SECTION 1
CHAPTER 3
CONDUCTING INTERNAL CONTROL ASSESSMENTS

The second step in the Internal Control Process is conducting internal control assessments. All control evaluations require appropriate tests of controls in operation. There are two types of control evaluations: Alternative Internal Control Review (AICR) and Internal Control Review (ICR). Bureaus are encouraged to use the DOI automated assessment approach to review a component's controls; this approach is considered an AICR and is discussed further in the chapter (examples of an automated assessment approach and traditional AICR are included at the end of this chapter).

Differences Between AICRS and ICRS

AICRs are preferred over ICRs since they are generally less paper intensive and more cost effective and efficient; however, for high risk areas, an ICR must be used. The differences between an AICR and an ICR are in the focus of testing and documentation. Generally, the AICR documents only a specific subset of controls areas while the ICR documents controls in a component. Consequently, the AICR analysis focuses on documenting the control techniques in place for control of high risk components. Because of its limited scope, the AICR does not require a detailed description of a component's event cycles and analysis of the related control objectives. Since the ICR requires a description of all event cycles and analysis of control objectives and techniques, testing becomes much more involved. The differences can be seen by comparing the individual steps of AICRs and ICRs as shown in this chapter.

Similarities

AICRs and ICRs have the same goal: Assessing a component's control system effectiveness. Both types of reviews should answer the following questions.

- Does the component have clear objectives?
- Do the control systems provide reasonable assurance of meeting the objectives?
- Are there any control systems weaknesses?
- Have the weaknesses caused any problems?
- What actions, if any, are necessary to improve controls?

AICRs and ICRs also share common elements. Both types of reviews consist of the following steps:

1. Identifying what might go wrong (risk)
2. Comparing control systems to the GAO control standards
3. Testing control techniques
4. Documenting the evaluation
5. Planning corrective actions

6. Reporting the results

Identifying risk was discussed in Chapter 2. The remaining common elements will be discussed in Addendum A, "Conducting AICRs."

Departmental Functional Reviews (DFRs) are evaluations of function activities generic to bureaus and offices. Examples of DFRs include Acquisition Management, Security and Cash Management, etc. Evaluation guidelines are issued by the responsible PMB office after PFM review and are part of the Internal Control Plan for the bureau.

Automated Assessment Approach

The automated assessment approach is based on the results of an Internal Control Re-Engineering Laboratory conducted by the Department in 1996. The Laboratory developed a new automated, less resource-intensive approach for targeting and conducting internal control assessments. The automated assessment approach is built around eight management integrity measures that support the general and specific internal control standards outlined in OMB's Circular A-123, "Management Responsibility for Internal Control," and GAO's "Standards for Internal Control in the Federal Government." A unique feature of the automated assessment approach is that it provides for identifying areas of both potential material deficiencies and best practices. The assessment is performed electronically using an off-the-shelf surveying and analytical software tool (Survey Tracker) that provides diagnostic and executive-level reporting. The results of the survey questionnaire and responses are analyzed by the software and a graphical summary report known as a "spider diagram" is produced using MSExcel. The "spider diagram" presents the actual assessment against a Departmental standard for each management integrity measure. The eight integrity measures are:

Organizational Control Environment**.** The objective of this measure is to ensure that an organization's goals, objectives, policies, and procedures are conducive to achieving sound internal controls, and that the organization places a high level of importance on management integrity and ethics. The organizational control environment sets the tone for and influences the internal control consciousness of its employees. It also provides the foundation for the internal control structure. Organizational control environment factors include the integrity, ethical values, and competence of employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; planning, budgeting, accounting and reporting; and the direction provided by senior management.

Risk Management**.** The objective of the risk management measure is to ensure that an organization identifies, assesses, and considers the consequences of events that could prevent the achievement of its goals and objectives, and result in significant loss of resources. Every organization faces a variety of risks from external and internal sources and changes in its operating environment. These risks should be continuously monitored and assessed.

Fiscal Resources Stewardship**.** The objective of this measure is to ensure resources are safeguarded and managed in a manner consistent with the mission of the organization. Access to resources should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

Program Effectiveness**.** The objective of this measure is to ensure that management plans and allocates sufficient resources to programs to achieve intended results. Further, the program effectiveness measure embraces the idea that organizations have strategic planning systems that employ performance measurement systems to provide for comparisons of planned outcomes and results against actual outcomes and results.

Regulatory Compliance**.** The objective of this measure is to ensure that laws and regulations are followed. Management and staff must be aware of and ensure that all programs, operations, obligations, and costs incurred comply with applicable laws, regulations, and executive orders.

Audit Resolution**.** The objective of the audit resolution measure is to ensure that organizations take prompt and responsive action on all audit findings and recommendations in order to improve program and organizational efficiency and effectiveness. Responsive action is that which corrects identified deficiencies within the agreed to timeframe. Where audit findings identify opportunities for improvement rather than cite deficiencies, responsive action is that which produces improvements.

Management Information**.** The objective of this measure is to ensure that reliable and timely information is obtained, maintained, reported, and used for decision-making at all levels. Information systems should produce reports containing program, operational, financial, and compliance related data, to effectively manage and control the programs and operations of an organization.

Financial Systems and Data Integrity**.** The objective of the financial systems and data integrity measure is to ensure that an organization's financial management system and related operations conform with Government-wide principles, standards and requirements, and that the process of managing information necessary to support program and financial managers, and assuring data captured and reported is complete, accurate, accessible, timely and usable.

For detailed information on the automated assessment approach, see Addendum A, and a sample "spider diagram" is included in Case Study No. 1 at the end of this chapter. Also, information on the integrity measures can be found in OMB Circular A-123 and GAO's "Standards for Internal Control in the Federal Government."

If a bureau wants to utilize the automated assessment approach, it should contact PFM which will work closely with the bureau in planning, conducting, analyzing, and reporting the results of the automated assessment approach. The automated assessment approach is a useful tool that can

assist bureaus in planning and conducting more focused and cost-effective assessments and, for these reasons, the Department encourages its use.

CONDUCTING INTERNAL CONTROL ASSESSMENTS
COMPARISON OF AICR AND ICR ACTIVITIES

AICR	ICR
1. Start the Evaluation • planning • general control environment • IT	1. Start the Evaluation • planning • component survey • general control environment • IT
2. Define Control Systems • identify & document high risk cycles • identify and document control techniques •compare control systems to the GAO control standards	2. Define Control Systems • identify and document event cycles • identify and document all risks • identify and document control objectives • identify and document control techniques • compare control systems to the GAO control standards
	3. Review the System Design • adequacy of control objectives • adequacy of control techniques
3. Test the Control System • select controls to be tested • select test methods • determine amount of testing • plan data collection • conduct the tests • analyze test results, develop conclusions • develop plans for corrective actions	4. Test the Control System • select controls to be tested • select test methods • determine amount of testing • plan data collection • conduct the tests • analyze test results, develop conclusions • develop plans for corrective actions
4. Report the Results	5. Report the Results
5. Document the Evaluation	6. Document the Evaluation