

Chapter 1 : OMB Circular A and Sarbanes-Oxley - Corporate Governance - Law

OMB Circular A and Sarbanes-Oxley: Management's Responsibility for Internal Control in Federal Agencies equips readers with information on complying with OMB Circular A and Section of SOX in a highly accessible, simple, and practical presentation to help professionals and nonprofessionals employed by the federal government know how.

Closed Opportunity for Improvement - describes the remediated resolved status of a situation identified during a previous testing period s in which controls were in place, but could be strengthened through remedial measures. Combined Issues Report CIR - details the Opportunity for Improvement OFI identified during testing of a transaction, which includes issues identified during the current testing period as well as existing issues from previous testing periods. Compensating Control " a control that limits the severity of a control deficiency and prevents it from rising to the level of a significant deficiency, or in some cases, a material weakness. It operates at a level of precision, considering the possibility of further undetected misstatements that would result in the prevention or detection of a misstatement that is more than inconsequential or material to the financial statements. Although a compensating control mitigates the effects of a control deficiency, it does not eliminate the control deficiency. Completeness and Accuracy - addresses whether all transactions and accounts that should be in the financial statements are included and are recorded appropriately. Continuous Monitoring - activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Control Deficiency - exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks. Control Design Analysis CDA - documents the risk associated with a process, key controls designed to mitigate the risk, and assessment of the effectiveness of the design for each key control. It also references the test plan and where each of the key controls determined to be effective will be tested. Control Environment - the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objective. Corrective Action " an action taken by the audited entity that corrects identified deficiencies, produces recommended improvements, or demonstrates that audit findings are either invalid or do not warrant audited action. Effective - business objective and intended result for the control activity has been met successfully. Exception - an error, instance or case not conforming to the guidance requiring adherence. Existence or Occurrence - addresses whether assets or liabilities exist at a given date or recorded transactions have occurred during a given period. Existing Opportunity for Improvement - describes the open non-remediated status of a situation identified in a previous testing period in which controls were in place, but could be strengthened through measures. Existing Opportunity for Improvement Not Verified - describes the open non remediated status of a situation identified in a previous testing period in which controls were in place, but could be strengthened through remedial measures; however, remedial actions could not be substantiated to eliminate the vulnerability. Financial statements should be understandable, relevant, reliable, and comparable. Ineffective - business objective and intended result for the control activity failed and has not been met. Information and Communication - the quality information that management and personnel communicate, and use to support the internal control system. Interim Guidance - is an Internal Manual Document IMD used by organizations to issue immediate, time- sensitive, or temporary instructions to employees. The guidance communicates procedural directions, guidelines, or standards to employees in the performance of their assigned duties. Internal controls consist of all the measures taken by the organization for the purpose of 1 protecting its resources against waste, fraud, and inefficiency; 2 ensuring accuracy and reliability in accounting and operating data; 3 securing compliance with the policies of the organization; and 4 evaluating the level of performance in all organizational units of the organization. IMD include delegations of authority, policy statements, and interim guidance that include procedural changes. In these scenarios, controls are in place and are effective but there are some potential enhancements that could be made to improve the control. Material Weakness - a significant deficiency in which the Agency Head determines to be significant enough to report outside of the agency e. Methodology " a documented process for applying standards when assessing,

documenting, and reporting on internal controls over financial reporting. Monitoring - activities management establishes and operates to assesses the quality of performance over time and promptly resolve the findings of audits and other reviews. Observation - looking at a process or procedure being performed by others. Opportunity for Improvement OFI - suggestion to strengthen an existing control through remedial measures to improve the overall process. Personally Identifiable Information PII - any information that, by itself or in combination with other information, may be used to uniquely identify an individual. Planning Phase - based on the sample data tested, the Test Team Leader researches policies and procedures and conducts walkthroughs to gain an understanding of the process being tested and subsequently documents the key controls and develops a test plan to execute during the testing phase. Population - universe or list of items for a given period of time from which the sample will be derived. Prepared by Client PBC Listing - detailed request of information and documents needed from the client to conduct testing. Quality Assurance Review QAR - assessment of organization risk and internal controls to verify adequate management controls are in place and functioning effectively to accomplish organizational goals and protect resources. Reporting Phase - based on sample data tested, the Test Team Leader forms conclusions about: Risk Assessment - assess the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Sample - items selected from a population to reach a conclusion about the population as a whole. Sampling Plan - an outline detailing the criteria to use to select a sample size, frequency of control, risk, etc. Scope - description of the physical locations, organizational units, activities and processes and the corresponding time period subjected to examination or review. The information communicated may provide a reminder or notification to address work stream, programming or system problems. Significant Deficiency - a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Standard Operating Procedures SOP - written documentation that lists the step-by-step instructions on how to perform a job or task or carry out the activities associated with a process. The Commissioner provides either an unmodified statement that an effective and efficient system of internal controls exists, a modified statement that an overall sound system of internal control exists but one or more material weaknesses have been identified, or a statement of no assurance on the system of internal controls. Structured Management Review SMR - a review of documented continuous monitoring activities including QARs or other independent internal reviews put in place to cover many IRS internal control activities during the normal course of operations. Team Leader - an individual responsible for assisting the A Section Chief in overseeing program activities. Test Team Leader - individual responsible for leading the A testing process for assigned transactions. TeamMate - a Windows-based Audit Management System, used by the A team to prepare work papers for the reviews conducted. The A team uses TeamMate to manage the audit process, which includes scheduling, planning, execution, review, and report generation. Test Objectives - purposes or intended goals stating what the tester wants to accomplish when implementing the specified test activities. Test Plan - a document which describes the scope of the testing and identifies the methodology used to conduct tests. Test Steps - procedures performed to reach established audit objectives and assess the efficiency and effectiveness of control activity. Testing - after the preliminary review, the Test Team Leader performs the procedures in the audit program. The Test Team Leader tests the major internal controls and the accuracy and correctness of the transaction. The team leader uses various techniques such as sampling. Valuation and Allocation - addresses whether assets, liabilities, and equity interests included in the financial statements are at appropriate amounts and any corresponding adjustments are appropriately recorded. Work Papers - documents that support the audit opinion. The work papers reveal the comprehensive actions the Test Team Leader performed to test each control during the testing phase. Work Papers Procedures Report - a TeamMate generated report listing the reference number and document title of documentation used to test steps and results.

Chapter 2 : Legislation and Executive Guidance

The definitive guide for federal compliance with OMB Circular A and SOX Section , OMB Circular A and Sarbanes-Oxley: Management's Responsibility for Internal Control in Federal Agencies leads readers through every step of the planning, evaluation, testing, and reporting/collecting of processes associated with OMB Circular A and.

Control Environment The control environment is the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. When designing, evaluating or modifying the organizational structure, management must clearly demonstrate its commitment to competence in the workplace. Within the organizational structure, management must clearly: The organizational culture is also crucial within this standard. Risk Assessment Management should identify internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations. Management should also consider previous findings; e. Identified risks should then be analyzed for their potential effect or impact on the agency. Control Activities Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. 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 be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. 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.

Information and Communications Information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it.

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. 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. Effective internal control is a key factor in achieving agency missions and program results through improved accountability. Identifying internal control weaknesses and taking related corrective actions are critically important to creating and maintaining a strong internal control infrastructure that supports the achievement of agency objectives. Recent government-wide initiatives have been implemented to improve program management, as well as financial management, including tracking corrective actions for material weaknesses in internal control related to financial reporting, imposing accelerated reporting due dates for more timely financial information, and assessing the effectiveness and efficiency of program operations using the Program Assessment Rating Tool PART. The agency head must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs; Section 2 and Section 4 respectively. Government Performance and Results Act GPRA To support results-oriented management, GPRA requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. With the implementation of this legislation, these plans and goals are integrated into i the budget process, ii the operational management of agencies and programs, and iii accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved. The PART has also become an integral part of the budget process when making funding resource allocations or decisions. The Act requires the preparation and audit of financial statements. In this process, auditors report on internal control and

compliance with laws and regulations related to financial reporting. Therefore, the agencies covered by the Act have a clear opportunity to improve internal control over their financial activities, and to evaluate the controls that are in place. Meeting the accelerated financial statement reporting due date also provides incentive for agencies to have added discipline and effective internal control to routinely produce reliable financial information. Deficiencies in internal control need to be mitigated to ensure timely and accurate financial information. IGs are required to submit semiannual reports to Congress on significant abuses and deficiencies identified during the reviews and the recommended actions to correct those deficiencies. Auditors also provide recommendations for correcting the material weaknesses. Agency managers, who are required by the IG Act to follow up on audit recommendations, should use these reviews to identify and correct problems resulting from inadequate or poorly designed controls, and to build appropriate controls into new programs. Financial management systems shall have general and application controls in place in order to support management decisions by providing timely and reliable data. If the systems are found not to be compliant, management shall develop a remediation plan to bring those systems into substantial compliance. Federal Information Security Management Act of FISMA The FISMA provides, "a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets." Agencies are required to provide information security controls proportionate with the risk and potential harm of not having those controls in place. The nature and incidence of improper payments shall be considered when assessing the effectiveness of internal control. Single Audit Act, as amended The Single Audit Act, as amended requires financial statement audits of non-Federal entities that receive or administer grant awards of Federal monies. The financial statement audits include testing the effectiveness of internal control and determining whether the award monies have been spent in compliance with laws and regulations. Each Federal agency which provides Federal awards shall review the audits of the recipients to determine whether corrective actions are implemented with respect to audit findings. Clinger-Cohen Act of formerly known as the Information Technology Management Reform Act The Clinger-Cohen Act requires agencies to use a disciplined capital planning and investment control CPIC process to maximize the value of and assess and manage the risks of the information technology acquisitions. As agencies develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control. The degree to which studies and analysis are performed will vary depending on the complexity and risk associated with a given program or operation. The expertise of the agency CFO can be valuable in developing appropriate control and the IG can be valuable in providing advice or consultation. Decisions made during this process should be documented and readily available for review. Agency management should determine the appropriate level of documentation needed to support this assessment. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving and assessing internal controls. Management has primary responsibility for assessing and monitoring controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment. Sources of information include: Management knowledge gained from the daily operation of agency programs and systems. Management reviews conducted i expressly for the purpose of assessing internal control, or ii for other purposes with an assessment of internal control as a by-product of the review. IG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products. Audits of financial statements conducted pursuant to the CFO Act, as amended, including: A, Financial Management Systems 5 are being met. A, Management of Federal Information Resources 6. Annual performance plans and reports pursuant to GPRA. Annual reviews and reports pursuant to IPIA. Single Audit reports for grant-making agencies. Reports and other information provided by the Congressional committees of jurisdiction. Other reviews or reports relating to agency operations, e. Results from tests of key controls performed as part of the assessment of internal control over financial reporting conducted in accordance with the requirements in Appendix A. Use of a source of information should take into consideration whether the process included an evaluation of internal control. Agency management should avoid duplicating reviews

which assess internal control, and should coordinate their efforts with other evaluations to the extent practicable. If a Federal manager determines that there is insufficient information available upon which to base an assessment of internal control, then appropriate reviews should be conducted which will provide such a basis. Agency managers and employees should identify deficiencies in internal control from the sources of information described above and the results of their assessment process. Agency employees and managers shall report control deficiencies to the next supervisory level, which will allow the chain of command structure to determine the relative importance of each deficiency. As it relates to financial reporting, agencies should also consider qualitative as well as quantitative measures to determine material items. This designation requires a judgment by agency managers as to the relative risk and significance of reportable conditions. Additionally, definitions and reporting requirements are summarized in Exhibit 1. Agencies should carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines. Role of a Senior Management Council. Many agencies use a Senior Management Council to assess and monitor deficiencies in internal control. A Senior Management Council, which may include the Chief Financial Officer, the Senior Procurement Executive, the Chief Information Officer, and the managers of other functional offices, should be involved in identifying and ensuring correction of systemic weaknesses relating to their respective functions. This council should be responsible for overseeing the timely implementation of corrective actions related to material weaknesses. Such a council may also be useful in determining when sufficient action has been taken to declare that a reportable condition or material weakness has been corrected. While the establishment of such a council is not a requirement of this document, a Senior Management Council or similar construct is encouraged. Correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency. The extent to which corrective actions are tracked by the agency should be commensurate with the severity of the deficiency. Corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results. For reportable conditions that are not included in the FMFIA report, corrective action plans should be developed and tracked internally at the appropriate level. The summary discussion shall include a description of the material weakness, status of corrective actions, and timeline for resolution. Management shall maintain more detailed corrective action plans internally which shall be available for OMB review. Provide for appointment of an overall corrective action accountability official from senior agency management. Require prompt resolution and corrective actions. Maintain accurate records of the status of the identified material weaknesses through the entire process of resolution and corrective action. Assure that the corrective action plans are consistent with laws, regulations, and Administration policy. Assure that performance appraisals of appropriate officials reflect effectiveness in resolving or implementing corrective action for identified material weaknesses 8. A determination that a reportable condition has been corrected should be made only when sufficient corrective actions have been taken and the desired results achieved. This determination should be in writing, and along with other appropriate documentation supporting the determination, should be available for review by appropriate officials. See also Section IV. Management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached. The assurance statements and information related to Section 2, Section 4, and internal control over financial reporting should be provided in a single FMFIA report section of the annual PAR labeled "Management Assurances.

Chapter 3 : OMB Circular A - Management's Responsibility for Internal Control | The White House

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Chapter 4 : OMB Circular A - Wikipedia

OMB Circular No. A defines management's responsibility for internal control in Federal agencies. A re-examination of the existing internal control requirements for Federal agencies was initiated in light of the new internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of

Chapter 5 : OMB Circular A and Sarbanes-Oxley : Edward F. Kearney :

The revisions to OMB's Circular A focused on management's responsibility for internal control in federal agencies. The changes were in direct response to the Sarbanes-Oxley Act which required public companies to improve their internal controls over financial reporting.