completing the Instrument. Illinois relies heavily on contractors in administration of child care services and this Instrument helped the agency identify the importance of monitoring the internal controls of its contractors. Both the Illinois Project Team and the ACF staff in Region V indicated that all of the providers under contract with DHS must go through a single agency audit, which addresses many of the same internal controls. The Illinois Project Team indicated that they would make a streamlined Instrument available to contractors to document internal controls.

3. Changes to the Instrument

The Illinois Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy;
- Streamlining criteria to include more checklists;
- Including a section specific to child care; and
- Involving States that participated in the pilot in reviewing and modifying the Instrument.

4. Recommendations

Illinois Project Team recommendations included:

- Establishing an area on the CCB Web site for States to provide links for sharing internal control documentation, not available either on the Internet or the State agency Intranet;
- Tailoring the Instrument to focus on the child care program;
- Eliminating redundancies across sections;
- Allowing 90 days to complete the instrument; and
- Reviewing and updating the Instrument every two years.

C. Kentucky

1. Review Team Process

In order to obtain initial buy-in from all levels of the organization, The Kentucky Project Team used the completed Kansas Instrument as a guide to determine who to include in the initial site visit kick-off meeting. By involving upper- and mid-level

management in the site visit, Kentucky derived a strong commitment, buy-in, and coordination, which they determined is critical to the success of the process.

2. Benefits of the Instrument

Kentucky determined that auditing staff participation was critical to the success of its self-assessment process. The external auditors were initially reluctant to participate, but as they went through the self-assessment process, they realized that their participation would not adversely affect their working relationship with the agency.

Use of the Instrument in Kentucky helped verify that many practices and procedures were already in place; however, most needed better documentation. In some cases, particularly in the fiscal area, the Kentucky Project Team determined that the process currently in place, worked without written documentation. By identifying and reviewing the practices and procedures through use of the Instrument, the team verified that processes existed and that the agency was using them appropriately.

3. Changes to the Instrument

The Kentucky Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy; and
- Including a section specific to child care.

4. Recommendations

The Kentucky Project Team recommendations included:

- Choosing the timeframe within the fiscal year to minimize major conflicts;
- Ensuring sufficient time and staff support to complete the process;
- Allowing 90 days to complete the Instrument;
- Reviewing and updating the Instrument every 3 to 5 years;
- Including a section specific to child care;
- Having top management review the final Instrument;
- Using the column “Findings/Results & Suggested Follow-up if Necessary” for documenting activities and areas where the State needed to do additional work; and
- Providing the following supports to States:
 - Kansas suggestions for team selection and completing the Instrument;
 - A site visit;
 - Technical assistance; and
 - Ongoing follow-up.

D. Maine

1. Review Team Process

Due to scheduling problems, Maine did not have a site visit. Training took place through a conference call. The Maine Project Team stated that it would have been helpful to have assistance at the beginning of the process to answer any questions face-to-face, but did not feel that the lack of a site visit, in general, was a hindrance to successfully completing the Instrument. Maine did stress the importance of reviewing

the Instrument completely so that participating State staff understand all of the areas to be considered when completing the Instrument and who would be responsible.

The Maine Project Team read the information provided by Kansas and reviewed the Kansas Instrument prior to organizing its team and completing the Instrument. Once the core participants of the Maine Project Team identified all of the program areas, the project coordinator went to the Directors of all of the identified areas (HR, IT, etc.) requesting that they assign the appropriate staff. Maine did not have problems securing the staff resources needed to conduct this review.

2. Benefits of the Instrument

The Maine team considered the completeness of the Instrument to be a great strength. The Maine team thought that the Instrument was very helpful in identifying and addressing potential issues. Maine pointed out that the State Child Welfare program is now using the Instrument as part of an accreditation effort. The Human Relations (HR) representative stated that Maine is very proud of its Performance Evaluation System (PER) and he was therefore surprised to realize that the Maine PER did not contain integrity and ethical value components identified in the Instrument. He stated that the HR program would consider adding integrity and ethical value information during consideration for revisions during the next review cycle.

3. Changes to the Instrument

The Maine Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy; and
- Developing a verification or validation process to ensure that answers were accurate and appropriate.

4. Recommendations

Maine Project Team recommendations included:

- Allowing 90 days to complete the Instrument;
- Reviewing and updating the Instrument every year; and
- Applying the Instrument in other areas of the agency, such as child welfare.

E. Montana

1. Review Team Process

Prior to the site visit, Montana reviewed the Instrument and all associated criteria. Because of the review, Montana realized that the Instrument was broader in scope than anticipated. The Montana Project Team identified the staff member from each area most appropriate to complete the Instrument. In the few instances where they did not identify the appropriate staff resources, the team approached the Director of that agency for the needed support. Montana had no difficulty obtaining the necessary cooperation with the other participating agencies. The Montana team stressed that, to save time, a core group should first review the Instrument before engaging the larger group.

2. Benefits of the Instrument

Montana was optimistic that the Instrument would inform the work of the child care program and assist in identifying policies, practices, and procedures to prevent errors that could result in improper payments. The Montana Project Team stated that the Instrument was useful and that the information reinforced information identified in other process work in the State. Several areas highlighted weaknesses that the agency needs to address, such as succession planning for staffing, the sharing of IT planning documents, developing future strategies, writing desk manuals to reduce confusion during periods of staff turnover, and disaster planning with agencies contracted with to administer portions of the child care program.

3. Changes to the Instrument

The Montana Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy;
- Including a section specific to the child care program;
- Stressing that States must have an upfront understanding of the internal controls in other areas of the organization and how those controls influence the child care program; and
- Requesting guidance from Federal staff in the Central and ACF Regional Offices on how to use the results.

4. Recommendations

Montana Project Team recommendations included:

- Assigning an administrative assistant to the project to coordinate the process to free up the administrator's time;
- Allowing adequate time to complete the process;
- Establishing an agreed upon timeframe to ensure a timely and thoughtful completion of the Instrument;
- Allowing 90 days to complete the Instrument;
- Scheduling to minimize the conflict of other major activities occurring at the same time as the self-assessment process; and
- Reviewing and updating the Instrument every five years, except in the areas such as the IT plan and the HR manual, which may require more frequent changes.

F. Nevada

1. Review Team Process

The Nevada Welfare Division has an Administrator, three Deputy Administrators, and a number of Chiefs. The Child Care Director first looked at all of the tasks and then approached the Deputy Administrators and Chiefs of the various areas he felt should be involved. In some cases, the Chief participated directly, while in other areas the Chief delegated responsibility to others. Having all of the participants together at the site visit to decide who was most appropriate to answer a particular section was extremely valuable.

2. Benefits of the Instrument

The Nevada Project Team indicated that combining all of the documentation in a single document was helpful. Using the hyperlink rather than printing the complete set of documentation was beneficial because the link will route to the most current version of a document, as many policy documents are on a regular schedule for updates. The Nevada Project Team indicated that the Instrument could support many other activities within the entire organization.

3. Changes to the Instrument

The Nevada Project Team proposed the following changes to the Instrument:

- Revising the Instrument to reduce or eliminate redundancy; and
- Including a section specific to the child care program.

4. Recommendations

Nevada Project Team recommendations included:

- Planning a suitable timeframe for Instrument completion to avoid conflicts with other major initiatives;
- Ensuring top-down support. Engaged and supportive top management is critical for success in this project;
- Allowing 90 days to complete the Instrument;
- Allowing sufficient time to complete the process;
- Providing clear instructions;
- Having someone with sufficient authority to be in charge to e-mail and follow up when sections were due; and
- Reviewing and updating the Instrument every two years.

G. Puerto Rico

1. Review Team Process

The Commonwealth of Puerto Rico participated in the project based on the strong encouragement of the ACF staff in the Region II Office, who thought that including a site where Spanish is vital to its operations would also enrich the project. First, Puerto Rico examined the Instrument in depth, organized its Project Team, and then prepared and scheduled the orientation/site visit. Puerto Rico translated the Instrument into Spanish for ease of use by its staff.

In preparation for the review, the Puerto Rico Project Team analyzed its Child Care State Plan, its Annual Plan, program components, and other appropriate plans to have a clear overview of the program scope, goals, and objectives. This was done to determine how well the internal controls of the agency are established and functioning and to assess and recommend what, where, and how the Administration needed to improve. The participants felt that the process allowed them the opportunity for self-evaluation and identification of strengths and needs of the Child Care Program. Consequently, action plans to deal with identified needs will be developed following on-going meetings throughout the next year.

During the process of administering the Instrument, the Puerto Rico Project Team included personnel from its Regions and direct service providers. Puerto Rico organized the direct service providers into clusters or teams to respond to the Instrument. The clusters frequently responded that the Instrument did not apply to their day-to-day operations of direct service to families and their children.

The Central Office manages most of the internal control processes that affect the Regions. Therefore, the Regions only responded to elements over which they had a level of control.

As part of its initial planning, the Puerto Rico Project Team established deadlines to collect the needed information and complete the Instrument. The team assigned a central person to collect, compile, review, and summarize all of the responses. The Puerto Rico Project Team then analyzed the collected data, reviewed the findings, and developed a list of strengths, weaknesses, and recommendations for improvement. For the additional fiscal findings, the team compiled an action plan with appropriate deadlines and identified responsible parties.

2. Benefits of the Instrument

The Puerto Rico Project Team indicated that the process allowed them the opportunity for self-evaluation to identify the strengths and needs of the Child Care Program. The Puerto Rico Project Team will develop action plans to address identified needs during the next year.

3. Changes to the Instrument

The Puerto Rico Project Team proposed the following changes to the Instrument:

- Incorporating an external validation process; and
- Including a section specific to the child care program.

4. Recommendations

Puerto Rico Project Team recommendations included:

- Using it as a tool to re-examining issues raised in previous fiscal audits;
- Using it to compliment other agency monitoring activities;
- Including additional fiscal audit findings, as a follow-up to previous audits;
- Including a list of strengths, weaknesses, and recommendations for improvement in the child care area; and
- Developing a corrective action plan for areas needing improvement with appropriate deadlines and identified responsible parties.

H. Washington

1. Review Team Process

The Washington State Child Care Program reorganized into a new State agency, splitting off from the Children's Bureau. Lacking new leadership and high-level administrative support, the Washington project coordinator reviewed the Kansas documentation and recruited other State program areas identified as potentially appropriate to participate in the self assessment process. However, since a member of

the Children's Bureau could not be present at the site visit, it created some initial problems in completing the Instrument.

Due to the organization, the project coordinator stressed the need for the team members to have an institutional history. While there may be detailed policies in place, it is important to have an external check to assess the adequacy of State adherence to the policies.

2. Benefits of the Instrument

Staff from the Washington State Children's Bureau indicated that the process was very helpful as an internal assessment and highlighted the need to update or condense policies.

The Instrument highlighted several areas that the State needed to or is in the process of addressing. Within Human Resources, staff members are updating policies dealing with employee development and training, employee discipline, and other policies. Because of changes in the organization and the development of a new computer system within the Children's Bureau, the Operations manual and Practice Models need updating. The team also stated that roles and responsibilities are constantly changing but the documentation of those changes often does not occur.

3. Changes to the Instrument

The Washington Project Team proposed the following changes to the Instrument:

- Making revisions to the Instrument to reduce or eliminate redundancy; and
- Including a section specific to the child care program.

4. Recommendations

Washington Project Team recommendations included:

- Gaining support and cooperation from other critical entities in the organization;
- Reviewing and updating the Instrument every two years; and
- Allowing 90 days to complete the Instrument.

I. Conclusions

Each of the pilot States indicated several benefits resulting from the self-assessment process, including planned actions to improve internal controls in an effort reduce errors that can lead to improper payments. Examples of State benefits included:

- For Arkansas, because a previous agency audit identified several issues with computer security, the Instrument assisted in preparing responses for the next security audit. Arkansas also indicated that the Instrument helped identify additional weaknesses, such as the inadvertent release of confidential information through e-mail.
- Illinois relies heavily on contractors in administration of child care services and this Instrument helped the agency identify the importance of monitoring the internal controls of its contractors. Illinois indicated that they would make a streamlined Instrument available to contractors to document internal controls.

- Use of the Instrument in Kentucky helped verify that many practices and procedures were already in place; however, most needed better documentation. By identifying and reviewing the practices and procedures through use of the Instrument, Kentucky verified that processes existed and that the agency was using them appropriately.
- In Maine, the State Child Welfare program is now using the Instrument as part of an accreditation effort and the Human Relations is considering adding integrity and ethical value information to its Performance Evaluation System (PER).
- Montana indicated that the Instrument highlighted several areas of weaknesses that the agency needs to address, such as succession planning for staffing, the sharing of IT planning documents, developing future strategies, writing desk manuals to reduce confusion during periods of staff turnover, and disaster planning with agencies contracted with to administer portions of the child care program.
- Nevada indicated that while it was challenging to conduct the Instrument during change to a new automated system, the self-assessment process provided checks of all necessary internal controls as part of the implementation process.
- Puerto Rico used the Instrument as a tool to re-examine issues raised in previous fiscal audits.
- In Washington, Human Resources staff members are updating policies dealing with employee development and training, employee discipline, and other policies. Because of changes in the organization and the development of a new computer system within the Children's Bureau, the Operations manual and Practice Models need updating.

In summary, the pilot States achieved several benefits from the Instrument. The next chapter provides an estimate of the costs incurred by the States to implement the self-assessment process.

V. ESTIMATED COSTS

A. Objectives of the Cost Analysis

This chapter reports on costs of the pilot implementation of the State Internal Control Self-Assessment Instrument in nine States. The pilot State cost estimates provide useful data instructive for States and Federal Regional staff regarding the feasibility of future implementations of the Instrument.

B. Measuring the Costs to Conduct the State Internal Control Assessment Pilot

The Federal Project Team requested that States track the hours spent preparing for and implementing the Instrument, including the time spent on the site visit and any necessary follow-up activities. States submitted hours contributed by each participating staff person, with an estimate of the hourly rate of staff salary and benefits costs. The Federal Project Team then multiplied the number of hours by the salary and benefits of the participating staff, factoring in any additional costs, such as travel or copying.

The following table highlights the estimated costs incurred by States while conducting the State Internal Control Self-Assessment project. Illinois was unable to provide cost data; therefore, there is no estimate for Illinois.

Exhibit 3. Estimated costs of conducting a State Internal Self-Assessment

Region	State	Cost Est.
I	Maine	\$3,032
II	Puerto Rico	\$53,128
IV	Kentucky	\$2,859
V	Illinois	N/A
VI	Arkansas	\$4,242
VII	Kansas	\$4,846
VIII	Montana	\$9,445
IX	Nevada	\$3,443
X	Washington	\$8,227
Total Cost Est.		\$66,297

The costliest variable for States was the number of participating staff. Some States included more staff in the site visit than did other States. For example, Montana had 25 participants at the site visit; Puerto Rico included 27 people at a two-day site visit, while the majority of States had between nine and twelve participants. Other variables that potentially could affect costs were travel, copying, or teleconferencing costs. Although cost data were not reported by variable, the costs of these other variables is assumed to be minimal, based on anecdotal information.

Given the scope and complexity of the Instrument, the costs are relatively modest. Kentucky and Maine estimated costs of approximately \$3,000, while Montana and Washington estimated between \$8,000 and \$9,500. The costs were higher for the Commonwealth of Puerto Rico for several reasons. Puerto Rico had higher preparation

costs due to translating the Instrument to Spanish and involving a larger number of the staff in the two-day training site visit, which involved simultaneous translation services. Puerto Rico enlarged the scope of its self-assessment process to include issues raised in an earlier fiscal audit. Puerto Rico also included the largest number of persons (47) in the process to complete the Instrument. The large number of participants and the expansion of the scope of the project resulted in costs that were substantially higher than any other State.

The average cost to States, excluding the atypical amount for Puerto Rico, was \$5,156.

VI. CONCLUSIONS AND RECOMMENDATIONS

This pilot examined the implementation of the State Internal Control Self-Assessment Instrument as a method for reviewing and documenting the adequacy of a State's internal control system, identifying internal control weaknesses, and providing documentation of findings and possible corrective actions. This chapter presents the conclusions and implications derived from the nine pilot States' experiences. The chapter concludes with recommendations for future pilots.

A. Conclusions

Based on the self-assessment process, the nine pilot States offered the following conclusions for future pilots:

A successful Instrument implementation process needs involvement across program areas. States realized that the scope of the self-assessment process was broad, requiring the involvement of common supporting areas that cross walk several different programs, such as Human Resources and Information Technology. As a result, the commitment of all parts of the organization is critical to the success of the self-assessment process.

High-level management support is important for optimal implementation. For those States without the necessary organizational support, the self-assessment process was a greater challenge. The States that found the self-assessment process most rewarding were those States that had a high level of commitment from the top State organizational level.

Redundancies in the Instrument did not serve a useful purpose. All nine pilot States expressed a need to streamline the Instrument and eliminate the redundancies. States also requested creating a section specific to the child care program. WRMA revised the Instrument as explained in the section below.

States need to allow adequate time to complete the self-assessment process. States recommended establishing an agreed upon timeframe to ensure timely and thoughtful completion of the Instrument. Most States indicated that a 90-day timeframe for Instrument completion was adequate. Several States recommended scheduling the self-assessment process to occur within a timeframe that does not conflict with other major agency activities. Most States recommended updating the Instrument every two years.

States may use hyperlinks to refer to documents on the State's Internet and/or Intranet Web site to ensure that the Instrument stays current by linking dynamically to continuously updated documentation. Most States indicated that combining all of the documentation in a single document was helpful. Using the hyperlink rather than printing the complete set of documentation was beneficial because the link will route to the most current version of a document. This is important as many policy documents are on a regular schedule for updates. The Illinois Project Team recommended establishing an area on the CCB Web site for States to provide links for sharing internal control documentation, which is not available on either the Internet or the State agency Intranet.

Agency allocation of an overall project coordinator is critical to the self-assessment process. The project coordinator needs to have top-down management support, sufficient authority to set deadlines, availability during the entire process to provide clear instructions, answer questions, consult with team members and coordinate with top agency leadership.

B. Estimated Costs

Despite the scope and complexity of the Instrument, the costs of conducting a State Internal Control Self-Assessment are relatively modest. Kentucky and Maine estimated costs of approximately \$3,000, while Montana and Washington estimated between \$8,000 and \$9,500. The range for all States was \$3,032 through \$9,445. The costs for the Commonwealth of Puerto Rico were significantly higher, due to several factors. Puerto Rico involved the greatest number of personnel in the site visit and in the Instrument implementation process. Puerto Rico also expanded the scope of the self-assessment process to examine areas needing attention as identified in a prior audit.

C. Revisions to the Instrument

The nine pilot States recommended elimination of the redundancies and the tailoring of certain elements to the child care program. Based on the advice of the participating States and ACF staff in Regional Offices requested that WRMA modify the Instrument. The objective of the modifications was to reduce the redundancy, clarify the instructions, and tailor Section III to include elements specific to the child care program. In order to involve all pilot States in the process of Instrument modification, WRMA shared the revised Instrument with the States and the ACF staff in the Regional Office who drafted the initial Instrument. Following receipt of all of the comments, WRMA made further revisions to the Instrument. Appendix M contains the revised Instrument.

The modifications to the Instrument included:

- Eliminating or combining 23 elements in Section I and II (Control Environment and Risk Assessment) for a reduction of 23%;
- Reviewing and clarifying all instructions for each section of the Instrument;
- Revising Section III: Common categories of control activities to specifically focus on the child care program; and
- Making minor changes to Sections IV and V.

The modifications did not affect the integrity of the Instrument.

D. Recommendations

The Instrument can provide the CCB staff in the Central and Regional Offices and States with a systematic method for reviewing and documenting the adequacy of a State's internal control system, identifying internal control weaknesses, and providing documentation of findings and possible corrective actions. Recommendations include:

- *Obtain the commitment of all parts of the organization prior to initiation of the process.* A successful Instrument implementation process needs involvement across program areas. States realized that the scope of the self-assessment process

was broad, requiring the involvement of common supporting areas that cross walk several different programs.

- *Market the Instrument to programs in addition to the child care program.* Some States adapted the Instrument to meet other needs beyond the child care program. Puerto Rico used the self-assessment process to re-examine fiscal areas highlighted in a previous audit, and included an action plan with the self-assessment findings. Maine intends to strengthen its Performance Evaluation System (PER) by including a section focusing on ethics and personal integrity.
- *Consider involving an external entity to review the accuracy and validity of State responses.* Arkansas recommended enlisting an external entity to validate the self-assessment responses from the agency. Puerto Rico and Maine also recommended developing a verification or validation process to ensure that responses were accurate and appropriate. Several States recommended the involvement of the Regional Offices to assist with the validation process.
- *Consider integrating the self-assessment process with the agency's strategic or business plans.* High-level management support is important for broader implementation of the self-assessment process. States may choose to involve senior management staff initially to determine the applicability of the self-assessment process with the broader agency mission or strategic planning process. Within the child care program the Instrument can be combined with the CCDF State Plan to serve as a biannual update of State efforts towards the prevention of errors that could result in improper payments. Senior management staff can review responses to ensure consistency with agency mission and strategic and business plans.

E. Recommended Steps for Successful Implementation

Based on the first pilot State experience, Kansas offered several logistical steps that can maximize the effectiveness of the methodology process. The following steps provided useful guidance for the nine pilot States' implementation experience and support the above recommendations. The steps include:

1. Select one overall project coordinator. It is critical that the project coordinator is available during the entire process to answer questions, consult with team members and coordinate with the CCB or WRMA.
2. Select a full range of State Project Team members. The following list includes potential County and Contractor staff for States where that may be appropriate. Appendix B provides a table listing potential team members and their functions. Potential team members may include:
 - a. High and Middle Level Management;
 - b. Audits;
 - c. Human Resources;
 - d. Information Technology;
 - e. Program Staff including those working on systems for programs if different than IT staff;
 - f. Quality Assurance;
 - g. Eligibility staff (State, County or contractors);

- h. Licensing Staff;
 - i. Finance/Accounting;
 - j. Operations;
 - k. Public Information Officer;
 - l. Legislative Liaison; and
 - m. County management staff if County Administered.
3. Hold an initial team meeting to explain purpose, process and sell the project. If possible, have a senior level management staff person kick-off the project at this meeting. Go over each section of the document and make specific assignments to the team members for each section of the document. States that performed this step reported that it was very important to successful completion of the document.
 4. Hold additional follow-up meetings to ensure that all participants tasked with completing sections of the assessment understand the purpose and process.
 5. Make sure the identified coordinator is available during the entire process to answer questions, hold conference calls, consult with team members and coordinate with the CCB or WRMA.
 6. Designate and involve support staff at the beginning for tracking and compiling data and information, editing for errors, checking grammar, and providing writing style consistency.
 7. Provide all team members with an electronic version of the document to use in completing their assigned sections. Have all information entered on the electronic document and sent to coordinator who can then assign support staff to integrate it into one document. If more than one team member completes a section, integration with oversight from coordinator may be necessary.
 8. Establish an agreed upon type style and font size so that responses can be inserted into the master document easily.
 9. Discuss documentation: Web sites (hyperlink to both Internet and Intranet) and hard copy attachment options with all team members.
 10. Hold additional meetings with all team members or sub-groups to share the completed document, receive comments and feedback, and make changes to document as needed.
 11. Have senior management staff review responses to ensure consistency with agency's mission and strategic or business plans.

Appendix A. Site Visit Agenda

State Name

Site Visit Schedule

Date, 2006

Site Visit Project Team

Child Care Bureau: *List all CCB participants*

Regional Staff: *List all Regional Staff*

WRMA Project Team: *List all WRMA Staff*

State Project Team: *List State Project Team*

Meet with State Error Rate Project Team

Introduction & Overview

Introductions: CCB, State Review Team, Regional Staff, WRMA Team

Overview of project goals and objectives (WRMA Study Team)

Overview of State Control Self-Assessment Review Instrument

Overview of the Instrument Development

- Explanation of GAO 01-1008G.
- Explanation of prior State experiences.
 - Discussion of State Team make up
 - Discussion of how Kansas documented the Instrument, including use of URL's for both Intranet and Internet.
- Discussion of follow-up status conference call and Technical Assistance.

In-depth review of the Internal Control Self-Assessment Instrument

A complete walkthrough of the Instrument

- Examine each item for relevancy and consistent interpretation
- Discuss which part of the team will answer each item. In many cases, more than one part of the organization will answer a given element.
- Discuss how the State team will provide the supporting documentation. (hard copy, Intranet URL, Internet URL)

Wrap Up

Meet with State Error Rate Project Team Leader share impressions/insights, allow for additional questions and answers, and arrange for any additional material that may be needed

Next Steps

Additional Follow-up teleconferences (State/Fed team) as needed.

Additional Follow-up teleconferences (All pilot State/Fed teams) as needed.

Appendix B. Potential Team Members and Functions

Each State must examine its organizational structure to determine how to make assignments for completing the Instrument. For example, some States are county administered, while others use contractors to administer some or all child care services within the State. Some pilot States included counties or contractors to participate on the State Project Team.

The following table lists how the pilot States assigned potential team members to functional areas for completion of the Instrument.

Potential Team Members and Functions		
State	County	Contractor
High Level Management: I, II, IV, V	High Level Management: I, II, IV, V	
Mid Level Management: I, II, IV, V	Mid Level Management: I, II, IV, V	
Audits: I, II, V		
Human Resources: I, II	Human Resources: I, II	Human Resources: I, II
Information Technology (IT): III	Information Technology (IT): III	Information Technology (IT): III
Program Staff that also work with IT system: III	Program Staff that also work with IT system: III	Program Staff that also work with IT system: III
Program Staff: III		
Eligibility Staff: III	Eligibility Staff: III	Eligibility Staff: III
Quality Assurance: III		
Licensing: III		
Operations: III		
Finance/Accounting: I, II, V	Finance/Accounting: I, II, V	Finance/Accounting: I, II, V
Public Information Officer: I, V		
Legislative Liaison: I, V		

Appendix C. Suggested Assignments for Completing the Assessment Instrument

Each State must examine its organizational structure to determine how to make assignments for completing the Instrument. For example, some States are county administered, while others use contractors to administer some or all child care services within the State. Some pilot States included counties or contractors to participate on the State Project Team.

The following outline provides suggested assignments for completion of the Instrument based upon this pilot study. States need to include high-level management staff initially to obtain necessary buy-in and agency-wide administrative support. Each of the following assignments directly corresponds to the sections and elements in the **Modified Self Internal Control Self-Assessment Instrument**. States may choose to assign multiple sections to some team members and two or more team members may respond to different criteria within the same section.

Section I - Control Environment

Integrity and Ethical Values

1 - High/Middle Level Management, Human Resources, Finance & Audits

2 - High/Middle Level Management, Human Resources, Finance & Audits
Commitment to Competence

1 - Human Resources & Training (if separate) & Field/Contractor/County
Management

Management Philosophy and Operating Style

1 - High/Middle Management & Finance & Operations

2 - Human Resources

3 - High/Middle Management & Audits & Operations & Finance

Organizational Structure

1 - High/Middle Management & Field/Contractor/County Management

2 - High/Middle Management & Field/Contractor/County Management

3 - High/Middle Management & Field/Contractor/County Management

4 - High/Middle Management & Field/Contractor/County Management & Human
Resources

Assignment of Authority and Responsibility

1 - High/Middle Management & Field/Contractor/County Management & Human
Resources

Human Resource Policies and Practices

1 - Human Resources

Oversight Groups

1 - Audits

2 - High Management & Finance & Legislative Liaison

Section II - Risk Assessment

Establishment of Entity-Wide Objectives

1 - Finance & Operations & Programs

- 2 - High/Middle Management & Field/Contractor/County Management
- Establishment of Activity
 - 1 - High/Middle Management & Finance & Field/Contractor/County Management
 - 2 - High/Middle Management & Finance & Field/Contractor/County Management
- Risk Identification
 - 1 - Audits & Operations & Human Resources & Finance
 - 2 - Audits & Operations & Human Resources & Finance
- Risk Analysis
 - 1 - Audits & Operations
- Managing Risk During Change
 - 1 - Audits & Finance & Operations

Section III - Control Activities

- General Application
 - 1 - Programs
 - 2 - Program & Quality Assurance & Field/Contractor/County Management
- Common Categories of Control Activities
 - 1 - Programs & Finance & Field/Contractor/County Management
 - 2 - Programs & Quality Control & Human Resources/Personnel & Field/Contractor/County Management
 - 3 - Programs & Information Technology, Quality Assurance, & Field/Contractor/County Management
 - 4 - Programs & Information Technology, Quality Assurance, & Field/Contractor/County Management
 - 5 - Programs & Information Technology, Quality Assurance, & Field/Contractor/County Management
 - 6 - Programs & Information Technology, Quality Assurance, & Field/Contractor/County Management
 - 7 - Programs & Information Technology, Quality Assurance, Finance, & Field/Contractor/County Management
 - 8- Programs & Information Technology, Quality Assurance, Finance, & Field/Contractor/County Management
 - 9- Programs & Information Technology, Quality Assurance, Finance, & Field/Contractor/County Management

Control Activities Specific for Information Systems - General Control

- Entity-wide Security Management Program
 - 1 - Information Technology
 - 2 - Information Technology
 - 3 - Information Technology
 - 4 - Information Technology & Human Resources
 - 5 - Information Technology
- Access Control
 - 1 - Information Technology
 - 2 - Information Technology
 - 3 - Information Technology

Application Software Development and Change Control

- 1 - Information Technology
- 2 - Information Technology
- 3 - Information Technology

System Software Control

- 1 - Information Technology
- 2 - Information Technology

Segregation of Duties

- 1 - Information Technology
- 3 - Information Technology & Programs & Field/Contractor/County Management

Service Continuity

- 1 - Information Technology
- 2 - Information Technology

Control Activities Specific for Information Systems - Application Control

Authorization Control

- 1 - Information Technology
- 2 - Information Technology
- 3 - Information Technology

Completeness Control

- 1 - Field/Contractor/County Management
- 2 - Programs & Information Technology & Field/Contractor/County Management

Accuracy Control

- 1 - Information Technology

Control Over Integrity of Processing and Data Files

- 1 - Information Technology

Section IV - Information and Communication

Information

- 1 - Middle Management & Programs

Communications

- 1 - High/Middle Management & Field/Contractor/County Management
- 2 - High/Middle Management & Field/Contractor/County Management

Forms and Means of Communication

- 1 - High/Middle Management & Field/Contractor/County Management
- 2 - High/Middle Management & Field/Contractor/County Management

Section V - Monitoring

Ongoing Monitoring

- 1 - High/Middle Management & Field/Contractor/County Management & Programs & Quality Assurance
- 2 - Programs & Quality Assurance
- 3 - High/Middle Management & Field/Contractor/County Management
- 4 - High/Middle Management & Field/Contractor/County Management
- 5 - Audits
- 6 - High/Middle Management & Field/Contractor/County Management
- 7 - High/Middle Management & Field/Contractor/County Management & Programs

& Audits

8 - High/Middle Management & Field/Contractor/County Management

9 - Audits

10 -High/Middle Management & Field/Contractor/County Management

Audit Resolution

1 - High/Middle Management & Field/Contractor/County Management & Audits

2 - High/Middle Management & Field/Contractor/County Management

Appendix D. Arkansas Assessment Team Members

STATE TEAM (ARKANSAS)

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**Appendix M. STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT
(Modified)**

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

STATE

DATE

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

STATE TEAM (Insert State Name)		
(List all members of the State Team, their organization, title, Phone, Fax, and E-mail addresses)		
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NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
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NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:

Add additional pages to capture all staff involved in the assessment process.

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

GENERAL INSTRUCTIONS

This tool is a State Internal Control Self-Assessment Instrument for use in a State's child care program. This tool can be used to help both State and Federal managers determine how well an agency's internal controls are designed and functioning and help them to determine what, where, and how improvements can be made. States can use this tool specifically for the child care program and contactors, or they can administer it more broadly to address multiple program components.

The tool contains five sections corresponding to the five standards for internal control outlined by the General Accountability Office (GAO) in its document, GAO-01-1008G – Internal Control Management and Evaluation Tool (8/01). The third standard, Control Activities, is further broken down into three additional sections, one dealing with Common Activities and two dealing with Information Systems. The standards are:

- Control Environment;
- Risk Assessment;
- Control Activities:
 - Common Categories of Control Activities;
 - Control Activities Specific for Information Systems—General Control;
 - Control Activities Specific for Information Systems—Application Control;
- Information and Communications; and
- Monitoring.

Each section contains a list of major elements and criteria for consideration when reviewing internal controls as they relate to particular standards. These elements represent some of the more important issues addressed by the standard. Included with each element are criteria for States to consider when addressing the elements. The criteria provided are examples and are not all-inclusive. States should use these criteria when considering the degree to which the internal controls are functioning.

States need to evaluate how well the child care program meets each element and criterion and identify those areas where they may be deficient. The States should then take the opportunity to begin formulating a plan of action to address the identified deficiencies.

States should consider using hyperlinks to the appropriate State's Internet or Intranet site for documentation. This Instrument can then become a source document for internal controls for the child care Lead Agency. States should view this tool as a living document, a starting point that can fit the circumstances, conditions, and risks relevant to their agency. Not all of the elements or criteria will be applicable for every agency. States should attempt to complete all of the sections, but should feel free to note those areas that they do not consider relevant. States that choose to use the tool to assess the whole agency need to have staff of program areas that apply to the whole agency complete the pertinent sections to reflect the whole agency. Child care program staff will complete the sections specific to child care. (These elements and criteria are in italics in the instrument.) Agency staff may then revise the child care specific sections to be relevant to other agency programs, such as Food Stamps and Child Welfare, and then assign staff of those programs to respond to the program specific elements. Even when the elements are specific to the child care program, there may overall elements that also refer to the agency as a whole. The overall agency elements should also be included during the review process.

The goal is for this tool to be useful in assessing internal controls as they relate to the achievement of the objectives of the agency, identifying areas of concern, and providing a documented way of addressing those concerns. Ultimately, this tool can help States become more effective and efficient in the development and use of their internal controls. This tool may also be useful in identifying issues with respect to safeguarding assets from improper payments caused by mistakes, inadequate controls, fraud, waste, or abuse.

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

I. CONTROL ENVIRONMENT

The Control Environment is the first Internal Control Standard. This standard addresses how the States establish and maintains an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. State's managers and evaluators will review and address each of the elements that affect the accomplishment of this goal to determine if there is a positive control environment.

The elements and criteria contained in this Instrument are a beginning point and not as an all-inclusive set of elements and criteria. Some of the elements and criteria are subjective in nature and require States to use judgment when assessing them. It is important to examine each of the elements and criteria, as each is important and can help in achieving control environment effectiveness. Many of the elements within this standard apply to not only the child care program but to the agency as a whole. The appropriate documentation will often be global in nature.

Integrity and Ethical Values

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>1. The agency has a formal code or codes of conduct in place that establishes an ethical culture throughout the organization. These policies establish the high ethical standards to which all employees must adhere and guide the actions of staff as they interact within and outside the agency.</p>	<p>Codes of conduct are comprehensive in nature and include such issues as appropriate use of resources, conflicts of interest, political activities of staff, acceptance of gifts or donations or foreign decorations, and use of due professional care.</p> <p>The agency periodically reviews codes of conduct, obtains signatures from all staff members, and takes quick and appropriate action as soon as there are any signs that a problem may exist.</p> <p>Staff members indicate that they know what kind of behavior is acceptable and unacceptable, what penalties unacceptable behavior may bring, and what to do if they become aware of unacceptable behavior.</p> <p>Management emphasizes the importance of integrity and ethical values through oral communications in meetings, via one-on-one discussions, and by example in daily</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>activities.</p> <p>Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations.</p>		
<p>2. Management establishes internal controls and interventions, and takes appropriate disciplinary action in response to violations of the code of conduct.</p>	<p>Management takes action when there are intentional violations of policies, procedures, or the code(s) of conduct.</p> <p>Management communicates the types of disciplinary actions taken throughout the agency and provides guidance for intervene.</p> <p>Management fully documents the reasons for any intervention or overriding of internal control and specific actions taken and prohibits overriding of internal control by low-level management staff except in emergencies. Notification and documentation to upper-level management occurs immediately.</p>		
Commitment to Competence			
<p>1. Management has identified and defined the tasks required to accomplish particular jobs and provides training and counseling to help staff maintain and improve job competency.</p>	<p>Management analyzes the tasks and competencies needed for particular jobs; establishes formal job descriptions that identify the necessary knowledge, skills, and abilities needed for various jobs; and makes them known to staff.</p> <p>Evidence exists that the agency makes every effort to assure that staff selected for various positions have the requisite knowledge, skills, and abilities.</p> <p>The agency provides appropriate training program to meet the needs of staff, emphasizes the need for continuing training, and has a control mechanism to ensure that staff received appropriate training.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>Supervisors have the necessary training and management skills to provide effective job performance counseling, and provide staff candid and constructive job performance counseling.</p> <p>Management bases performance appraisals on an assessment of competencies and clearly identifies areas in which staff are performing well and areas that need improvement.</p>		
Management Philosophy and Operating Style			
1. Management analyzes the risks of new ventures or operations and determines appropriate mitigation and minimization strategies.	<p>Management conducts risk assessments for new ventures.</p> <p>Management pursues strategies to minimize risk for major new ventures and operations.</p>		
2. Management analyzes agency staffing and endorses the use of performance-based management.	Management analyzes patterns of staff turnover, including loss of key staff or excessive turnover. Management develops transitions plans.		
3. Management and operating/program management interact to carry out the mission.	Management monitors the coordination between operations and program to ensure that the agency mission is achieved.		
Organizational Structure			
1. Management defines and communicates key areas of authority and responsibility.	<p>Staff members understand their areas of responsibility.</p> <p>Staff members understand their internal control responsibilities.</p>		
2. Management establishes clear internal reporting relationships.	The organization structure facilitates the flow of information throughout the agency.		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	Management makes staff aware of the established reporting relationships.		
3. Management evaluates the organizational structure and makes necessary changes to respond to changing conditions.	<p>Management conducts periodic reviews of the organizational structure.</p> <p>Management establishes a process for making organizational changes when conditions warrant.</p>		
4. Management supports appropriate staffing levels to carry out the mission of the agency.	<p>Staff members have time to carry out their duties and responsibilities.</p> <p>Staff members do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks.</p> <p>Management and supervisors are not fulfilling more than one role.</p>		
Assignment of Authority and Responsibility			
1. The agency appropriately assigns authority and delegates responsibility to the proper staff.	<p>Management communicates the assigned authority and responsibility to staff.</p> <p>Management holds individuals accountable for decisions and outcomes within their responsibility and authority.</p> <p>Management has effective procedures to monitor results.</p> <p>Management appropriately balances the delegation of authority between senior staff and staff at lower levels to get the job done.</p>		
Human Resource Policies and Practices			
1. Policies and procedures are in place for hiring, orienting, training,	<p>Management participates in the hiring process.</p> <p>Management ensures that position descriptions and</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>evaluating, counseling, promoting, compensating, disciplining, and terminating staff.</p>	<p>qualifications meet State personnel rules and are standardized throughout the agency for similar jobs.</p> <p>Management establishes a training program that includes orientation programs for new staff and continuing education for all staff.</p> <p>Management supports promotion, compensation, or rotation of staff based upon periodic performance appraisals.</p> <p>Management links performance appraisals to its goals and objectives.</p> <p>Performance appraisal criteria reflect the importance of integrity and ethical values.</p> <p>Staff receive appropriate feedback and counseling on their job performance.</p> <p>Management responds to violations of policies or ethical standards with appropriate discipline or remedial action.</p>		
Oversight Groups			
<p>1. The agency has mechanisms in place to monitor and review operations and programs.</p>	<p>An independent entity audits and reviews agency activity.</p> <p>An audit committee or senior management council reviews the internal audit work and coordinates closely with the independent entity and external auditors.</p> <p>The Internal audit unit reports to the agency head.</p> <p>The internal audit function reviews agency activities and systems and provides information, analyses, recommendations, and counsel to management.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>2. The agency works closely with all executive and legislative branch oversight organizations.</p>	<p>The agency provides the Legislature with timely and accurate information to allow for monitoring of agency activities, including review of the agency's mission and goals and provision of reports on agency performance, finances, and operating issues.</p> <p>High-level agency officials meet regularly with staff from the Legislature and Governor's Office to discuss major issues affecting operations, internal control, performance, and other issues affecting agency programs.</p>		

II. RISK ASSESSMENT

The second internal control standard is Risk Assessment. Clear, consistent agency goals and objectives at both the agency and program level are essential for agencies to operate efficiently and effectively. When an agency has established and articulated objectives, the agency may be able to identify actual or potential risks/problems—internal and external—that could impede the accomplishment of those objectives in an efficient manner. When an agency identifies potential risks/problems and their possible effect on the organization, they may be able to prevent those problems or reduce their impact. This section is designed to assist agencies in this process.

Once again, this is not an all-inclusive list. It is a starting point from which States can begin to build a dynamic assessment of actual or potential risks/ problems and mitigation strategies. Some of the elements and criteria are subjective in nature. It is important to examine each of the elements and criteria, as each is important.

Establishment of Entity-wide Objectives

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management establishes agency specific objectives and communicates them to all staff.	<p>Management establishes a strategic plan that includes agency mission, goals, and objectives.</p> <p>Management establishes objectives based on program requirements.</p>		
2. Management has an integrated management strategy, risk assessment, and control structure to address risks and operational strategies that support entity-wide objectives	<p>Strategic plans address resource allocations and priorities.</p> <p>Management designs strategic plans and budgets with an appropriate level of detail for various management levels.</p>		
Establishment of Activity			
1. Management identifies and reviews mission critical program strategies, agency objectives, and outcome criteria and measures.	<p>Management reviews program strategies periodically to assure that they have continued relevance.</p> <p>Management reviews and monitors critical activity-level objectives regularly.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
2. Management allocates sufficient resources to meet objectives.	Management provides the necessary resources to review and monitor the agency objectives and outcome measures on a regular basis.		
Risk Identification			
1. Management identifies risk using appropriate methodologies.	<p>Management uses qualitative and quantitative methods to identify risk and quantify relative risk rankings on a scheduled and periodic basis.</p> <p>Risk identification and discussion occur at all levels of the agency.</p> <p>Risk identification includes, but is not limited to, findings from audits, evaluations, and other assessments.</p>		
2. Management considers all factors when identifying risk, including external, internal, and outside factors.	<p>External factors include, but are not limited to:</p> <ul style="list-style-type: none"> • Technological advancements and developments; • Changing needs or expectations of the Legislature, agency officials, and the public; • New legislation or regulations; • Natural catastrophes or criminal or terrorist actions; • Business, political, and economic changes; • Major suppliers and contractors; and • Other entities. <p>Internal factors include, but are not limited to:</p> <ul style="list-style-type: none"> • Downsizing of agency operations and staff; • Business process reengineering or redesign of operating processes; • Disruption of information systems and disaster recovery plans; • Decentralized program operations; • Qualifications and training of staff; • Reliance on contractors or other parties to perform critical agency operations; • Major changes in managerial responsibilities; • Unusual staff access to vulnerable assets; 		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<ul style="list-style-type: none"> • Succession planning and retention of key staff; • Competitive compensation and benefit programs; and • Availability and adequacy of funding. 		
Risk Analysis			
1. Management develops a risk tolerance process.	<p>Management sets specific tolerance levels and assigns specific acceptable levels of risk for the agency as well as each relevant program area.</p> <p>Management expects programs to implement control activities and monitor the results.</p>		
Managing Risk During Change			
1. Management has a mechanism for reacting to risks presented by changes that can have a dramatic and pervasive effect.	<p>Management gives special consideration to:</p> <ul style="list-style-type: none"> • Staffing of key positions or staff turnover; • Introduction and training of new or changed information systems; • Rapid growth and expansion or rapid downsizing; • New technological developments; • New outputs or services; and • Geographical realignment. 		

III. CONTROL ACTIVITIES

States use internal Control Activities to mitigate the risks identified during the risk assessment process. These activities are an integral part of agencies' planning, implementation, and review processes. Internal control activities are essential to holding programs accountable for effective and efficient program results.

Control includes a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. Agencies' management directives guide controls on how to address the risks associated with program missions and objectives. Managers or evaluators will assess whether control activities are appropriate, adequate, and effectively and efficiently applied. This analysis would include controls for computerized information systems.

Control Activities may vary considerably from agency to agency. These differences may result from (1) variations in missions, goals, and objectives of the agencies; (2) differences in agency environments and how they operate; (3) differing degree of organizational complexity; (4) differences in agency histories and culture; and (5) variations in the risks each agency faces and is trying to mitigate. Even if two agencies have the same missions, goals, objectives, and organizational structures, they would probably use different control activities. Control Activities vary by individual judgment, implementation strategies, and management approaches.

This section pertains specifically to the child care program. These elements and criteria are in italics and child care staff will complete this section; however, .even when the elements are specific to the child care program, there may overall elements that also refer to the agency as a whole. The overall agency elements should also be included during the review process because they may directly or indirectly affect the child care program. States are encouraged to use this Instrument for other programs as well, such as Food Stamps and TANF. If States do expand the use of this Instrument to these programs, they would revise the language to reflect the specifics of the additional programs. The elements and criteria in this section are a beginning point. They are not an all inclusive set of elements and criteria.

General Application

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management establishes appropriate policies, procedures, techniques, and mechanisms with respect to each of the child care program's activities.	Management establishes objectives and associated risks, identifies the actions and control activities needed to address the risks, and directs their implementation.		
2. For identified control activities, management evaluates the child care	Staff applies control activities properly and understands their purpose.		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
program's overall activities.	<p>Staff review established control activities and provide input.</p> <p>Management takes timely action on exceptions, implementation problems, or information that requires follow-up.</p>		
Common Categories of Control Activities			
1. Management tracks major child care program achievements in relation to the ACF approved State Plan.	<p>Management regularly reviews actual performance against budgets, forecasts, and prior period results and compliance with applicable Federal regulations and the current State Plan.</p> <p>Management develops performance plans, measures and reports results, and takes follow-up action as necessary.</p>		
2. Management reviews specific performance measures with respect to each of the agency's overall activities particularly those activities related to the child care program.	<p>Managers at all levels review performance reports, analyze trends, and measure results and compliance with the ACF approved State plan.</p> <p>Financial and program managers review and compare financial, budgetary, Federal financial compliance, and operational performance to planned or expected results.</p> <p>Managers use appropriate control activities such as reconciling summary information to supporting detail and checking the accuracy of summaries.</p>		
3. The agency effectively manages the organization's child care workforce to achieve results with respect to each of the agency's overall activities.	<p>The agency incorporates the overall agency mission, goals, and values in its strategic plan and other guiding documents and communicates this information to all staff.</p> <p>The agency has a workforce planning strategy, which identifies current and future staffing needs.</p> <p>The agency has a process in place to ensure performance management and compliance with</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>applicable Federal regulations.</p> <p>The agency has a formal recruiting, hiring, and retention process to ensure a competent workforce.</p> <p>The agency provides orientation, training, and tools for staff to perform their duties and responsibilities, improve performance, enhance their capabilities, and meet the demands of changing organizational needs.</p> <p>The compensation system is adequate to acquire, motivate, and retain staff. Staff receive incentives and rewards to encourage them to perform at maximum capability.</p> <p>The agency provides workplace flexibility, services, and facilities (e.g., career counseling, flextime, casual-dress days, and child care) to help it compete for talent and enhance staff satisfaction and commitment.</p> <p>The agency provides qualified and continuous supervision to ensure the achievement of internal control objectives.</p> <p>Management provides timely, meaningful, honest, and constructive performance evaluations and feedback to help staff understand the connection between their performance and the achievement of the agency's goals.</p> <p>Management conducts succession planning to ensure continuity of needed skills and abilities.</p>		
<p>4. The agency employs physical control to secure and safeguard vulnerable assets within the child care program.</p>	<p>The agency has physical safeguarding policies and procedures developed, implemented, and communicated to staff.</p> <p>The agency regularly updates and communicates its disaster recovery plan to staff.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>The agency secures and controls vulnerable assets such as cash, securities, supplies, inventories, and equipment.</p> <p>The agency periodically counts assets and compares the count to control records and exceptions such as cash, securities, supplies, inventories, and equipment.</p> <p>The agency maintains cash and negotiable securities under lock and key with access strictly controlled.</p> <p>Forms such as blank checks and purchase orders are sequentially pre-numbered, physically secured, and access to them is strictly controlled.</p> <p>Inventories, supplies, and finished items/goods are stored in physically secured areas and protected from damage.</p> <p>The agency secures facilities from fire with fire alarms and sprinkler systems.</p> <p>The agency controls access to premises and facilities.</p> <p>The agency ensures that contractors employ physical control to secure and safeguard vulnerable assets.</p>		
<p>5. Management divides key duties and responsibilities among different people to reduce the risk of error, waste, or fraud in the child care program.</p>	<p>The agency does not allow one individual to control all key aspects of a transaction or event.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Separation of responsibilities and duties involving transactions and events among different staff with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial functions and handling of related assets; • Duties are assigned systematically to a number of 		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>individuals to ensure that effective checks and balances exist;</p> <ul style="list-style-type: none"> • No one individual can work alone with cash, negotiable securities, or other highly vulnerable assets without prior authorization or monitoring; • Individuals responsible for opening mail cannot have responsibility for or access to files or documents pertaining to accounts receivable or cash accounts; • Staff with responsibility for case receipts or disbursements cannot reconcile those accounts; and • Management reduces the opportunity for collusion to occur. 		
<p>6. Management authorizes appropriate staff to perform and document all transactions and other significant events within the child care program.</p>	<p>Management establishes appropriate controls.</p> <p>Management ensures the terms of authorizations are in accordance with directives, within limitations established by law and regulation, and communicated to staff and contractors.</p> <p>Management maintains written documentation that is readily available, complete, useful, properly managed, maintained, and periodically updated.</p>		
<p>7. Management ensures the proper classification and timely recording of significant events in the child care program.</p>	<p>Proper classification and recording take place throughout the entire life cycle of each transaction or event, including authorization, initiation, processing, and final classification in summary records.</p> <p>Proper classification of transactions and events includes appropriate organization and formatting of information on original documents (hardcopy or electronic) and summary records from which reports and statements are prepared.</p> <p>The agency maintains accurate records to minimize adjustments.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
8. Management limits access and assigns custody to resources and records within the child care program.	<p>Managers review and maintain access restrictions, clearly assign custody, and communicate with those responsible.</p> <p>Management compares resources with records.</p>		
9. Management ensures that policies and procedures are in place for adequate monitoring of sub-recipients, vendors, or providers for compliance with applicable Federal regulations.	<p>Management establishes appropriate controls.</p> <p>Management ensures the terms of authorizations are in accordance with directives, within limitations established by law and regulation, and communicated to the sub-recipients, vendor, or provider.</p> <p>Management maintains written documentation that is readily available, complete, useful, properly managed, maintained, and periodically updated.</p>		

III. Control Activities Specific for Information Systems—General Control

Many State agencies use information systems. This section of the Instrument addresses two areas of information systems Control Activities--General Control and Application Control. Because internal controls within information technology affect any agency using those services, the elements and Criteria apply across the agency as a whole. However, States completing the Instrument need to pay particular attention to determine if controls are in place specifically for the child care system. The child care system includes any entity providing child care services under contract to the States.

The General Control subsection addresses the structure, policies, and procedures that govern agencies' computer operations. These elements and criteria apply to all aspects of the agency's computer operations, ranging from mainframe, servers, and networks all the way to the end user environment of personal computers, laptops, and other devices.

The General Control section governs how States' computer functions operate. This section examines six areas of the information systems general control activities:

- Entity wide security management program;
- Access control;
- Application software development and change;
- System software control;
- Segregation of duties; and
- Service continuity.

As with the other sections of this Instrument, these elements and criteria are a beginning point, They are not an all inclusive set of elements and criteria.

Entity-wide Security Management Program

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
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Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency periodically performs a comprehensive, high-level assessment of risks to its information systems, including its child care system.	<p>Management performs and documents risk assessments regularly and whenever systems, facilities, or other conditions change.</p> <p>Risk assessments consider data sensitivity and integrity.</p> <p>Management documents final risk determinations and managerial approvals and keeps them on file.</p>		
2. The agency has developed a plan that clearly describes its security program, policies, and procedures.	<p>The agency security plan includes physical security of all hardware, software, and peripheral equipment, as well as e-mail and Internet access.</p> <p>A comprehensive set of security software is in place and kept current.</p>		
3. Management establishes and communicates a clearly defined structure for implementing and managing the security program throughout the agency and its contractors and defines security responsibilities.	<p>The agency has established policies and procedures for managing the security program.</p> <p>The agency has a mechanism to examine the security procedures employed by child care contractors.</p>		
4. The agency implements effective security-related personnel policies.	<p>The agency ensures that security-related personnel policies are in place both internally and with child care contractors.</p>		
5. The agency monitors the security program's effectiveness and makes changes as needed.	<p>The agency implements, tests, and monitors security policy, compliance, and corrective actions.</p>		
Access Control			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency classifies critical and sensitive information resources.	The agency has a consistent policy in place to define critical and sensitive information.		
2. The agency has established physical and logical controls to prevent or detect unauthorized access.	The agency has established policies and procedures to control and/or detect unauthorized access to agency-computerized resources.		
3. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.	<p>The agency has policies and procedures in place to monitor, detect, and investigate unauthorized access to agency-computerized resources.</p> <p>The agency had established disciplinary procedures in place to address unauthorized access.</p>		
Application Software Development and Change Control			
1. The agency authorizes information system processing features and program modifications.			
2. The agency tests and approves new and revised software.			
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.			
System Software Control			
1. The agency limits access to system and documents			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
authorization to system software based on job responsibilities.			
2. The agency controls changes made to the system software.			
Segregation of Duties			
1. The agency establishes access controls to enforce segregation of duties.			
2. The agency exercises control over staff activities using formal operating procedures, supervision, and review.			
Service Continuity			
1. The agency identifies, assesses, and prioritizes computer operations and supportive resources	Management develops, documents, and tests a comprehensive contingency plan.		
2. The agency takes steps to prevent and minimize potential damage and interruption.	The agency uses data and program backup procedures, including off-site storage of backup data, as well as environmental controls, staff training, and hardware maintenance and management.		

III Control Activities Specific for Information Systems—Application Control

Information Systems Application Controls attempt to measure the completeness, accuracy, and validity of all transactions that take place within the State's computer application. The controls include the computer programs themselves, as well as the policies and procedures that govern the operation of specific applications. States' reviews of the elements need to include a review of all contractors that provide child care services to ensure the adequacy of their internal controls.

Some elements in this section are self-explanatory. Associated criteria are not necessary.

Four major factors make up the Information Systems Application Control activities. States need to consider the following:

- Authorization control;
- Completeness control;
- Accuracy control; and
- Control over integrity of processing and data files.

As in previous sections, the elements and criteria provided here serve as a beginning point for States.

Authorization Control

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency requires and controls authorized access to source documents.	Agency restricts access to incomplete source documents. The agency sequentially pre-numbers source documents. The agency requires authorizing signatures to get key source documents. The agency uses batch control sheets for batch application systems, such as date, control number, number of documents, and control totals for key fields. Supervisory or independent review of data occurs before entry into the application system.		
2. Data entry devices have	Data entry devices include: Desktop PC's, Laptops,		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
restricted access.	PDA's, Blackberries, Tablet PC's, etc.		
3. The agency uses master files and exception reports to ensure proper data processing authorization.			
Completeness Control			
1. The agency enters all authorized transactions into the computer for processing.			
2. The agency performs timely reconciliation to verify data completeness.			
Accuracy Control			
1. Features of the agency's data system contribute to data accuracy.	The agency data system includes: <ul style="list-style-type: none"> • Data validation and editing to identify erroneous data; • The ability to capture, report, investigate, and promptly corrects erroneous data; and • Staff review of output reports to maintain data accuracy and validity. 		
Control Over Integrity of Processing and Data Files			
1. The agency ensures that production programs and data files used during processing are current.	Computer routines include: <ul style="list-style-type: none"> • Procedures to verify version control; • Routines for checking internal file header labels before processing; and • Protection against concurrent file updates. 		

IV. INFORMATION AND COMMUNICATIONS

States must have relevant, reliable information—financial and non-financial—on relevant external and internal activities. This is the basis for the fourth standard, Information and Communications. All of the communication tools and methods of processing information within the agency are part of this standard. Information and communication need to be broad based and accountable, whether the communication is done manually or automated. Communications must be reliable, continuous, appropriate, and secure. The elements and criteria contained in this standard are a way of measuring the degree to which States are providing these types of communications.

As with the other sections of this Instrument, the elements and criteria are a beginning point for States. They are not an all inclusive set of elements and criteria.

Information

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management collects, reviews, and distributes internal and external performance information.	<p>The agency obtains and reports to managers any relevant internal and external information that may affect the achievement of its missions, goal, and objectives, particularly those related to legislative or regulatory developments and political or economic changes.</p> <p>Management ensures information that:</p> <ul style="list-style-type: none"> • Has been analyzed; • Provides the appropriate level of detail; • Is summarized and presented appropriately; • Is timely; • Is pertinent; and • Contains operational, financial, and budgetary information. 		

Communications

1. Management ensures that effective internal communications occurs within the agency.	<p>Senior management provides a clear message throughout the agency that internal control responsibilities are important and management takes them seriously.</p> <p>Management clearly communicates specific duties to staff</p>		
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Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>members, so they understand the relevant aspects of internal control. This includes how their roles fit the agency mission, and how their work relates to the work of others.</p> <p>Staff are informed that, when the unexpected occurs in performing their duties, they must be not only assess the event, but also the underlying cause. Staff are informed that potential internal control weaknesses must be identified and corrected before they can do further harm to the agency.</p> <p>Communication processes allow the easy flow of information down, across, and up the organization. Communication exists between functional activities, such as between procurement activities and production activities.</p> <p>Staff understand that there will be no reprisals for reporting adverse information, improper conduct, or circumvention of internal control activities.</p> <p>Staff have procedures for recommending improvements in operations and management acknowledges good staff suggestions with meaningful recognition.</p> <p>Management communicates frequently with internal oversight groups, such as senior management councils. Management keeps these groups informed about performance, risks, major initiatives, and any other significant events.</p>		
<p>2. Management ensures that effective external communications occur with groups that can have a serious impact on programs,</p>	<p>Management has open and effective communication channels with clients, suppliers, contractors, consultants, and others that can provide suggestions on quality and design of agency products and services.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>projects, operations, and other activities, including budgeting and financing.</p>	<p>Management clearly informs all outside parties dealing with the agency of the agency's ethical standards and that the agency will not tolerate improper actions.</p> <p>Management encourages communication from external parties, such as Federal agencies, State and local governments, and other related third parties, since these parties may be a source of information on how well internal controls are functioning.</p> <p>Complaints or inquires are welcomed, since they can identify control problems.</p> <p>Management makes certain that the advice and recommendations of auditors and evaluators are fully considered, and that the agency implements actions to correct any problems or weaknesses identified.</p>		
Forms and Means of Communications			
<p>1. Management uses effective methods to communicate with employees and others.</p>			
<p>2. The agency manages its information, including its information systems, to ensure the usefulness and reliability of the information derived from the systems.</p>	<p>Agency integrates the IT strategic plan with the agency plan to assure:</p> <ul style="list-style-type: none"> • Identifying emerging information needs; • Utilizing advances in IT; • Monitoring the quality of data; and • Committing sufficient resources to IT. 		

V. MONITORING

The last internal control standard is Monitoring. An integral part of the child care program is monitoring, which allows the States to examine and evaluate the performance of contract and non-contract providers who provide child care and other related services. This standard provides elements and criteria to gauge the effectiveness of the program. The standard also addresses the effectiveness of audits and other ongoing monitoring activities within the States.

States must undertake ongoing monitoring during normal operations as part of their normal business practice. These monitoring activities include regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Managers and supervisors must know their responsibilities for internal control and they need to make control monitoring an integral part of their regular operating processes. Separate evaluations are a way to take a fresh look at internal control by focusing directly on the control's effectiveness at a specific time. These evaluations may take the form of self-assessment as well as review of control design and direct testing, and may include the use of this management and evaluation tool. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and are resolved promptly. Managers and evaluators should consider the appropriateness of the agency's internal control monitoring and the degree to which it helps them accomplish their objectives. Listed below are factors a user might consider. The list is a beginning point. It is not all-inclusive, and every item might not apply to every agency or activity within the agency. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in establishing and maintaining good internal control monitoring policies and procedures.

Ongoing Monitoring

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management ensures effective monitoring and internal control.	The agency's monitoring includes: <ul style="list-style-type: none"> • Communication to managers regarding their responsibilities for internal control and regular monitoring; and • Periodic evaluation of control activities for critical operational and mission support systems. 		
2. The agency produces reports used to monitor program activities and to identify inaccuracies or other issues requiring follow-up.			

<p>3. Management monitors communications from external partners.</p>	<p>Management investigates customer complaints for potential deficiencies.</p> <p>Management uses communications and reports from external partners as control monitoring techniques.</p> <p>Management uses information from oversight groups about compliance or internal control functions to identify problems requiring follow-up.</p> <p>Management reassesses weak control activities.</p>		
<p>4. Management uses the agency's organizational structure to provide oversight of internal control functions.</p>	<p>Management uses automated edits and checks and other activities to determine control accuracy and completeness of transaction processing.</p> <p>Management uses separation of duties and responsibilities to help deter fraud.</p>		
<p>5. The agency's internal audit department is available to research and recommend improvements within the internal control structure.</p>			
<p>6. Management meets with staff to receive feedback on effectiveness of internal control.</p>	<p>Management uses information, and feedback concerning internal control from training and planning sessions and other meetings, to address problems or strengthen the internal control structure.</p> <p>Management uses staff suggestions in evaluating the effectiveness of internal controls.</p> <p>Management encourages staff to identify and report internal control weaknesses.</p>		
<p>7. Management uses separate evaluations or audits to review risk assessment results, effectiveness of ongoing</p>	<p>Management uses separate evaluations and audits to evaluate significant agency or program changes.</p> <p>Management uses qualified staff or external providers to conduct separate evaluations or audits.</p>		

monitoring, and internal controls.	Management considers risk assessment results and the effectiveness of ongoing monitoring when determining the scope and frequency of evaluations.		
8. Management ensures the effectiveness of evaluation techniques and methodologies used.	<p>The agency's methodologies may include:</p> <ul style="list-style-type: none"> • Self-assessment; • Review of control design; • Direct testing of internal control activities; and • Computer-assisted audit techniques. <p>The agency's evaluation plan is:</p> <ul style="list-style-type: none"> • Coordinated with appropriate parties; • Managed and conducted by qualified staff; and • Well documented. 		
9. If the agency's internal audit department conducts evaluations, the agency has sufficient resources, ability, and independence.	<p>The internal audit department or like entity has sufficient levels of competent and experienced staff.</p> <p>The internal audit department or like entity is independent and reports to the highest levels within the agency.</p>		
10. Management promptly reports and resolves deficiencies found during evaluations.			
Audit Resolution			
1. Management ensures prompt resolution of findings from audits and other reviews.	<p>Managers review and evaluate audit findings, assessments, and other reviews, including those showing deficiencies and those identifying opportunities for improvements.</p> <p>Management determines the proper actions to take in response to findings and recommendations.</p> <p>Management takes corrective action within established time frames to resolve the deficiencies.</p> <p>Management uses consultations with internal and external</p>		

	auditors and other reviewers as appropriate.		
2. Management responds to findings and recommendations of audits and other reviews and takes appropriate follow-up action.	<p>Senior management evaluates findings and recommendations and determines the appropriate actions.</p> <p>Management ensures implementation of changes to internal controls.</p> <p>Senior management reviews periodic reports to ensure the quality and timeliness of resolution decisions.</p>		

Appendix N. STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

(Original)

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

STATE

DATE

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

STATE TEAM (Insert State Name)		
(List all members of the State Team, their organization, title, Phone, Fax, and E-mail addresses)		
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
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PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:
NAME:	ORGANIZATION/TITLE:	
PHONE:	FAX:	E-MAIL:

Add additional pages to capture all staff involved in the assessment process.

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

GENERAL INSTRUCTIONS

This tool is a State Internal Control Self-Assessment Instrument to be used for management control and evaluation of the Child Care program. The tool can be used to help both State and Federal managers determine how well an agency's internal controls are designed and functioning and help them to determine what, where, and how improvements can be implemented. States can use this tool specifically for the Child Care Program or more broadly where the Child Care Program is one of many program components.

The tool contains five sections corresponding to the five standards for internal control outlined by the General Accountability Office (GAO) in its document, GAO-01-1008G – Internal Control Management and Evaluation Tool (8/01). The third standard, Control Activities, is further broken down into three additional sections, one dealing with Common Activities and two dealing with Information Systems. The standards are:

- Control Environment;
- Risk Assessment;
- Control Activities:
 - Common Categories of Control Activities;
 - Control Activities Specific for Information Systems—General Control;
 - Control Activities Specific for Information Systems—Application Control;
- Information and Communications; and
- Monitoring.

Each section contains a list of major elements and criteria for consideration when reviewing internal controls as they relate to the particular standards. These elements represent some of the more important issues addressed by the standard. Included under each element are criteria that States should consider when addressing the element. States should use the criteria to consider specific items that indicate the degree to which internal controls are functioning.

States need to evaluate how well their agency meets each element and criterion and identify those areas where they may be deficient. The States should then take the opportunity to begin formulating a plan of action to address the identified deficiencies.

States should view this tool as a living document, a starting point that can fit the circumstances, conditions, and risks relevant to their agency. Not all of the elements or criteria will be applicable for every agency. States should attempt to complete all of the sections, but should feel free to note those areas that they do not consider relevant. If a State chooses to use the tool to assess the whole agency, then the sections specific to Child Care (and other program areas) should be completed by the appropriate areas and the sections that apply to all areas (such as HR or IT) would be completed by those program areas.

The goal is for this tool to be useful in assessing internal controls as they relate to the achievements of the objectives of the agency, identifying areas of concern, and providing a documented way of addressing those concerns. Ultimately, this tool can help States become more effective and efficient in their internal controls. This tool may also be useful in identifying issues with respect to safeguarding assets from improper payments caused by mistakes, inadequate controls, fraud, waste, or abuse.

STATE INTERNAL CONTROL SELF-ASSESSMENT INSTRUMENT

I. CONTROL ENVIRONMENT

The Control Environment is the first Internal Control Standard. This standard addresses how the State establishes and maintains an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. The State reviews and addresses each of the key factors that affect the accomplishment of this goal. State managers and evaluators consider each of these control environment factors as they determine if there is a positive control environment in their State.

States should view the elements and criteria contained in this Instrument as a beginning point and not as an all inclusive set of elements and criteria. Some of the elements and criteria are subjective in nature and require the State to use judgment when assessing them. States should examine each of the elements and criteria, as they are important and can help in achieving control environment effectiveness.

Integrity and Ethical Values (CE_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest.	<p>Codes of conduct are comprehensive in nature and include such issues as appropriate use of resources, conflicts of interest, political activities of staff, acceptance of gifts or donations or foreign decorations, and use of due professional care.</p> <p>The agency periodically reviews codes of conduct and obtains signatures from all staff members.</p> <p>Staff members indicate that they know what kind of behavior is acceptable and unacceptable, what penalties unacceptable behavior may bring, and what to do if they become aware of unacceptable behavior.</p>		
2. The agency established an ethical culture at the top of the organization and it has been communicated throughout the agency.	<p>Management emphasizes the importance of integrity and ethical values through oral communications in meetings, via one-on-one discussions, and by example in daily activities.</p> <p>Management takes quick and appropriate action as soon as there are any signs that a problem may exist.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>3. The agency ensures that it employs high ethical standards in dealings with the public, Legislature, staff, suppliers, auditors, and others.</p>	<p>Financial, budgetary, and operational/programmatic reports to the Legislature, Federal Government, and the public are proper and accurate.</p> <p>Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations.</p> <p>The agency has a well-defined and understood process for dealing with claims and concerns in a timely and appropriate manner.</p>		
<p>4. Management takes appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct.</p>	<p>Management takes action when there are intentional violations of policies, procedures, or the code(s) of conduct.</p> <p>Management communicates the types of disciplinary actions taken throughout the agency.</p>		
<p>5. Management establishes internal controls and intervention.</p>	<p>Management provides guidance on when to intervene and the management levels which may take such action.</p> <p>Management fully documents the reasons for any intervention or overriding of internal control and specific actions taken.</p> <p>Management prohibits overriding of internal control by low-level management staff except in emergency situations. Notification and documentation to upper-level management occurs immediately.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Commitment to Competence (CE_2)			
<p>1. Management has identified and defined the tasks required to accomplish particular jobs.</p>	<p>Management analyzes the tasks and competencies needed for particular jobs, such things as the level of judgment required and the extent of supervision necessary.</p> <p>Management establishes formal job descriptions or other means of identifying and defining specific competencies required for job positions and keeps them up-to-date.</p> <p>Management identifies the knowledge, skills, and abilities needed for various jobs and makes them known to staff.</p> <p>Evidence exists that the agency makes every effort to assure that staff selected for various positions have the requisite knowledge, skills, and abilities.</p>		
<p>2. The agency provides training and counseling to help staff maintain and improve job competency.</p>	<p>The agency provides appropriate training program to meet the needs of staff.</p> <p>The agency emphasizes the need for continuing training and has a control mechanism to ensure that staff received appropriate training.</p> <p>Supervisors have the necessary training and management skills to provide effective job performance counseling.</p> <p>Management bases performance appraisals on an assessment of competencies and clearly identifies areas in which staff are performing well and areas that need improvement.</p> <p>Management provides staff candid and constructive job performance counseling.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Management Philosophy and Operating Style (CE 3)			
1. Management analyzes the risks of new ventures or operations and determines appropriate mitigation and minimization strategies.			
2. Management endorses the use of performance-based management.			
3. Management analyzes agency staffing.	Management analyzes patterns of staff turnover, including loss of key staff or excessive turnover. Management develops transitions plans.		
4. Management supports financial, administrative, and operational functions.	<p>Management uses accounting, financial, and programmatic data from its systems for decision-making and performance evaluation.</p> <p>Management reviews and coordinates financial management, accounting operations, and budget with external entities.</p> <p>Management supports efforts to make improvements in the systems as technology advances.</p> <p>Personnel operations have a high priority.</p> <p>Management supports and uses the work of quality assurance, internal audits, external audits, and other evaluations and studies.</p>		
5. Management safeguards valuable assets and information from unauthorized access or use.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
6. Senior management and operating/program management interact to carry out the mission.			
7. Management ensures sound financial, budgetary, and operational programmatic reporting.	<p>Management is responsible for critical financial reporting and conservative application of accounting principles and estimates.</p> <p>Management financial and budgetary information is provided to the appropriate entities.</p> <p>Management ensures that short-term goals are consistent with long term strategies.</p>		
Organizational Structure (CE_4)			
1. Management defines and communicates key areas of authority and responsibility.	<p>Staff members understand their areas of responsibility.</p> <p>Staff members understand their internal control responsibilities.</p>		
2. Management establishes clear internal reporting relationships.	<p>The organization structure facilitates the flow of information throughout the agency.</p> <p>Management makes staff aware of the established reporting relationships.</p>		
3. Management periodically evaluates the organizational structure and makes necessary changes to respond to changing conditions.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
4. Management supports appropriate staffing levels to carry out the mission of the agency.	<p>Staff members have time to carry out their duties and responsibilities.</p> <p>Staff members do not have to work excessive overtime or outside the ordinary workweek to complete assigned tasks.</p> <p>Management and supervisors are not fulfilling more than one role.</p>		
Assignment of Authority and Responsibility (CE 5)			
1. The agency appropriately assigns authority and delegates responsibility to the proper staff.	<p>Management communicates the assigned authority and responsibility to staff.</p> <p>Management holds individuals accountable for decisions and outcomes within their responsibility and authority.</p> <p>Management has effective procedures to monitor results.</p> <p>Management appropriately balances the delegation of authority between senior staff and staff at lower levels to get the job done.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Human Resource Policies and Practices (CE_6)			
<p>1. Policies and procedures are in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating staff.</p>	<p>Management participates in the hiring process.</p> <p>Management ensures that position descriptions and qualifications meet State Personnel rules and are standardized throughout the agency for similar jobs.</p> <p>Management establishes a training program that includes orientation programs for new staff and continuing education for all staff.</p> <p>Management supports promotion, compensation, or rotation of staff based upon periodic performance appraisals.</p> <p>Management links performance appraisals to its goals and objectives.</p> <p>Performance appraisal criteria reflect the importance of integrity and ethical values.</p> <p>Staff receive appropriate feedback and counseling on their job performance.</p> <p>Management responds to violations of policies or ethical standards with appropriate discipline or remedial action.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Oversight Groups (CE_7)			
1. The agency has mechanisms in place to monitor and review operations and programs.	<p>An independent entity audits and reviews agency activity.</p> <p>An audit committee or senior management council reviews the internal audit work and coordinates closely with the independent entity and external auditors.</p> <p>The Internal audit unit reports to the agency head.</p> <p>The internal audit function reviews agency activities and systems and provides information, analyses, recommendations, and counsel to management.</p>		
2. The agency works closely with Executive Branch oversight organizations.	<p>The agency works with the State's Budget Office and key officials. The agency provides financial and budgetary reporting and information on internal controls and management's performance.</p> <p>High-level agency staff maintain good working relationships with other executive branch agencies that exercise multi-agency control responsibilities.</p>		
3. The agency maintains a close relationship with the Legislature.	<p>The agency provides the Legislature with timely and accurate information to allow monitoring of agency activities. This includes review of the agency's mission and goals, reports on agency performance, and reports on finances and operating issues.</p> <p>High-level agency officials meet regularly with staff from the Legislature and Governor's office to discuss major issues affecting operations, internal control, performance, and other issues affecting major agency activities and programs.</p>		

II. RISK ASSESSMENT

The second internal control standard is Risk Assessment. Clear, consistent agency goals and objectives at both the agency and program level are essential for the agency to operate efficiently and effectively. When an agency has established and articulated objectives, the agency may be able to identify actual or potential risks/problems—internal and external—that could impede the accomplishment of those objectives in an efficient manner. When an agency identifies potential risks/problems and their possible effect on the organization, they may be able to prevent those problems or reduce their impact. This section is designed to help agencies in this process.

Once again, this is not an all-inclusive list. It is a starting point from which States can begin to build a dynamic assessment of actual or potential risks/ problems and mitigation strategies. Some of the elements and criteria are subjective in nature. Nevertheless, each of the elements and criteria are important and it is recommended that the State examine them closely.

Establishment of Entity-wide Objectives (RA_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management establishes agency specific objectives.	Management establishes a strategic plan that includes agency mission, goals, and objectives. Management establishes objectives based on program requirements.		
2. Management communicates objectives to all staff and obtains feedback.			
3. Operational strategies support entity-wide objectives.	Strategic plans address resource allocations and priorities. Management designs strategic plans and budgets with an appropriate level of detail for various management levels.		
4. Management has an integrated management strategy, risk assessment, and control structure to address risks.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Establishment of Activity (RA_2)			
1. Program strategies support agency objectives.	Management reviews program strategies periodically to assure that they have continued relevance.		
2. Program strategies are relevant, complementary.	Management establishes program strategies for the key operational and support activities.		
3. Program outcome criteria include measurements.			
4. Management allocates sufficient resources to meet objectives.			
5. Management identifies and reviews Mission Critical program strategies to address objectives.	Management reviews and monitors critical activity-level objectives regularly.		
Risk Identification (RA_3)			
1. Management identifies risk using appropriate methodologies.	<p>Management uses qualitative and quantitative methods to identify risk and quantify relative risk rankings on a scheduled and periodic basis.</p> <p>Risk identification and discussion occur at all levels of the agency.</p> <p>Risk identification includes, but is not limited to, findings from audits, evaluations, and other assessments.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
2. Management considers external factors when identifying risk.	External factors include but are not limited to: <ul style="list-style-type: none"> • Technological advancements and developments; • Changing needs or expectations of the Legislature, agency officials, and the public; • New legislation or regulations; • Natural catastrophes or criminal or terrorist actions; • Business, political, and economic changes; • Major suppliers and contractors; and • Other entities. 		
3. Management considers internal factors when identifying risk.	Internal factors include, but are not limited to: <ul style="list-style-type: none"> • Downsizing of agency operations and staff; • Business process reengineering or redesign of operating processes; • Disruption of information systems and disaster recovery plans; • Decentralized program operations; • Qualifications and training of staff; • Reliance on contractors or other parties to perform critical agency operations; • Major changes in managerial responsibilities; • Unusual staff access to vulnerable assets; • Succession planning and retention of key staff; • Competitive compensation and benefit programs; and • Availability and adequacy of funding. 		
4. Management considers other risk factors.			
Risk Analysis (RA_4)			
1. Management develops a risk tolerance process.	Management sets specific tolerance levels. Each agency and program area are assigned specific levels and expected to implement control activities. They are also expected to monitor results.		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Managing Risk During Change (RA_5)			
<p>1. Management has a mechanism for reacting to risks presented by changes that can have a dramatic and pervasive effect.</p>	<p>Management gives special consideration to:</p> <ul style="list-style-type: none"> • Staffing of key positions or staff turnover; • Introduction and training of new or changed information systems; • Rapid growth and expansion or rapid downsizing; • New technological developments; • New outputs or services; and • Geographical realignment. 		

III. CONTROL ACTIVITIES

Internal control activities are used by States to mitigate the risks identified during the risk assessment process. These activities are an integral part of the agency's planning, implementation, and review processes. Internal control activities are essential to holding programs accountable for effective and efficient program results.

Control includes a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. They are guided by the agency's management directives on how to address the risks associated with program missions and objectives. Therefore, a manager or evaluator will assess whether control activities are appropriate and adequate for the risk-assessment process and are being applied effectively and efficiently. This analysis would include controls for computerized information systems.

The control activities in one agency may vary considerably from those used in another agency. This difference may result from (1) variations in missions, goals, and objectives of the agencies; (2) differences in agency environments and how in which they operate; (3) differing degree of organizational complexity; (4) differences in agency histories and culture; and (5) variations in the risks each agency faces and is trying to mitigate. Even if two agencies have the same missions, goals, objectives, and organizational structures, they would probably use different control activities. Control activities vary by individual judgment, implementation strategies, and management approaches.¹

These elements and criteria are a beginning point. They are not an all inclusive set of elements and criteria.

¹ Government Accountability Office. (August 2001). *Internal Control Management and Evaluation Tool*. (GAO Publication No. GAO-01-1008G). Washington, DC: U.S. Government Printing Office.

General Application (CA_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management establishes appropriate policies, procedures, techniques, and mechanisms with respect to each of the agency's activities and those activities related to the Child Care Program.	Management establishes objectives and associated risks, identifies the actions and control activities needed to address the risks, and directs their implementation.		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
2. For identified control activities, management evaluates their agency's overall activities and those activities related to the Child Care Program.	<p>Staff applies control activities properly and understands their purpose.</p> <p>Staff review established control activities and provide input.</p> <p>Management takes timely action on exceptions, implementation problems, or information that requires follow-up.</p>		
Common Categories of Control Activities (CA_2)			
1. Senior management tracks major agency achievements in relation to its plans with respect to each of the agency's overall activities and those activities related to the Child Care Program.	<p>Senior management regularly reviews actual performance against budgets, forecasts, and prior period results and compliance with applicable Federal regulations.</p> <p>Senior management develops performance plans, measures and reports results, and takes follow-up action as necessary.</p>		
2. Management reviews performance with respect to each of the agency's overall activities and those activities related to the Child Care Program.	<p>Managers at all levels review performance reports, analyze trends, measure results and compliance with the ACF approved State plan.</p> <p>Financial and program managers review and compare financial, budgetary, Federal financial compliance, and operational performance to planned or expected results.</p> <p>Managers use appropriate control activities such as reconciling summary information to supporting detail and checking the accuracy of summaries.</p>		
3. The agency effectively manages the organization's workforce to achieve results with respect to each of the agency's overall activities and those activities related to the Child Care Program.	<p>Management incorporates the agency mission, goals, and values in its strategic plan and other guiding documents and communicates this information to all staff.</p> <p>The agency has a workforce planning strategy which identifies current and future staffing needs.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
	<p>The agency has a process in place to ensure performance management and compliance with applicable Federal regulations.</p> <p>The agency has a formal recruiting, hiring, and retention process to ensure a competent workforce.</p> <p>The agency provides orientation, training, and tools for staff to perform their duties and responsibilities, improve performance, enhance their capabilities, and meet the demands of changing organizational needs.</p> <p>The compensation system is adequate to acquire, motivate, and retain staff. Staff receive incentives and rewards to encourage them to perform at maximum capability.</p> <p>The agency provides workplace flexibilities, services, and facilities (e.g., career counseling, flextime, casual-dress days, and child care) to help it compete for talent and enhance staff satisfaction and commitment.</p> <p>The agency provides qualified and continuous supervision to ensure the achievement of internal control objectives.</p> <p>Management provides timely, meaningful, honest, and constructive performance evaluations and feedback to help staff. This is designed to help staff understand the connection between their performance and the achievement of the agency's goals.</p> <p>Management conducts succession planning to ensure continuity of needed skills and abilities.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>4. The agency uses a variety of control activities suited to information processing systems to ensure accuracy and completeness with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Edit checks are used in controlling data entry.</p> <p>The system performs accounting for transactions in numerical sequences.</p> <p>The system performs file totals that compares control accounts.</p> <p>The system identifies exceptions or violations indicated by other control activities for further management review and action.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>5. The agency employs physical control to secure and safeguard vulnerable assets with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>The agency has physical safeguarding policies and procedures developed, implemented, and communicated to staff.</p> <p>The agency regularly updates and communicates its disaster recovery plan to staff.</p> <p>The agency secures and controls vulnerable assets such as cash, securities, supplies, inventories, and equipment.</p> <p>The agency periodically counts assets and compares the count to control records and exceptions such as cash, securities, supplies, inventories, and equipment.</p> <p>The agency maintains cash and negotiable securities under lock and key with access strictly controlled.</p> <p>Forms such as blank checks and purchase orders are sequentially pre-numbered, physically secured, and access to them is strictly controlled.</p> <p>Inventories, supplies, and finished items/goods are stored in physically secured areas and protected from damage.</p> <p>The agency secures facilities from fire with fire alarms and sprinkler systems.</p> <p>The agency controls access to premises and facilities.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>6. The agency has established and monitors performance measures and indicators with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>The agency periodically reviews and validates the propriety and integrity of both organizational and individual performance measures and indicators.</p> <p>The agency periodically reviews and ensures that organizational and individual performance measures link to agency mission, goals, and objectives, while complying with law, regulations, and ethical standards.</p> <p>The agency analyzes and reviews performance measures and indicators for both operational and financial reporting control purposes.</p> <p>The agency compares actual performance data with expected outcomes and differences. The agency takes corrective action if necessary.</p> <p>The agency compares different sets of data to one another to analyze their relationships and implement corrective actions if necessary.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>7. Management divides key duties and responsibilities among different people to reduce the risk of error, waste, or fraud and those activities related to the Child Care Program.</p>	<p>The agency does not allow one individual to control all key aspects of a transaction or event.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Separation of responsibilities and duties involving transactions and events among different staff with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial functions and handling of related assets; • Duties are assigned systematically to a number of individuals to ensure that effective checks and balances exist; • No one individual can work alone with cash, negotiable securities, or other highly vulnerable assets without prior authorization or monitoring; • Individuals responsible for opening mail cannot have responsibility for or access to files or documents pertaining to accounts receivable or cash accounts; • Staff with responsibility for case receipts or disbursements cannot reconcile those accounts; and • Management reduces the opportunity for collusion to occur. 		
<p>8. Management authorizes appropriate staff to perform transactions and other significant events with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Management establishes appropriate controls.</p> <p>Management ensures the terms of authorizations are in accordance with directives, within limitations established by law and regulation, and communicated to staff.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>9. Management ensures the proper classification and timely recording of significant events with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Proper classification and recording take place throughout the entire life cycle of each transaction or event, including authorization, initiation, processing, and final classification in summary records.</p> <p>Proper classification of transactions and events includes appropriate organization and formatting of information on original documents (hardcopy or electronic) and summary records from which reports and statements are prepared.</p> <p>The agency maintains accurate records to minimize adjustments.</p>		
<p>10. Management limits access and assigns custody to resources and records with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Managers review and maintain access restrictions, clearly assign custody, and communicate with those responsible.</p> <p>Management compares resources with records.</p>		
<p>11. Management ensures all transactions and other significant events are clearly documented with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Management maintains written documentation that is readily available, complete, useful, properly managed, maintained, and periodically updated.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>12. Management ensures that policies and procedures are in place to adequately monitor sub-recipients, vendors or providers for compliance with applicable Federal regulations with respect to each of the agency's overall activities and those activities related to the Child Care Program.</p>	<p>Management establishes appropriate controls.</p> <p>Management ensures the terms of authorizations are in accordance with directives, within limitations established by law and regulation, and communicated to the sub-recipients, vendor or provider.</p> <p>Management maintains written documentation that is readily available, complete, useful, properly managed, maintained, and periodically updated.</p>		

III. Control Activities Specific for Information Systems—General Control

Many State agencies use information systems. This section of the Instrument addresses two areas of information systems control activities--general control and application control.

The General Control subsection addresses the structure, policies, and procedures that govern the agency's computer operations. These elements and criteria apply to all aspects of the agency's computer operations, ranging from mainframe, servers, and networks, all the way to the end user environment with personal computers, laptops, and other devices.

The General Control section governs how a State's computer function operates. There are six areas that are examined in the Information Systems General Control activities. They are:

- Entity wide security management program;
- Access control;
- Application software development and change;
- System software control;
- Segregation of duties; and
- Service continuity.

As with the other sections of this Instrument, these elements and criteria are a beginning point, They are not an all inclusive set of elements and criteria.

Entity-wide Security Management Program (CAGC_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency periodically performs a comprehensive, high-level assessment of risks to its information systems.	<p>Management performs and documents risk assessments regularly and whenever systems, facilities, or other conditions change.</p> <p>Risk assessments consider data sensitivity and integrity.</p> <p>Management documents final risk determinations and managerial approvals are kept on file.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
2. The agency has developed a plan that clearly describes its security program, policies, and procedures.	<p>The agency security plan should include physical security of all hardware, software, and peripheral equipment, as well as e-mail and Internet access.</p> <p>A comprehensive set of security software is in place and kept current.</p>		
3. Senior management establishes and communicates a clearly defined structure for implementing and managing the security program throughout the agency and defines security responsibilities.			
4. The agency implements effective security-related personnel policies.			
5. The agency monitors the security program's effectiveness and makes changes as needed.	The agency implements, tests, and monitors security policy, compliance, and corrective actions.		
Access Control (CAGC_2)			
1. The agency classifies critical and sensitive information resources.			
2. The agency has established physical and logical controls to prevent or detect unauthorized access.			
3. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Application Software Development and Change Control (CAGC_3)			
1. The agency authorizes information system processing features and program modifications.			
2. The agency tests and approves new and revised software.			
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.			
System Software Control (CAGC_4)			
1. The agency limits access to system and documents authorization to system software based on job responsibilities.			
2. The agency controls and monitors access to the use of system software.			
3. The agency controls changes made to the system software.			
Segregation of Duties (CAGC_5)			
1. The agency identifies and segregates Incompatible duties.			
2. The agency establishes access controls to enforce segregation of duties.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
3. The agency exercises control over staff activities using formal operating procedures, supervision, and review.			
Service Continuity (CAGC_6)			
1. The agency identifies, assesses, and prioritizes computer operations and supportive resources	Management develops, documents, and tests a comprehensive contingency plan.		
2. The agency takes steps to prevent and minimize potential damage and interruption.	The agency uses data and program backup procedures, including off-site storage of backup data, as well as environmental controls, staff training, and hardware maintenance and management.		

III Control Activities Specific for Information Systems—Application Control

Information Systems Application Controls attempt to measure the completeness, accuracy, and validity of all transactions that take place within the State's computer application. The controls include the computer programs themselves, as well as the policies and procedures that govern the operation of specific applications.

Four major factors make up the Information Systems Application Control activities. The State needs to consider the following:

- Authorization control;
- Completeness control;
- Accuracy control; and
- Control over integrity of processing and data files.

As in previous sections, the elements and criteria provided here serve as a beginning point for States.

Authorization Control (CAAC_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. The agency controls and requires authorized access to source documents.	Agency restricts access to incomplete source documents. The agency sequentially pre-numbers source documents. The agency requires authorizing signatures to get key source documents. The agency uses batch control sheets for batch application systems, such as date, control number, number of documents, and control totals for key fields. Supervisory or independent review of data occurs before entry into the application system.		
2. Data entry devices have restricted access.			

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
3. The agency uses master files and exception reports to ensure proper data processing authorization.			
Completeness Control (CAAC_2)			
1. The agency enters all authorized transactions into the computer for processing.			
2. The agency performs timely reconciliation to verify data completeness.			
Accuracy Control (CAAC_3)			
1. Features of the agency's data system contribute to data accuracy.	<p>The agency data system includes:</p> <ul style="list-style-type: none"> • The system performs data validation and editing to identify erroneous data; • The systems captures, reports, investigates, and promptly corrects erroneous data; • Staff reviews output reports to maintain data accuracy and validity; and • The system captures, reports, investigates, and promptly corrects erroneous data. 		
Control Over Integrity of Processing and Data Files (CAAC_4)			
1. The agency ensures that production programs and data files used during processing are current.	<p>Computer routines include:</p> <ul style="list-style-type: none"> • Procedures to verify version control; • Routines for checking internal file header labels before processing; and • Protection against concurrent file updates. 		

IV. INFORMATION AND COMMUNICATIONS

A State must have relevant, reliable information—financial and non-financial—on relevant external and internal activities. This is the basis for the fourth standard, Information and Communications. All of the communication tools and methods of processing information within the agency are part of this standard. Information and communication need to be broad based and accountable, whether the communication is done manually or automated. Communications must be reliable, continuous, appropriate, and secure. The elements and criteria contained in this standard are a way of measuring the degree to which States are providing these types of communications.

As with the other sections of this Instrument, the elements and criteria are a beginning point for States. They are not an all inclusive set of elements and criteria.

Information (IC_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management collects and reviews internal and external performance information.	The agency obtains and reports to managers any relevant internal and external information that may affect the achievement of its missions, goal, and objectives, particularly those related to legislative or regulatory developments and political or economic changes.		
2. Agency management identifies and obtains pertinent information and captures, and distributes it appropriately.	Management provides information that: <ul style="list-style-type: none"> • Has been analyzed; • Provides the appropriate level of detail; • Is summarized and presented appropriately; • Is timely; • Is pertinent; and • Contains operational, financial, and budgetary information. 		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
Communications (IC_2)			
<p>1. Management ensures that effective internal communications occurs within the agency.</p>	<p>Senior management provides a clear message throughout the agency that internal control responsibilities are important and management takes them seriously.</p> <p>Management clearly communicates specific duties to staff members, so they understand the relevant aspects of internal control. This includes how their roles fit the agency mission, and how their work relates to the work of others.</p> <p>Staff members are informed that when the unexpected occurs in performing their duties, they must be not only assess the event, but also the underlying cause. Staff are informed that potential internal control weaknesses must be identified and corrected before they can do further harm to the agency.</p> <p>Communication processes allow the easy flow of information down, across, and up the organization. Communications exist between functional activities, such as between procurement activities and production activities.</p> <p>Staff understands that there will be no reprisals for reporting adverse information, improper conduct, or circumvention of internal control activities.</p> <p>Staff have procedures for recommending improvements in operations and management acknowledges good staff suggestions with meaningful recognition.</p> <p>Management communicates frequently with internal oversight groups, such as senior management councils. Management keeps these groups informed about performance, risks, major initiatives, and any other significant events.</p>		

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
<p>2. Management ensures that effective external communications occur with groups that can have a serious impact on programs, projects, operations, and other activities, including budgeting and financing.</p>	<p>Management has open and effective communication channels with clients, suppliers, contractors, consultants, and others that can provide significant suggestions on quality and design of agency products and services.</p> <p>Management clearly informs all outside parties dealing with the agency of the agency's ethical standards and understands that the agency will not tolerate improper actions.</p> <p>Management encourages communication from external parties, such as Federal agencies, State and local governments, and other related third parties, since these parties may be a source of information on how well internal controls are functioning.</p> <p>Complaints or inquires are welcomed, since they can identify control problems.</p> <p>Management makes certain that the advice and recommendations of auditors and evaluators are fully considered, and that the agency implements actions to correct any problems or weaknesses identified.</p>		
Forms and Means of Communications (IC_3)			
<p>1. Management uses effective methods to communicate with employees and others.</p>			
<p>2. The agency manages its information systems to ensure the usefulness and reliability of the information derived from the systems.</p>	<p>Agency integrates the IT strategic plan with the agency plan to assure:</p> <ul style="list-style-type: none"> • Identifying emerging information needs; • Utilizing advances in IT; • Monitoring the quality of data; and • Committing sufficient resources to IT. 		

V. MONITORING

The last internal control standard is Monitoring. An integral part of the Child Care program is monitoring, which allows the State to examine and evaluate the performance of contract and non-contract providers who provide child care and other related services. This standard provides elements and criteria to gauge the effectiveness of the program. The standard also addresses the effectiveness of audits and other ongoing monitoring activities within the State.

“Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that managers and supervisors know their responsibilities for internal control and the need to make control and control monitoring part of their regular operating processes. Separate evaluations are a way to take a fresh look at internal control by focusing directly on the control’s effectiveness at a specific time. These evaluations may take the form of self-assessment as well as review of control design and direct testing, and may include the use of this Management and Evaluation Tool or some similar device. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and are resolved promptly. Managers and evaluators should consider the appropriateness of the agency’s internal control monitoring and the degree to which it helps them accomplish their objectives. Listed below are factors a user might consider. The list is a beginning point. It is not all-inclusive, and every item might not apply to every agency or activity within the agency. Even though some of the functions and points may be subjective in nature and require the use of judgment, they are important in establishing and maintaining good internal control monitoring policies and procedures.”²

² Government Accountability Office. (August 2001.) *Internal Control Management and Evaluation Tool*. (GAO Publication No. GAO-01-1008G). Washington, DC: U.S. Government Printing Office.

Ongoing Monitoring (M_1)

Elements	Criteria	Documentation (Provide all applicable documentation)	Findings/Results & Suggested Follow-up if Necessary
1. Management ensures effective monitoring and internal control.	The agency’s monitoring includes: <ul style="list-style-type: none"> • Communication to managers regarding their responsibilities for internal control and regular monitoring; and • Periodic evaluation of control activities for critical operational and mission support systems. 		
2. The agency produces reports used to monitor program activities and to identify inaccuracies or other issues requiring follow-up.			

<p>3. Management monitors communications from external partners.</p>	<p>Management investigates customer complaints for potential deficiencies.</p> <p>Management uses communications and reports from external partners as control monitoring techniques.</p> <p>Management uses information from oversight groups about compliance or internal control functions to identify problems requiring follow-up.</p> <p>Management reassesses weak control activities.</p>		
<p>4. Management uses the agency's organizational structure to provide oversight of internal control functions.</p>	<p>Management uses automated edits and checks and other activities for control accuracy and completeness of transaction processing.</p> <p>Management uses separation of duties and responsibilities to help deter fraud.</p>		
<p>5. The agency's internal audit department is available to research and recommend improvements within the internal control structure.</p>			
<p>6. Management meets with staff to receive feedback on effectiveness of internal control.</p>	<p>Management uses information, and feedback concerning internal control from training and planning sessions, and other meetings to address problems or strengthen the internal control structure.</p> <p>Management uses staff suggestions in evaluating the effectiveness of internal controls.</p> <p>Management encourages staff to identify and report internal control weaknesses.</p>		

<p>7. Management uses separate evaluations or audits to review risk assessment results, effectiveness of ongoing monitoring and internal controls.</p>	<p>Management uses separate evaluations and audits to evaluate significant agency or program changes.</p> <p>Management uses qualified staff or external providers to conduct separate evaluations or audits.</p> <p>Management considers risk assessment results and the effectiveness of ongoing monitoring when determining the scope and frequency of evaluations.</p>		
<p>8. Management ensures the effectiveness of evaluation techniques and methodologies used.</p>	<p>The agency's methodologies may include:</p> <ul style="list-style-type: none"> • Self-assessment; • Review of control design; • Direct testing of internal control activities; and • Computer-assisted audit techniques. <p>The agency's evaluation plan is:</p> <ul style="list-style-type: none"> • Coordinated with appropriate parties; • Managed and conducted by qualified staff; and • Well documented. 		
<p>9. If the agency's internal audit department conducts evaluations, the agency should have sufficient resources, ability, and independence.</p>	<p>The internal audit department or like entity has sufficient levels of competent and experienced staff.</p> <p>The internal audit department or like entity is independent and reports to the highest levels within the agency.</p>		
<p>10. Management promptly reports and resolves deficiencies found during evaluations.</p>			

Audit Resolution (M_2)			
<p>1. Management ensures prompt resolution of findings from audits and other reviews.</p>	<p>Managers review and evaluate audit findings, assessments, and other reviews, including those showing deficiencies and those identifying opportunities for improvements.</p> <p>Management determines the proper actions to take in response to findings and recommendations.</p> <p>Management takes corrective action within established time frames to resolve the deficiencies.</p> <p>Management uses consultations with internal and external auditors and other reviewers as appropriate.</p>		
<p>2. Management responds to findings and recommendations of audits and other reviews and takes appropriate follow-up action.</p>	<p>Senior management evaluates findings and recommendations and determines the appropriate actions.</p> <p>Management ensures implementation of changes to internal controls.</p> <p>Senior management reviews periodic reports to ensure the quality and timeliness of resolution decisions.</p>		