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ADS Chapter 596 Management's Responsibility for Internal Control

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ADS 596 – Management’s Responsibility for Internal Controls

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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: 10/09/2007

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 and Congress on the overall effectiveness of USAID's internal controls.

b. The Deputy Administrator

- Chairs the Agency's Management Control Review Committee, and
- Resolves disagreements between Agency management and the Office of Inspector General.

c. The Chief Operating Officer

- Serves as the vice/alternate chair of the Management Control Review Committee (MCRC), and
- When serving as the vice/alternate chair for the MCRC, resolves disagreements between Agency management and the Office of Inspector General

d. The Agency Management Control Review Committee (MCRC)

- Serves as a policymaking body in internal control and audit matters;
- Reviews and approves the Agency's strategy, policies, and

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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
- Accepts or rejects recommendations from MCRC and Senior Assessment Team committee members.

e. The Senior Assessment Team (SAT)

- Serves as a subset of the Agency MCRC, providing oversight to the assessment of internal controls over financial reporting, as required by Appendix A of [OMB Circular A-123](#);
- Ensures that the 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”](#);
- 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.

f. The Chief Financial Officer (CFO)

- Serves as the Senior Assessment Team (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 Senior Assessment Team to monitor and review the testing and documentation of information technology controls related to financial reporting.

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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 Management Control Review Committee (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,
- 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 Performance and Accountability Report (PAR), 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 (IG)

- 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 Official who oversees and coordinates management accountability and control issues within the

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organizational unit;

- Conduct periodic risk assessments of operations;
- Continuously perform internal control assessments in accordance with instructions issued by the Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division, 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.

k. Agency/Cognizant 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 law; and
- Ensure that assessable units are properly established and identified. All Missions, bureaus, and independent offices are assessable units. USAID/W bureaus and independent offices 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 bureau. (See section **596.3.6**, Assessable Unit Reporting.)

I. USAID/W Bureaus and Independent Offices

- Review and coordinate subordinate units' annual certifications for internal controls, and
- Consolidate the annual bureau/independent office report using

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information submitted by subordinate units.

m. Automated Directives System (ADS) Author Offices

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

Effective date: 10/09/2007

596.3.1 Establishing Internal Controls

Effective Date: 10/09/2007

USAID managers and staff must develop and implement appropriate, cost-effective internal controls toward management that produce results and assure the financial integrity of transactions. The internal controls must reasonably ensure 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
- Government liabilities are properly stated in the financial statements.

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

- a.** 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.** Internal control must provide an assessment of the risks the Agency faces from both external and internal sources. Risk assessment is the

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identification and analysis of risks 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,
- Assessing the likelihood of its occurrence, and
- Deciding how to manage the risk and the actions to be taken.

(See [Risk Assessment Guide](#) for optional guidance.)

c. 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 include:

- Top-level reviews of performance,
- Reviews by management at the functional or activity level,
- Management of human capital,
- Controls over information processing,
- 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. 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

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carry out its internal control and other responsibilities.

- e. 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: 08/01/1997

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;
- 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;
- c. Office of Inspector General and General Accounting Office 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 Act of 1993](#);
- i. **The Program Assessment Rating Tool (PART)**, a governmentwide systematic method of assessing the performance of program activities;

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- j. Annual reviews and reports required by the [Improper Payments Information Act of 2002](#);
- k. Other financial and performance audit reports;
- l. Reports and other information provided by Congressional committees; and
- m. Other reviews relating to Agency operations.

596.3.3 *Management Control Review Committee (MCRC)

Effective Date: 08/01/1997

The Agency must establish a Management Control Review Committee (MCRC) to provide oversight for the Agency's audit and internal control processes.

596.3.3.1 Agency MCRC

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 [Management Control Review Committee 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 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.

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596.3.3.3 Senior Assessment Team (SAT)

Effective Date: 10/09/2007

The Senior Assessment Team (SAT) is a subset of the Management Control Review Committee (MCRC) which oversees the assessment of financial reporting internal controls. In particular, it determines the scope, design, and methodology of the OMB Circular A-123, Appendix A assessment; reviews the results; and, makes recommendations to the MCRC, all 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.

596.3.4 Corrective Action Plans

Effective Date: 08/01/1997

Assessable units must develop corrective action plans for identified internal control deficiencies. 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 cognizant manager 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 implementation of the corrective actions for Agency-level material weaknesses and significant deficiencies. M/CFO/APC must also keep the Management Control Review Committee (MCRC) informed of the progress towards implementing these actions.

596.3.5 Assessable Unit Reporting

Effective Date: 10/09/2007

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

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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 activity managers internally track and monitor them; and
- c. Corrective action plans and accompanying target completion dates, and realistic milestones for significant deficiencies.

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.

596.3.5.1 Bureau/Independent Office Certification

Effective Date: 08/01/1997

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 bureau/independent office certification to the Administrator. Management and internal control deficiencies are classified as either material weaknesses or significant deficiencies.

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**. A copy of the bureau or independent office certification must also be provided to the Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division.

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

Effective Date: 08/01/1997

The Agency Management Control Review Committee (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 Agency Financial Report or Performance Accountability Report (PAR).

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;
- 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: 08/01/1997

The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC) prepares the Administrator's report on management assurances (based on the Administrator's

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approval of Management Control Review Committee (MCRC) decisions) for the annual Agency Financial Report (AFR) or Performance Accountability Report (PAR). 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:

- 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).

596.3.7 Evaluation of Staff Performance on Internal Control Responsibilities

Effective Date: 08/01/1997

Annual employee evaluation forms must reflect internal control responsibilities as set forth in this chapter; supervisors must evaluate their employees on effectiveness in carrying out these responsibilities, such as establishing, assessing, correcting and reporting on internal controls.

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596.4 MANDATORY REFERENCES

Effective date: 10/09/2007

596.4.1 External Mandatory References

Effective date: 10/09/2007

a. [Federal Managers' Financial Integrity Act \(FMFIA\) of 1982 \(Pub. L. 97-255\)](#)

b. [OMB Circular A-123, Management Accountability and Control](#)

596.4.2 Internal Mandatory References

Effective date: 10/09/2007

a. [ADS 501, The Automated Directives System \(ADS\)](#)

b. [ADS 590, Audit](#)

c. [ADS 595, Audit Management Program](#)

d. [Management Control Review Committee \(MCRC\) Charter](#)

596.5 ADDITIONAL HELP

Effective date: 10/09/2007

a. [Risk Assessment Guide](#)

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 Act of 1993 \(GPRA\), Public Law 103-62](#)

h. [Improper Payment Information Act of 2002 \(IPIA\), Public Law 107-300](#)

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596.6 DEFINITIONS

Effective Date: 05/09/2008

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)

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](#))

control environment

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

control deficiency

A control deficiency exists when the design or operation of an administrative, programmatic, operational, accounting or financial control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance 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 necessarily 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. ([FMFIA of 1982](#) and [OMB Circular A-123](#))

internal controls

The organization, policies, procedures, and tools used to reasonably ensure that

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(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 official

(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)

internal control standards

The standards for internal control within the Federal government developed and issued by the Government Accountability Office. (Chapter 596)

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. ([Chapters 595](#), 596)

material weakness

A significant deficiency or combination of significant deficiencies that is significant enough to be reported to 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. (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](#))

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Performance Accountability Report

The report which provides 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.

risk assessment

An internal management process for identifying, analyzing, and managing risks relevant to achieving the objectives of safeguarding assets, compliance with relevant laws and regulations, and reliable financial reporting. ([OMB Circular A-123](#))

significant deficiency

(This replaces the former term “reportable condition”)

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. (Chapter 596)

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