

KEY INTERNAL CONTROL TERMS

Alternative Internal Control Review (AICR) - AICRs are evaluations of controls over areas of activities of a component which have the highest potential for ineffective or inefficient operation or loss of government resources. Examples of AICRs include bureau internal studies and management reviews, Government Accountability Office (GAO) and Office of Inspector General (OIG) audits, A-130 information technology security and application reviews, and the Government Performance and Results Act (GPRA) annual assessments.

Annual Assurance Statement - An annual statement required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) that represents the Secretary's informed judgment as to the overall adequacy and effectiveness of internal controls within the Department. The statement reports the results of evaluations made on the Department's systems of programs, financial reporting, IT systems, and administrative controls including any material weaknesses and/or material non-conformances identified during the fiscal year. Also, updates of corrective action progress made on existing material weaknesses/deficiencies and material non-conformances are included in the statement. The Department's annual assurance statement is included in the Department's Annual Performance and Accountability Report. This statement is generally based on a fiscal year, October 1 through September 30.

Annual Assurance Statement on Internal Control over Financial Reporting - An annual statement, as of June 30, that represents the Secretary's informed judgment as to the effectiveness of internal control over financial reporting. This statement is a subset of and in addition to the FMFIA assurance statement. Each bureau will be required to prepare this statement regarding their respective bureaus effectiveness of internal control over their financial reporting. This statement is generally based on a July 1 through June 30 timeframe.

Assessment Team – Staff and/or contractors designated by the bureau/office to perform financial and program internal control review assessments.

Bureau's Annual Assurance Statement - An annual statement which summarizes, as of September 30, a bureau's compliance with the requirements of the FMFIA which relates to financial reporting and program internal control. This statement is submitted through the bureau's assistant secretary to the Secretary. The statements are provided to the Office of Financial Management (PFM) for consolidation into a Departmental assurance statement which is included in the Department's Annual Performance and Accountability Report (PAR).

Bureau Annual Assurance Statement on Internal Control and Financial Reporting - An annual statement, as of June 30, that represents the Bureau/Office Director's informed judgment as to the effectiveness of internal control over financial reporting. This statement is a subset of and in addition to the FMFIA assurance statement. Each bureau will be required to prepare this statement regarding their respective bureaus/office effectiveness of internal

control over their financial reporting. This statement is generally based on a July 1 through June 30 timeframe

Combined Risk - The likelihood that a material misstatement would occur (inherent risk) and not be prevented or detected on a timely basis by the agency's internal control (control risk).

Component - A major program, administrative activity, organization, or functional subdivision of a bureau or office that requires one or more separate systems of internal controls. Examples of program components are the Federal Aid Program, Concessions Management, Wilderness Management, and Royalty Management. Examples of administrative components are Acquisition Management, Property Management, Travel, Facilities Management, and Automated Information Systems Security.

Control - Documented activities, policies, and procedures that help the organization meet its objectives, attain its goals, and accomplish its mission.

Control Objectives - Established goals or standards for reducing or eliminating potential risks which should be met to ensure that a component's mission and functions and GPRA goals and measures are accomplished. Control objectives also help identify and evaluate controls. Control objectives differ from overall component objectives in that they are directly related to the specific activities or processes necessary to achieve the component's objectives. Examples of control objectives are: (1) Assuring that Indian Child Welfare Assistance programs are effectively and efficiently managed; (2) protecting public lands from damage due to unauthorized use; and (3) assuring that research efforts focus on priority research needs.

Control Risk - The risk that misstatements will not be prevented or detected by the agency's internal control (assessed separately for each significant financial statement assertion in each significant cycle of accounting application).

Control Systems - The organizational structure, operational procedures, and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out in accordance with the objectives of the FMFIA.

Control Techniques - The management processes and documents necessary to accomplish the control objectives or to reduce risks to acceptable levels. Control techniques tell us how we will accomplish the risk reduction or elimination. Examples of control techniques include passwords to limit access to databases, written delegations of authority, documentation of processes and procedures for carrying out financial, program, and administrative activities, periodic supervisory reviews, comparisons of actual results to planned results, and segregation of sensitive duties among several individuals.

Corrective Action - Actions needed to address a weakness and/or close an external recommendation.

Corrective Action Plan (CAP) - Statement of the corrective actions related to a weakness or recommendation, to include a responsible official, milestones toward completion of the action, metrics which measure progress and remediation, and dates when these milestones will be addressed. CAPs are to be maintained by the organization and the status is to be reported as directed.

Departmental Functional Reviews (DFRs) - The evaluation of functional activities generic to bureaus and offices. Examples of DFRs include Property Management, Acquisition Management, Administrative Control of Funds, Information Technology Security, and Travel. Evaluation guidelines are issued by the various policy offices within the Department's Office of Policy, Management and Budget (PMB).

Documentation - Documentation is a written explanation that describes the subject so that an independent third party can understand it. Documentation includes explanations of program mission and functions, component control techniques, summary of the steps taken in conducting an internal control review, and the operation of a financial system.

Evaluation - The process of examining a system, process, or component to determine the extent to which specified properties are present, and the report that is generated by the entity that is performing the examination.

Event Cycle - A series of related steps that constitute a distinct and separate process or activity within a component. These steps or processes are connected by significant starting and finishing points. Each cycle helps fulfill the goals of the component, such as the planning or budgeting event cycle for any program component.

Fraud Risk - The risk that there may be fraudulent financial reporting or misappropriation of assets that causes a material misstatement of the financial statements.

Inherent Risk - The susceptibility of an assertion to misstatement, assuming there are no related specific control activities. Inherent risk factors include: The nature of the agency's programs, transactions and actions and whether the agency had significant audit findings.

Internal Control - An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Internal Control Coordinator - The individual designated by the bureau head of program Assistant Secretary to coordinate and facilitate compliance with the FMFIA and relevant guidance issued by the Office of Financial Management, the Office of Property and Acquisition Management, the Office of Chief Information Officer, and other policy offices within PMB.

Internal 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.

Internal Control Reviews - Evaluations of controls over all significant areas or activities of a component.

Key Controls - Are those controls designed to meet the Department's control objectives and address management's financial statement assertions for material activity. Management relies upon these controls to prevent and detect material errors and misstatements.

Material Weaknesses: Financial reporting - Reportable condition, or combination of reportable conditions, 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: FMFIA overall - Reportable conditions in which the agency head determines to be significant enough to report outside of the agency

Non-conformance - A condition in which financial management systems do not substantially conform to financial systems requirements. Financial management systems include both financial and financially-related (or mixed) systems.

Nonmaterial weaknesses - Control problems that can be corrected at the bureau level without the approval or attention of the next higher level of management.

Priority Risk Ranking - The risk value of high, medium, or low assigned to a component that provides the basis for determining the appropriate nature, scope, and frequency of internal control evaluations.

Quality Control - A system for verifying and maintaining a desired level of quality in a process by careful planning, continued inspection, and corrective action, when required.

Reasonable Assurance - A judgment based upon all available information that the systems of internal controls are operating in accordance with the FMFIA.

Recommendation - Statements from an entity outside of the organization that detail courses of actions to address a weakness.

Reportable Condition: Financial reporting - A control deficiency, or combination of control deficiencies, that adversely effects 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.

Reportable Condition: FMFIA overall - A control deficiency or combination of control deficiencies that in management's judgment should be communicated because they represent significant weaknesses/deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives.

Risk Assessment - Management's identification of events, procedures, or regulations that may prevent the organization from meeting its objectives. The various types of risk which may be identified are: inherent, control, combined, and/or fraud.

Senior Management Council – Within the Department, the responsibilities of the Senior Management Council are implemented by its Internal Control and Audit Follow-up Council which is chaired by the Assistant Secretary-PMB and is comprised of all program assistant secretaries, the Solicitor, the Inspector General (ex officio), Deputy Assistant Secretary for Business Management and Wildland Fire, the Chief Information Officer, and Senior Procurement Executive. The Council provides senior-level oversight of the Internal Control and Audit Follow-Up programs, resolves issues related to both programs, and decides reporting issues for the PAR. Specifically, the council will:

- Ensure Department's commitment to an appropriate internal control environment;
- Approve Department's implementation plan for assessing and reporting on internal controls over financial reporting;
- Assess and monitor correction of deficiencies in internal control;
- Identify and ensure correction of systemic weaknesses/deficiencies;
- Review and approve management's annual assertion on effectiveness of internal controls over financial reporting;
- Recommend to the Assistant Secretary-PMB which control deficiencies are material to disclose in the annual FMFIA Assurance Statement and PAR;
- Oversee implementation of corrective actions related to material weaknesses/deficiencies; and
- Determine when sufficient action has been taken to declare a reportable condition or material weakness corrected.

Senior Assessment Team – The duties of the Senior Assessment Team as defined in Circular A-123, revised, are assigned to the Department's Management Initiatives Team (MIT) which is chaired by the Assistant Secretary-PMB and comprised primarily of Deputy Assistant Secretaries and Bureau Deputy Directors. Duties of the MIT in implementing the Circular are to:

- Ensure assessment objectives are clearly communicated throughout the agency;
- Ensure adequate funding and resources are made available to comply with the new requirements of the Circular;
- Ensure assessments are planned, conducted, documented and reported upon in a thorough, effective, and timely manner;
- Identify staff and/or secure contractors to perform assessments;
- Determine the scope of assessments and materiality thresholds in accordance with the new requirements of the revised Circular; and

- Determine or approve assessment design and methodology for each entity and the Department.

Testing - Verifying the effectiveness of controls in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. Testing may take several forms including document analysis, transaction testing, observation, or interview.

Weakness - An organization's inability to fulfill a responsibility or fully realize the benefit of a control. Weaknesses may be identified internally through self-examination or by an external organization and stated as a 'Recommendation'. Depending on the severity (see material weakness), it may be reported to the next level of management. Each material weakness requires a corrective action plan.