

INTERNAL CONTROL PROGRAM

1. PURPOSE

This Directive:

- a. Sets forth the Grain Inspection, Packers and Stockyards Administration (GIPSA) policy for establishing and for maintaining an internal control program that will safeguard GIPSA's resources against theft, fraud, waste, and misuse; ensure the reliability of information; ensure compliance with applicable laws, regulations, and policies; and promote operational economy and efficiency.
- b. Describes the program components and explains how they are essential to GIPSA employees in assessing the effectiveness and adequacy of their internal controls and in determining that the necessary controls exist to achieve maximum efficiency to accomplish GIPSA's mission.
- c. Assigns responsibilities for maintaining internal controls in GIPSA's programs.

2. AUTHORITIES

The basic authority for establishing and maintaining agency controls is the Federal Managers' Financial Integrity Act (FMFIA) of 1982. It requires the head of each agency to establish and maintain internal controls for all agency programs, organizations, and functions. The FMFIA stipulates that accounting systems should conform to Federal accounting standards and related requirements. Lastly, it requires that agency heads annually report the adequacy and effectiveness of their administrative, program, and financial management systems' internal controls.

3. BACKGROUND

The four basic functions of management are usually described as planning, organizing, leading, and controlling. Internal control is what is meant when discussing the fourth function—controlling. Adequate internal controls allow managers to delegate responsibilities to staff and to contractors with reasonable assurance that what they expect to happen, actually does happen. Internal control is an integral part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives, and, in doing so, supports performance-based management systems. Internal control also serves as the first line of defense in

safeguarding assets and in preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps managers achieve their desired results and objectives.

Internal control consists of all the measures taken by an organization to:

- a. Protect its resources against waste, fraud, abuse, misuse, and inefficiency;
- b. Ensure accurate and reliability in accounting and operating data;
- c. Ensure compliance with the policies of the organization; and
- d. Evaluate the level of performance in all units of the organization.

4. POLICY

GIPSA must maintain, at all levels of the organization, an effective checks-and-balances system of program, financial, and administrative control. To be effective, GIPSA's internal control program must:

- a. Assist management to ensure that policies and procedures are implemented accurately and uniformly,
- b. Evaluate operational efficiency and the adequacy of control measures, and
- c. Determine the existence of deficiencies and vulnerabilities that might affect the integrity of GIPSA's programs.

GIPSA's internal control program must not only reduce the risk of waste, fraud, and abuse and mission failure; it must also serve to protect GIPSA from adverse publicity and damage to its reputation.

5. ORGANIZATION ROLES

Every GIPSA employee has a role in implementing GIPSA's internal controls. Internal controls are people-dependent — they are developed by people; they guide people; they provide people with a means of accountability; and people carry them out. The strength of GIPSA's internal controls is dependent upon employees' attitude toward them and their attention to them.

While everyone in GIPSA has the responsibility for ensuring that GIPSA's internal controls are effective, the greatest amount of responsibility rests with GIPSA's managers. They are responsible for integrating activities, plans, attitudes, policies, and efforts of

employees to provide reasonable assurance that GIPSA achieves its mission. Internal controls are the structure, policies, and procedures that are used to ensure that management accomplishes its program objectives.

Internal controls, no matter how well designed and operated, provide managers only reasonable assurance that their programs' objectives are carried out effectively and efficiently. Certain limitations are inherent in all internal control systems. Despite these limitations, the reasonable assurance that internal control does provide enables GIPSA's programs to focus on reaching its objectives while minimizing undesirable events.

6. ELEMENTS OF INTERNAL CONTROL

Determining whether a particular internal control is effective is a judgment resulting from an assessment of the following five components. These control standards define the minimum level of quality acceptable for control systems in a program, system, or operation and constitute the criteria against which systems are to be evaluated. When properly applied in conducting reviews of controls, these standards will assist managers in determining the adequacy of their internal controls.

- a. **Control Environment** is established by GIPSA's executive management team, sets the tone of the organization, and influences the effectiveness of internal controls. Control environment factors include ethical value, integrity, and competence of the people, management's philosophy and operating style, and the structure of the organization.
- b. **Risk Assessment** is the identification, analysis, and management of risks related to GIPSA achieving its goals and objectives. The assessment also forms a basis for determining how the risks should be managed.
- c. **Control Activities** are the policies and procedures that help ensure management's directives are carried out. Control activities usually involve two elements—a policy that establishes what should be done and procedures to affect the policy. Control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.
- d. **Information and Communication** must be identified, captured, and communicated in a form and time frame that enables employees to carry out their responsibilities. Effective communication must occur in a broad sense—flowing down, across, and up through the organization.
- e. **Monitoring** of internal controls is a process that assesses the quality of their performance over time. Ongoing monitoring occurs in the everyday course of operations and includes employees, managers, and supervisors reviewing their activities to assess the quality and effectiveness of their internal controls.

7. REPORTING REQUIREMENTS

USDA requires, pursuant to the FMFIA, that agencies submit an annual statement of assurance (through their Under/Assistant Secretary) to the Chief Financial Officer representing the agency head's informed judgment as to the overall adequacy and effectiveness of internal controls within the agency and whether the agency's financial management system conforms with Governmentwide requirements. The statement must take one of the following forms:

- a. Statement of assurance;
- b. Qualified statement of assurance, considering the exceptions explicitly noted; or
- c. Statement of no assurance.

8. RESPONSIBILITIES

- a. The **Administrator** has the overall responsibility for ensuring that internal control systems are established, maintained, evaluated, improved when necessary, and are reported in accordance with USDA and GIPSA guidelines. Further, the Administrator must:
 - (1) Ensure that the responsibility for establishing and maintaining adequate internal controls is incorporated into each GIPSA manager's performance standards; and
 - (2) Require the prompt reporting of all significant problems that are identified in GIPSA's programs.
- b. The **Deputy Administrators and Office of the Administrator's Staff Directors** are responsible for directing the development and implementation of their programs' internal controls and must:
 - (1) Represent the interest and support of the Administrator in the management and administration of GIPSA's internal control program;
 - (2) Establish policies and procedures to ensure that effective internal controls are in place and are operating efficiently and effectively;
 - (3) Provide for ongoing internal reviews to be conducted of their assigned programs and administrative areas to determine the effectiveness and adequacy of internal controls and compliance with policies and procedures; and

- (4) Submit an annual statement of assurance to the Administrator that reflects the overall adequacy of their programs' internal controls.
- c. The **Director, Management and Budget Services (MBS)**, is GIPSA's Internal Control Officer (ICO) and represents the Administrator in all areas of internal control. MBS is responsible for administering the program, for establishing policies and procedures, and for preparing correspondence and reports on internal control activities. MBS must:
- (1) Ensure that all policies and procedures regarding internal controls are implemented properly;
 - (2) Prepare required reports and correspondence and respond to inquiries regarding internal controls;
 - (3) Report deficiencies and/or vulnerabilities that are identified during the GIPSA review process to the Administrator promptly;
 - (4) Monitor GIPSA programs' action plans when deficiencies and/or vulnerabilities are identified to ensure their prompt resolution.
- d. **Division Directors, Regional Directors, Field Office Managers, and Branch/Staff Chiefs, must:**
- (1) Review and evaluate their programs' and activities' internal controls on an ongoing basis to determine their effectiveness and adequacy;
 - (2) Report deficiencies and/or vulnerabilities that are identified during the review process promptly to Federal Grain Inspection Service or Packers and Stockyards Program management;
 - (3) Initiate changes whenever program deficiencies are found;
 - (4) Maintain adequate controls of their assigned programs to ensure the accuracy and reliability of information;
 - (5) Ensure compliance with statutory requirements and GIPSA policies and procedures; and
 - (6) Safeguard resources and promote operational efficiency and economy in their assigned programs.

9. INQUIRIES

- a. Direct inquiries regarding the GIPSA Internal Control Program to the GIPSA Internal Control Officer, Management and Budget Services, at 202-720-8087.
- b. This Directive is available on the Internet at <http://www.aphis.usda.gov/library/gipsa/GIPSA.shtml>

/s/ Larry Mitchell

Administrator