



USAID
FROM THE AMERICAN PEOPLE

ADS Chapter 596

Management's Responsibility for Internal Control

Partial Revision Date: 08/08/2012
Responsible Office: M/CFO/APC
File Name: 596_080812

Functional Series 500 – Management Services
 ADS 596 – Management’s Responsibility for Internal Control
 POC for ADS 596: Gloria White, (202) 567-5254, gwhite@usaid.gov

Table of Contents

<u>596.1</u>	<u>OVERVIEW</u>	<u>3</u>
<u>*596.2</u>	<u>PRIMARY RESPONSIBILITIES</u>	<u>3</u>
<u>*596.3</u>	<u>POLICY DIRECTIVES AND REQUIRED PROCEDURES</u> .	<u>8</u>
<u>*596.3.1</u>	<u>Establishing Internal Controls</u>	<u>8</u>
<u>*596.3.2</u>	<u>Assessing the Adequacy of Internal Controls</u>	<u>11</u>
<u>596.3.3</u>	<u>Management Control Review Committee (MCRC)</u>	<u>12</u>
<u>596.3.3.1</u>	<u>Agency MCRC (USAID/W)</u>	<u>13</u>
<u>*596.3.3.2</u>	<u>Agency Senior Assessment Team (SAT) (USAID/W)</u>	<u>13</u>
<u>596.3.3.3</u>	<u>Mission MCRC</u>	<u>13</u>
<u>*596.3.4</u>	<u>Corrective Action Plans</u>	<u>13</u>
<u>*596.3.5</u>	<u>Assessable Unit Reporting</u>	<u>14</u>
<u>*596.3.5.1</u>	<u>Bureau/Independent Office Certification</u>	<u>15</u>
<u>596.3.5.2</u>	<u>Agency Management Control Review Committee (MCRC) Review of Deficiencies</u>	<u>15</u>
<u>*596.3.6</u>	<u>The Administrator’s Report on Management’s Responsibility for Internal Control</u>	<u>16</u>
<u>*596.3.7</u>	<u>Evaluation of Staff Performance on Internal Control Responsibilities</u>	<u>17</u>
<u>*596.4</u>	<u>MANDATORY REFERENCES</u>	<u>17</u>
<u>596.4.1</u>	<u>External Mandatory References</u>	<u>17</u>
<u>*596.4.2</u>	<u>Internal Mandatory References</u>	<u>18</u>
<u>*596.5</u>	<u>ADDITIONAL HELP</u>	<u>18</u>
<u>*596.6</u>	<u>DEFINITIONS</u>	<u>19</u>

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

ADS 596 – Management’s Responsibility for Internal Control

596.1 OVERVIEW

Effective Date: 08/01/1997

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

*596.2 PRIMARY RESPONSIBILITIES

Effective Date: 08/08/2012

a. The Administrator

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

b. The Deputy Administrator

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

c. The Chief Operating Officer

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

*d. The Agency Management Control Review Committee (MCRC)

- Includes the Chief Financial Officer, the Senior Procurement Executive, the Chief Information Officer, and the managers of other functional offices;
- Assesses and monitors deficiencies in internal control;

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- Identifies and ensures correction of systemic weaknesses relating to their respective functions;
- Accepts or rejects recommendations from the Senior Assessment Team (SAT) committee members;
- Recommends to the agency head which deficiencies are deemed to be material weaknesses to the agency as a whole, and should therefore be included in the annual Federal Managers' Financial Integrity Act (FMFIA) assurance statement and reported in the agency's Agency Financial Report (AFR);
- Oversees the timely implementation of corrective actions related to material weaknesses and reported significant deficiencies and declares that a significant deficiency or material weakness has been corrected;
- Serves as a policymaking body in internal control and audit matters;
- Reviews and approves the Agency's strategy, policies, and procedures for governing internal control activities;
- Provides oversight for the identification, correction, and reporting of internal control and audit deficiencies;
- Ensures that senior staff effectively manage audit follow-up responsibilities (See [ADS 595, Audit Management Program](#)); and
- Participates in meetings, to be held at least semi-annually.

***e. The Senior Assessment Team (SAT)**

- Serves as a subset of the Agency MCRC, providing oversight to the assessment of internal controls, with emphasis on internal controls over financial reporting, as required by Appendix A of [OMB Circular A-123](#);
- Ensures that the [OMB Circular A-123 Appendix A](#) assessment objectives are clearly communicated throughout the Agency and that the assessment is carried out in a thorough, effective, and timely manner in accordance with the [Implementation Guide for OMB Circular A-123 Appendix A, "Internal Control over Financial Reporting"](#);

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- Identifies and ensures that adequate funding and resources are made available for the assessment of internal controls over financial reporting; and
- Determines the scope, design, and methodology of the Appendix A assessment
- Documents its understanding of the Agency's internal control over financial reporting. The form and extent of documentation depends in part on the nature and complexity of the agency's controls, the more extensive and complex the controls, the more extensive the documentation. Documentation may be electronic, hard copy format, or both and be readily available for examination.

*See [596mab, Management Control Review Committee \(MCRC\) Charter](#).

f. The Chief Financial Officer (CFO)

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

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

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

- Serves as the executive secretariat and support staff for the Agency MCRC,
- Develops and maintains agency policies and procedures on management's responsibility for internal control and audit management,
- Provides guidance on conducting periodic risk assessments,
- Provides guidance on assessing the adequacy of internal controls,
- Provides instructions for annually reporting the status of internal controls,

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- Consolidates and analyzes FMFIA certifications to ensure control issues are brought to the attention of the next level of management,
- Monitors the progress of actions to correct deficiencies in internal controls to ensure timely and effective results,
- Prepares the Agency's [Federal Managers' Financial Integrity Act](#) report as a part of the annual [Agency Financial Report \(AFR\)](#), and
- Provides guidance to Bureaus, independent offices, and Missions to facilitate the completion of final action on audit recommendations (See [ADS 595, Audit Management Program](#)).

i. The Office of Inspector General (OIG)

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

***j. Assessable Units**

- Appoint an Internal Control [Coordinator](#) who oversees and coordinates [internal](#) control issues within the organizational unit;
- Conduct periodic risk assessments of operations;
- Continuously perform internal control assessments in accordance with instructions issued by M/CFO/APC, identifying deficiencies in operations and in the implementation of programs;
- Develop corrective action plans to address deficiencies and track the progress of corrective actions to ensure timely and effective results; and
- Report annually on the status of weaknesses identified during internal control reviews and daily operations.

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

***k. Internal Control Coordinator**

- Officially designated by the assessable unit head
- Responsible for ensuring the FMFIA certification process is performed in accordance with FMFIA Guidance and ADS

l. Agency Managers

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

m. USAID/W Bureaus and Independent Offices

- Review and coordinate subordinate units' annual certifications for internal controls, and
- Consolidate the annual FMFIA certification for the B/IO using information submitted by subordinate units and their own assessable unit information.

n. Automated Directives System (ADS) Author Offices

- Develop, update, clear, and continuously maintain specific Agency policy directives and required procedures; and

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- Determine the need for additional or revised policy directives and required procedures based on identified internal control deficiencies or legislative, regulatory, or policy changes (see [ADS 501, The Automated Directives System \(ADS\)](#)).

***596.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

***596.3.1 Establishing Internal Controls**

Effective Date: 08/08/2012

*Agencies and individual Federal managers must take systematic and proactive measures to:

- Develop and implement appropriate, cost-effective internal control for results-oriented management;
- Assess the adequacy of internal control in Federal programs and operations;
- Separately assess and document internal control over financial reporting consistent with the process defined in Appendix A;
- Identify needed improvements;
- Take corresponding corrective action; and
- Report annually on internal control through management assurance statements.

*USAID managers and staff must develop and implement appropriate, cost-effective internal controls that produce results and assure the financial integrity of transactions. All personnel within the Agency have important roles in developing and executing internal control. The internal controls must reasonably ensure: (See [GAO Standards for Internal Controls in the Federal Government](#))

- Effectiveness and efficiency of operations including the use of the Agency's resources,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations.

*Financial controls must reasonably assure that:

- Obligations and costs comply with applicable laws and regulations;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures are properly recorded and accounted for; and

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- Government liabilities are properly stated in the financial statements.

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

- *a. Control Environment:** Management and employees must establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.
- *b. Risk Assessment:** Internal control must provide for an assessment of the risks the Agency faces from both external and internal sources. Risk assessment is the identification and analysis of risks **relevant** to achieving Agency objectives, and determining how to manage those. Therefore, a precondition to risk assessment is the establishment of clear, consistent Agency objectives. Once risks have been identified, they must be analyzed by the responsible officials (Agency managers). Analysis includes the following:
 - Estimating the risk's significance (**high, medium or low**),
 - Assessing the likelihood of its occurrence, and
 - Deciding how to manage the risk and the actions to be taken.

(See [ADS 596mac, Risk Assessment Guide](#) for **required** guidance.)

- *c. Control Activities:** Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.

Internal control also needs to be in place over information systems—general and application control. General control applies to all information systems such as the mainframe, network and end-user environments, and includes agency-wide security program planning, management, control over data center operations, system software acquisition and maintenance. Application control should

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks. General and application control over information systems are interrelated; both are needed to ensure complete and accurate information processing. Due to the rapid changes in information technology, controls must also adjust to remain effective.

Internal control activities help ensure that management directives are carried out. The control activities must be effective and efficient in accomplishing the Agency's control objectives. Control activities occur at all levels and functions of the Agency and are an integral part of the Agency's planning, implementing, reviewing and accountability for stewardship of USAID resources and achieving effective results. Control activities include:

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

***d.** Information and Communication: Information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it. Examples include: receiving updated guidance from central oversight agencies; management communicating requirements to the operational staff; operational staff communicating with the information systems staff to modify application software to extract data requested in the guidance.

Assessable units must record and communicate information on their internal control activities to the next level of management and others within the organization, as appropriate. The information must be presented in a form and within a timeframe that enables management to carry out its internal control and other responsibilities.

- *e.** Monitoring: Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

Deficiencies found in internal control should be reported to the appropriate personnel and management responsible for that area. Deficiencies identified, whether through internal review or by an external audit, should be evaluated and corrected. A systematic process should be in place for addressing deficiencies.

Assessable units' monitoring of internal control must evaluate the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

***596.3.2 Assessing the Adequacy of Internal Controls**

Effective Date: 08/08/2012

Using a variety of information sources, USAID managers and staff must continuously assess and improve the effectiveness of internal controls for the Agency's programs and operations. Sources include, but are not limited to,

- a.** Management knowledge gained from the daily operation of Agency programs and systems;

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- *b. Management reviews conducted for the purpose of assessing internal controls or for other purposes with the assessment of internal controls as a by-product (see [ADS 596sab, Internal Control Tool Exhibits](#));
- c. OIG and Government Accountability Office (GAO) reports, including audits, inspections, reviews, investigations, and similar products;
- d. Program evaluations;
- e. Audits of financial statements conducted pursuant to the [CFO Act of 1990](#), as amended, including information revealed in preparing the financial statements; the auditor's report on the financial statements, internal control, and compliance with laws and regulations; and, any other materials relating to the statements;
- f. Reviews of financial systems and applications conducted pursuant to the [Federal Financial Management Improvement Act of 1996](#) and [OMB Circular A-127, Financial Management Systems](#);
- g. Evaluations and reports pursuant to the [Federal Information Security Management Act \(FISMA\)](#) and [OMB Circular A-130, Management of Federal Information Resources](#);
- *h. Annual performance plans and reports pursuant to the [Government Performance and Results Modernization Act of 2010](#)
- i. Annual reviews and reports required by the [Improper Payments Elimination and Recovery Act of 2010](#);
- j. Other financial and performance audit reports;
- k. Reports and other information provided by Congressional committees; and
- l. Other reviews relating to Agency operations.

596.3.3 Management Control Review Committee (MCRC)

Effective Date: 08/01/1997

The Agency must establish an MCRC to provide oversight for the Agency's audit and internal control processes.

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

596.3.3.1 Agency MCRC (USAID/W)

Effective Date: 08/01/1997

The Agency's MCRC convenes at least semi-annually to assess internal controls and monitor deficiencies and progress towards corrective actions.

The Deputy Administrator chairs the Committee, which also includes the Bureau assistant administrators, independent office directors, and selected business process leaders. (See [596mab, Management Control Review Committee \(MCRC\) Charter](#) for more information.)

A consensus, as determined by the MCRC chair or vice chair, will decide most issues. When a consensus cannot be reached, the MCRC members will decide an issue by a vote. A quorum of members (a simple majority) must be present to hold a vote.

***596.3.3.2 Agency Senior Assessment Team (SAT) (USAID/W)**

Effective Date: 08/08/2012

The Senior Assessment Team (SAT) is a subset of the MCRC which oversees the assessment of internal controls, with an emphasis on internal controls over financial reporting. In particular, it considers and makes recommendations to the MCRC based on the results of the FMFIA certification process and the OMB Circular A-123 testing. It also determines the scope, design, and methodology of the OMB Circular A-123, Appendix A assessment, in accordance with the [Implementation Guide for OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting."](#)

The USAID Chief Financial Officer serves as the Chairperson.

596.3.3.3 Mission MCRC

Effective Date: 10/09/2007

Each USAID Mission must establish an MCRC to oversee the Mission's audit and internal control processes.

The Mission Director determines the composition of the Mission MCRC and ensures that meetings are conducted at least semi-annually.

***596.3.4 Corrective Action Plans**

Effective Date: 08/08/2012

Assessable units must develop corrective action plans for identified internal control deficiencies. Bureaus, Independent Offices and Missions must enter the certification and related corrective action plans into the Consolidated Audit and

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

Compliance System (CACS) application. The units must periodically assess their progress against the plans and report it to the next management level.

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

In the case of cognizant managers, they must track the progress of the action plans to ensure timely and effective results. It is the responsibility of the **agency** managers to determine whether a deficiency has been corrected by considering the sufficiency of the corrective actions and of the results achieved.

The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC) must monitor the **corrective action plans and closure thereof** for material weaknesses and significant deficiencies. M/CFO/APC must also keep the MCRC informed of the progress towards implementing these actions.

For more information, see AID form 596-1, Corrective Action Plan [Note: This form is only available on the USAID intranet Forms Page.]

***596.3.5 Assessable Unit Reporting**
Effective Date: 08/08/2012

To support the Administrator's annual Statement of Assurance, per the **Federal Managers' Financial Integrity Act (FMFIA)**, each assessable unit must provide an annual certification, to the next management level, on the overall adequacy and effectiveness of its internal controls. Each assessable unit must consider information from the sources described in **596.3.2** in assessing the status of controls.

The certification must include:

- a. A statement on whether there is reasonable assurance that internal controls are achieving their intended objectives;
- b. A description of control deficiencies that are significant in the design or operation of internal control, and which could adversely affect the assessable unit's ability to meet its internal control objectives. Categorize these deficiencies as significant and have USAID managers internally track and monitor them; and
- c. Corrective action plans and accompanying target completion dates, and realistic milestones for significant deficiencies.

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

The Agency encourages its managers and staff to identify control deficiencies, as this not only reflects positively on the Agency's commitment to recognize and address management problems, it also promotes good government practices with its emphasis on accountability and effectiveness.

*Assessable units must maintain documentation supporting management considerations and determinations in support of the annual certification so that it can be made easily accessible and available for management reviews and audits.

***596.3.5.1 Bureau/Independent Office Certification**

Effective Date: 08/08/2012

Assistant administrators and independent office directors must review certifications submitted by subordinate assessable units to

- Determine the relative importance of each deficiency identified, and
- Determine whether identified deficiencies are of such significance that they should be included in the B/IO certification to the Administrator. Internal control deficiencies that are classified as material weaknesses or significant deficiencies must be included in the certification.

In the case of a material weakness or significant deficiency, each assistant administrator and independent office director must submit a certification to the Administrator that indicates such a deficiency, using the format described in 596.3.5.

596.3.5.2 Agency Management Control Review Committee (MCRC) Review of Deficiencies

Effective Date: 08/01/1997

The MCRC must review the deficiencies reported by assistant administrators and independent office directors. The MCRC must then recommend to the Administrator which deficiencies are deemed to be material to the Agency as a whole and must be reported as material weaknesses in the annual [Federal Managers' Financial Integrity Act \(FMFIA\)](#) Statement of Assurance and the AFR.

The MCRC determines whether a significant deficiency is also an Agency material weakness by considering whether the deficiency demonstrates the following characteristics:

- a. Significant impairment in the Agency's ability to achieve its objectives;

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

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

In identifying and assessing the relative importance of significant deficiencies, consideration must be given to the views of the Inspector General.

Finally, the MCRC should carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines.

***596.3.6 The Administrator's Report on Management's Responsibility for Internal Control**

Effective Date: 08/08/2012

M/CFO/APC prepares the Administrator's report on management assurances (based on the Administrator's approval of MCRC decisions) for the annual AFR. The report must encompass program, operational, and administrative areas, as well as accounting and financial management. The report must include the following:

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

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

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

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

*Annually, the Administrator must also extend the assurances on internal control to include a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and corrective actions. Significant deficiencies may be reported in the AFR at the Administrator's discretion.

***596.3.7 Evaluation of Staff Performance on Internal Control Responsibilities**

Effective Date: 08/08/2012

*It is recommended that job descriptions clearly indicate the degree of authority and accountability delegated to each position and the responsibilities assigned. Job descriptions and performance evaluations contain specific references to internal control-related duties, responsibilities, and accountability. Further, it is recommended that job descriptions and performance evaluations contain specific references to internal control-related duties, responsibilities, and accountability.

***596.4 MANDATORY REFERENCES**

596.4.1 External Mandatory References

Effective Date: 08/08/2012

- a. [Federal Managers' Financial Integrity Act \(FMFIA\) of 1982 \(Pub. L. 97-255\)](#)
- *b. [Improper Payments Elimination and Recovery Act of 2010](#)
- c. [American Recovery and Reinvestment Act of 2009](#)
- *d. [OMB Circular A-123, Management's Responsibility for Internal Control](#)
- *e. [OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Implementation Guide](#)

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- *f. [OMB Circular A-123, Management's Responsibility for Internal Control, Appendix B, Improving the Management of Government Charge Card Programs](#)
- *g. [OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments Parts I and II](#)
- *h. [OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments Part III](#)
- *i. [OMB Circular A-123, Management's Responsibility for Internal Control, Memorandum, Conducting Acquisition Assessments](#)
- j. [Open Government Directive – Framework for the Quality of Federal Spending Information](#)
- *k. [GAO Standards for Internal Control in the Federal Government \(Green Book\)](#)
- *l. [GAO Internal Control Management and Evaluation Tool](#)

***596.4.2 Internal Mandatory References**
Effective Date: 08/08/2012

- a. [ADS 501, The Automated Directives System \(ADS\)](#)
- b. [ADS 590, Audit](#)
- c. [ADS 595, Audit Management Program](#)
- d. [ADS 596mab, Management Control Review Committee \(MCRC\) Charter](#)

***e. [ADS 596mac, Risk Assessment Guide](#)**

596.4.3 Mandatory Forms
Effective Date: 08/08/2012

- a. **AID 596-1 Form, FMFIA Corrective Action Plan [Note: This form is only available on the USAID intranet Forms Page]**

***596.5 ADDITIONAL HELP**
Effective Date: 08/08/2012

***a. [Internal Control Tool Exhibits](#)**

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

- b. [Chief Financial Officer's \(CFO\) Act of 1990, Public Law 101-576](#)
- c. [Federal Financial Management Improvement Act of 1996 \(FFMIA\), Public Law 104-208](#)
- d. [OMB Circular A-127, Financial Management Systems](#)
- e. [Federal Information Security Management Act of 2002 \(FISMA\), Public Law 107- 347](#)
- f. [OMB Circular A-130, Management of Federal Information Resources](#)
- *g. [Government Performance and Results Modernization Act of 2010](#)
- *h. [Committee of Sponsoring Organizations of the Treadway Committee \(COSO\) framework](#)

***596.6**

DEFINITIONS

Effective Date: 08/08/2012

***Agency Financial Report (AFR)**

An alternative to the Performance and Accountability Report as allowed by OMB Circular A-136. Together, the AFR, the Annual Performance Report, and the Summary of Performance and Financial Information provide performance and financial information that enables Congress, the President, and the public to assess the performance of a Federal agency relative to its mission and the stewardship of the resources entrusted to it. (**Chapter 596**)

Agency Management Control Review Committee (MCRC)

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

assessable unit

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

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

***Consolidated Audit and Compliance System (CACs)**

A worldwide Web-based management information system which 1) provides for a repository of information, including FMFIA certifications, validity of obligations and review of unexpended balances certifications, and audit-related documentation that can be accessed and/or updated worldwide and 2) is used to track actions, the status of FMFIA material weaknesses and deficiencies, OIG management and performance challenges, A-123 and audit recommendations, and corrective action plans; submit requests for final action (closure); upload supporting documentation; and print reports. (Chapters [591](#), [593](#), 596, [621](#))

control deficiency

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

control environment

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

corrective action plan (CAP)

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

internal controls

The organization, policies, procedures, and tools used to reasonably ensure that (a) programs achieve their intended results; (b) resources are used in accordance with the Agency's mission; (c) programs and resources are protected from waste, fraud, and mismanagement; (d) laws and regulations are followed; and, (e) reliable and timely information is obtained, maintained, reported, and used for decision making. ([OMB Circular A-123](#))

internal control coordinator

(This replaces the former term "management control official")

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

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

internal control standards

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

management accountability

The expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, mitigating adverse aspects of Agency operations, and assuring that problems are managed with integrity and in compliance with applicable law. (**Chapter 596**)

Management Control Review Committee (MCRC)

A group of senior officials at the mission, bureau, or independent office level who provide oversight and assistance to the management control program and audit management issues. (Chapter [595](#))

material weakness

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

Financial reporting: A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected. Material weaknesses in internal control over financial reporting must be included in the annual FMFIA report, but separately identified ([OMB Circular A-123](#)). (**Chapter 596**)

nonconformance

Instances in which financial management systems do not substantially conform to established financial systems requirements. Financial management systems include both financial and financial-related (mixed) systems. ([FMFIA Section A, OMB Circular A-123](#)) (**Chapter 596**)

risk assessment

An internal management process for identifying, analyzing, and managing risks relevant to achieving the objectives of safeguarding assets, compliance with

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*

relevant laws and regulations, and reliable financial reporting. ([OMB Circular A-123](#)) (Chapter 596)

significant deficiency

(This replaces the former term “reportable condition”)

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

***Financial reporting:** A control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected ([OMB Circular A-123](#)). (Chapter 596)

596_080812

**An asterisk and yellow highlight indicate that the adjacent material is new for this chapter or substantively revised.*