



Internal Controls Service

Internal Control Stakeholder Procedures Manual

(Implementation of OMB Circular A-123, Appendix A)

Revision 2.1

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Introductory Letter

The US Department of Veterans Affairs (VA) is fully committed to the principles of the revised Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* and to the timely and effective implementation of this guidance. Strengthening Agency-wide internal control is a critical component of our financial management improvement strategy. Everyone within VA is responsible for internal control.

VA has adopted the guidance of the Chief Financial Officer (CFO) Council (CFOC) in developing its A-123, Appendix A, program. The CFOC is comprised of Federal Agency CFOs and Deputy CFOs, as well as representatives from OMB and Treasury. In July 2005, the CFOC published its Implementation Guide for OMB Circular A-123, Appendix A, to provide guidance to agencies in understanding the requirements of the Circular and in implementing a process for assessing the effectiveness of their internal control over financial reporting. While the activities in the guide are not necessarily required, they are widely accepted as a valid approach and provide a useful roadmap for executing the requirements of A-123, Appendix A.

As recommended by the CFOC, VA has established a Senior Assessment Team (SAT). The SAT, chaired by the Assistant Secretary for Management (CFO), provides oversight and accountability for VA's internal control over financial reporting. The Office of Business Oversight (OBO), Internal Controls Service (ICS), is responsible for designing and maintaining an internal controls monitoring program. Other key stakeholders include the Strategic Management Council (SMC), process owners, and process owner liaisons.

This procedures manual describes the roles and responsibilities of the various VA stakeholders for implementing the requirements of the revised Circular. The activities covered in this manual relate to VA Directive 0070 which sets forth the policies, responsibilities, and authority of VA officials and organizations for the management and oversight of internal control over financial reporting. This manual expands upon the roles outlined in Directive 0070 and provides specific templates and instructions for each stakeholder group to carry out its assigned responsibilities.

We are proud of our progress to date in implementing the requirements of A-123, Appendix A. We hope that the tools and instructions contained within this manual will continue to promote fiscal accountability.

Sincerely,

US Department of Veterans Affairs
Assistant Secretary for Management



Executive Summary

VA is fully committed to meeting the principles of the revised OMB Circular A-123, *Management's Responsibility for Internal Control*, and to the timely and effective implementation of this guidance. Strengthening Agency-wide internal control is a critical component of VA's financial management improvement strategy and will provide VA with the following benefits:

- Enhanced audit readiness and internal control attestation readiness
- Improved performance, efficiency, and effectiveness of agency operations
- Enhanced understanding of fraud and erroneous reporting risks
- Streamlined processes
- Stronger control over agency resources
- Greater accountability
- Compliance with OMB Circular A-123, Appendix A, and Federal Managers' Financial Integrity Act (FMFIA)

OMB A-123, Appendix A details management's responsibility for establishing a SAT, evaluating internal control at the entity level and process level, documenting controls and assessing their effectiveness, reporting management's assurance, and correcting material weaknesses. The purpose of this summary is to provide an overview of VA's approach to its A-123, Appendix A, assessment, including the roles, responsibilities, coordination, communication, and processes for the SAT and other stakeholders.

VA's SAT is responsible for assessing and monitoring deficiencies in internal control resulting from the overall FMFIA assessment process and ensuring the reliability of financial reporting. The SAT fulfills this responsibility by completing the following activities:

- Providing senior management oversight and accountability regarding VA's internal controls over financial reporting
- Assisting management in implementing an internal control framework over financial reporting
- Ensuring efforts are on-going throughout the year to meet assessment responsibilities
- Providing recommendations regarding the Statement of Assurance



In order to support the SAT and implement an appropriate assessment methodology, VA's OBO ICS developed this procedures manual for internal VA distribution. The manual provides guidance for the five phases of an A-123, assessment: planning; evaluating; testing; concluding, internal reporting and correcting; and external reporting. Each of these phases is presented below along with a timeline, key outputs, and management/stakeholder responsibilities. The timeline establishes when each phase should occur in order to ensure the assessment is completed in time to provide the Statement of Assurance for the VA's financial statements,

Planning Phase

In the planning phase, management defines the scope of the assessment and documents key decisions in an A-123, *Appendix A Annual Review Plan*. This plan will help management document its assessment approach and communicate this approach to stakeholders both within and outside of VA. A detailed plan uses a top-down approach; includes a qualitative and quantitative analysis (risk assessment); and addresses materiality, cross-service entities, site rotation schedules, and financial statement assertions.

The qualitative risk analysis is a critical element of the plan, and enables VA to identify, analyze, and manage risks. Risk factors may include compliance risk, human capital risk, operational risk, complexity of the process, information technology risk, volume of transactions, fraud risk, and historical risk. The SAT will use the results of the assessment to prioritize major transaction classes and determine the scope of the assessment.

When Does Planning Occur?

Table 1 illustrates where in the review cycle the Planning Phase occurs.

Table 1. Planning Phase Time Line

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
					Evaluating										
										Testing					
												Concluding and Internal Reporting			
Correcting															
														External Reporting	
Corrective Action Monitoring, Verifying, and Validation															

Why Is Planning Important?

The decisions made during the Planning Phase impact activities in the remaining phases. The SAT has primary responsibility for conducting Planning Phase activities



with significant input and recommendations from ICS. Table 2 includes the key outputs and stakeholder responsibilities associated with the Planning Phase.

Table 2. Key Planning Outputs

Key Outputs	Annual Review Plan (with detailed appendices)
CFO/SAT Responsibilities	<ul style="list-style-type: none"> Determine the scope of the A-123, Appendix A, assessment Set policies and determine implementation design and methodology Determine funding and resources required Approve Annual Review Plan
Other Stakeholder Responsibilities	<p>OBO:</p> <ul style="list-style-type: none"> Manage communication with the SAT Ensure that the A-123, Appendix A efforts are integrated with other VA compliance activities and are consistent with OMB guidance <p>ICS:</p> <ul style="list-style-type: none"> Draft Annual Review Plan Provide regular updates to OBO and the SAT Other Stakeholders (Management Quality and Assurance Service, Office of Information and Technology, process owners): Provide information as requested to assist ICS with planning activities

Where Can I Find Additional Information On This Topic?

Additional information on the Planning Phase is in Section 1 of this manual (*Internal Control Stakeholder Procedures Manual*).

Evaluating Phase

This phase involves understanding and documenting key processes, identifying key controls, evaluating the design of controls, and conducting an entity-level control assessment. As part of the entity-level assessment, ICS will document, test, and evaluate the design and effectiveness of the five standards of internal control. Weaknesses or deficiencies noted within entity-level controls will be remediated as soon as possible in order to prevent the weakening of other internal controls.

When Does Evaluating Occur?

Table 3 illustrates where in the review cycle the Evaluating Phase occurs.

Table 3. Evaluating Phase Timeline

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
					Evaluating										
									Testing						
											Concluding and Internal Reporting				



Correcting	
	External Reporting
Corrective Action Monitoring, Verifying, and Validation	

Why Is Evaluating Important?

During the Evaluating Phase, the assessment team identifies key controls which address the relevant financial statement assertions for a financial statement line item. Missing or ineffective key controls may result in a finding that is reported in VA's assurance statement. Table 4 includes the key outputs and stakeholder responsibilities associated with the Evaluating Phase.

Table 4. Key Evaluating Outputs

Key Outputs	<ul style="list-style-type: none"> • Process and control documentation (Narratives, Flowcharts, Risk/Control Matrices) • Entity-level assessment questionnaire and results • Cross-servicing provider Statement on Auditing Standards (SAS) 70 (or other) assessment and results • Information Technology (IT) General Computer Control (GCC) assessment results
CFO/SAT Responsibilities	Provide oversight and guidance to ICS
Other Stakeholder Responsibilities	<p>OBO:</p> <ul style="list-style-type: none"> • Manage communication with the SAT • Ensure that the A-123, Appendix A, implementation is consistent with OMB guidance <p>ICS:</p> <ul style="list-style-type: none"> • Conduct entity-level and ITGC assessment • Document processes and control activities • Evaluate design of controls <p>Process Owner Liaisons:</p> <ul style="list-style-type: none"> • Identify the key personnel who perform the processes to be documented • Manage the outputs of the process owners and report progress as requested by ICS <p>Process Owners:</p> <ul style="list-style-type: none"> • Document their responsible processes and controls, maintain documentation , and report progress directly to the process owner liaison or ICS Director as requested

Where Can I Find Additional Information On This Topic?

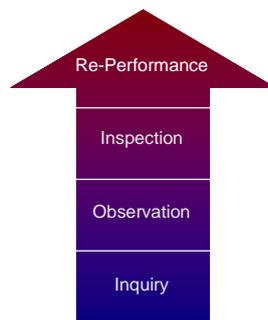
Additional information on the Evaluating Phase is in Section 2 of this manual (*Internal Control Stakeholder Procedures Manual*).

Testing Phase

This phase involves assessing the operating effectiveness of key controls. The ultimate goal of testing a control is to verify that it is functioning properly (i.e., as designed). ICS staff and Process Owners will conduct testing, and ICS will retain evidence of testing to



support the assessment. One of the most important activities in the Testing Phase is to develop an overall test plan. ICS will work with the SAT to document VA's approach to testing including sample sizes, pass/fail criteria, and documentation retention. When conducting the testing, ICS will use a variety of testing types including inquiry, observation, inspection, and re-performance (see the following figure).



Relative Level of Assurance by Nature of Tests

When Does Testing Occur?

Table 5 illustrates where in the review cycle the Testing Phase occurs.

Table 5. Testing Phase Timeline

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
Planning																
					Evaluating											
									Testing							
												Concluding and Internal Reporting				
Correcting																
														External Reporting		
Corrective Action Monitoring, Verifying, and Validation																

Why Is Testing Important?

Testing provides VA with the data required to prepare the Statement of Assurance for inclusion in the annual Performance and Accountability Report (PAR). The SAT's oversight of testing is critical to ensuring that the assessment team can later provide input and recommendations on the Statement of Assurance. Table 6 includes the key outputs and stakeholder responsibilities associated with the Testing Phase.



Table 6. Key Testing Outputs

Key Outputs	<ul style="list-style-type: none"> • Overall Test Plan • Key Financial Process-level test plans • Test plans to validate correction of past deficiencies • Testing documentation and results
CFO/SAT Responsibilities	Provide oversight and guidance to ICS
Other Stakeholder Responsibilities	<p>OBO:</p> <ul style="list-style-type: none"> • Manage communication with the SAT <p>ICS:</p> <ul style="list-style-type: none"> • Perform tests of internal control • Document procedures performed, evidence obtained, and conclusions reached • Process owners: • Provide test evidence and information as requested by ICS

Where Can I Find Additional Information On This Topic?

Additional information on the Testing Phase is in Section 3 of this document (VA *Internal Control Stakeholder Procedures Manual*).

Concluding and Reporting Phase

During this phase, the assessment team reviews the results of the Testing Phase and reports these results to ICS. In order to assist the SAT in its task of concluding, ICS identifies exceptions and classifies the results under the following findings: internal control deficiencies, significant deficiencies, or material weaknesses. This is presented to the SAT for review.

Once the SAT and ICS agree on the classification of deficiencies, ICS will draft an assurance statement and present it to the SAT for review. The SAT will review the statement, work with ICS to make any necessary changes, and submit the statement to the Secretary for review. The Secretary will then review and sign the assurance statement for inclusion in the annual PAR.

This concludes the findings, which are sent to the stakeholders for remediation.

When Do Concluding and Reporting Occur?

Table 7 illustrates where in the review cycle these activities occur.



Table 7. Concluding and Reporting Phase Time Line

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
				Evaluating					Testing						
											Concluding and Internal Reporting				
Correcting															
														External Reporting	
Corrective Action Monitoring, Verifying, and Validation															

Why Are Concluding and Reporting Important?

ICS and the SAT are responsible for assessing and classifying internal control deficiencies during this phase of the process. The conclusions from this phase form the basis for the SAT's recommendations on the Department's Statement of Assurance. Table 8 includes the key outputs and stakeholder responsibilities associated with this phase.

Table 8. Key Concluding and Reporting Outputs

Key Outputs for Concluding	<ul style="list-style-type: none"> Documentation of control gaps (Exception Log) Finding Outline and Evaluation Worksheets 	<ul style="list-style-type: none"> Conclusion/categorization of findings (on Finding Outline and Evaluation Worksheet)
Key Outputs for Reporting	<ul style="list-style-type: none"> Documentation of control gaps (Exception Log) Finding Outline and Evaluation Worksheets Conclusion/categorization of findings (on Finding Outline and Evaluation Worksheet) 	<ul style="list-style-type: none"> Statement of Assurance Findings reports Assessment status report
CFO/SAT Responsibilities	<ul style="list-style-type: none"> Provide information on the status of remediation activities Approve the categorization of findings (internal control deficiency, significant deficiency, material weakness) Recommend conclusions for the Department's Statement of Assurance 	
Other Stakeholder Responsibilities	<p>OBO:</p> <ul style="list-style-type: none"> Manage communication with the SAT Ensure that the A-123, Appendix A, implementation is consistent with OMB guidance <p>ICS:</p> <ul style="list-style-type: none"> Provide information on the progress of the assessment and the status of remediation activities 	



External Reporting

A-123, Appendix A, requires VA to issue an annual assurance statement on the effectiveness of internal control over financial reporting, including the identification of any material weaknesses. The assurance statement on the effectiveness of internal control over financial reporting is a subset of the overall Statement of Assurance and is based on the results of the internal control assessment. The Statement of Assurance must be included in VA's annual PAR. ICS and the SAT are responsible for recommending findings for this report.

Where Can I Find Additional Information On This Topic?

Additional information on the Concluding and Reporting Phase is in Section 4 of the VA *Internal Control Stakeholder Procedures Manual*.

Correcting Phase

Correcting deficiencies is an integral part of VA senior management accountability and is considered a priority by VA. Process owners are responsible for addressing weaknesses in their respective areas while the ICS is primarily responsible for tracking remediation activities and reporting progress to the SAT.

When Does Correcting Occur?

Note: When a design deficiency or an entity-level control deficiency is identified in the Evaluation Phase, the Correcting Phase begins immediately for those controls.

Table 9 illustrates where in the review cycle this activity occur.

Table 9. Correcting Phase Time Line

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
					Evaluating										
									Testing						
											Concluding and Internal Reporting				
Correcting															
														External Reporting	
Corrective Action Monitoring, Verifying, and Validation															

Why Is Correcting Important?

OMB policy directs VA senior management to develop, implement, and manage Corrective Action Plans (CAPs) for all areas where control deficiencies exist.

A CAP permits VA senior management to present a comprehensive plan for correcting control deficiencies within a corrective action lifecycle by identifying, assessing, prioritizing, and monitoring the progress of remediation efforts for those deficiencies.



The CAP includes phases with specific dates and actions needed to correct the deficiency. It also includes the method of retesting to verify that the corrective action has addressed the root cause of the control deficiency. See Table 10 for a list of key corrective action outputs.

Table 10. Key Corrective Action Output

Key Outputs	Corrective Action Plans
CFO/SAT Responsibilities	<ul style="list-style-type: none"> • Approve CAP. • Assign process/CAP owners. • Send a memo to process owners to indicate that correcting the finding is a priority.
Other Stakeholder Responsibilities	<p>ICS:</p> <ul style="list-style-type: none"> • Coordinate with the process owners and program managers to develop CAP. • Approve CAP before presentation to the SAT. • Coordinate with process owners to complete corrective action. <p>Process Owners¹</p> <ul style="list-style-type: none"> • Develop CAP in conjunction with the program managers. • Focal point of getting problem resolved. • Corrective action coordinator or the implementer, depending on the finding. <p>Program Managers</p> <ul style="list-style-type: none"> • Work with process owners and provide any detail necessary to develop the CAP. • For a field site fix, provide input to process owner on status of corrective action. • For a Central Office fix, provide input to process owner for validation purposes on the corrective action that is put in place (i.e. development of a policy and procedure).

Where Can I Find Additional Information On This Topic?

Additional information on the Correcting Phase is in Section 5 of this manual (*Internal Control Stakeholder Procedures Manual*).

Corrective Action Monitoring, Verifying, and Validation Phase

OMB A-123, Appendix A, requires that agencies maintain accurate records of the status of identified material weaknesses through the entire process of resolution and corrective action. The status of these corrective actions must be made available to OMB at its request. Like most federal agencies, VA monitors significant deficiencies (and in some cases control deficiencies) in addition to material weaknesses.

Verification would occur at the end of short-term or medium-term phases to confirm that the actions in those phases have been completed, pending the overall solution in the long-term phase. This involves an independent follow-up assessment by ICS to verify

¹ VACO contacts or local field contacts for site-specific findings.



closure, to review the effectiveness of the corrective actions in resolving each finding, and to preventing recurrence.

When a process owner asserts that all tasks and phases of an approved CAP have been completed, ICS requests valid evidence of completion. This validation may be in the form of new policies, training materials, e-mail, or reports, depending on the nature of the CAP.

When Does Corrective Action Monitoring, Verifying, and Validation Occur?

Corrective action monitoring, verifying, and validation are on-going throughout the year the same as with the Correcting Phase. Table 11 illustrates its place in the review cycle.

Table 11. Corrective Action Monitoring, Verifying, and Validation Phase Time Line

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
					Evaluating										
									Testing						
												Concluding and Internal Reporting			
Correcting															
														External Reporting	
Corrective Action Monitoring, Verifying, and Validation															

Why Is Corrective Action Monitoring, Verifying, and Validation Important?

Monitoring corrective action status is important because it helps VA senior management ensure that deficiencies are being properly addressed in a timely manner (see Table 12). Monitoring also satisfies OMB A-123, Appendix A, requirement that a summary of the CAPs for material weaknesses be included in the PAR.

Table 12. Corrective Action Monitoring, Verifying, and Validation

Key Outputs	<ul style="list-style-type: none"> Reports on pending CAPs Reports on CAPs that are completed and ready for validation
CFO/SAT Responsibilities	<ul style="list-style-type: none"> Approves corrective action follow up procedures for ineffective corrective actions. Approves corrective action results.
Other Stakeholder Responsibilities	ICS: <ul style="list-style-type: none"> Tracks, trends, and reports implementation of corrective actions. Presents CAP status and summary reports to the SAT. Coordinate with process owners to complete corrective action. Performs validation reviews. Informs process owners of corrective action verification. Completes Corrective Action Checklist. Stores evidence of completed CAPs in the CATS database.



Where Can I Find Additional Information On This Topic?

Additional information on the Corrective Action Monitoring, Verifying, and Validation Phase is in Section 6 of this manual (*Internal Control Stakeholder Procedures Manual*).

Purpose and Objectives

The purpose of the *Internal Control Stakeholder Procedures Manual* is to define the roles, responsibilities, coordination, communication, and processes for A-123, Appendix A, stakeholders. This manual was developed by VA's OBO ICS for internal VA distribution to stakeholders, including the SAT, Management and Quality Assurance Service, Chief Information Officers, process owner liaisons, process owners, program managers, administration CFOs, and other relevant parties. There are three primary objectives of this manual:

1. To document standard processes and procedures that, in conjunction with the annual Appendix A Annual Review Plan, will guide the conduct of the entire lifecycle of A-123, Appendix A, activities
2. To provide a standard set of tools and templates for use during the A-123, Appendix A, assessment
3. To document the agreed-upon governance for A-123, Appendix A, activities, including roles and responsibilities, coordination, and communication

In developing this manual, ICS has drawn upon A-123 guidance from the OMB and the CFOC.

This manual contains introductory sections and is then organized by assessment phases: Planning; Evaluating; Testing; Concluding and Reporting, Correcting; and Corrective Action Monitoring, Verifying, and Validation. Appendix G contains a Stakeholder Responsibility Matrix and is organized by stakeholder, rather than phase.



Background

Federal managers have been subject to internal control reporting requirements for many years. Major federal internal control-related laws and regulations include the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (Pub. L. No. 97-255) and OMB Circular A-123, which require agencies to establish and maintain internal control. The agency head annually evaluate and report on the control and financial systems that protect the integrity of federal programs. The requirements of FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assurances on the effectiveness of internal control. OMB A-123, Appendix A, mandates a specific methodology for assessing internal controls over financial reporting and details VA senior management's responsibility for the following:

- **Establishing a Senior Assessment Team** – The Circular encourages VA to establish a senior assessment team that includes senior executives and derives its authority and support from the head of the agency or the Chief Financial Officer. The senior assessment team is responsible for oversight over the assessment process. (Planning Phase)
- **Evaluating Internal Control at the Entity Level** – The Circular requires VA to evaluate the five components of internal control that have an overarching or pervasive effect on VA. (Evaluating Phase and Appendix D)
- **Evaluating Internal Control at the Major Transaction Process Level** – The Circular requires VA to evaluate the design and operating effectiveness of controls at the account, disclosure, and related process level (including transactions and systems). (Evaluating Phase)
- **Documenting Controls and Assessing their Effectiveness** – The Circular requires VA to document VA's internal controls over financial reporting, test their effectiveness, and identify deficiencies. (Evaluating Phase, Testing Phase, and Concluding and Reporting Phase)
- **Reporting VA senior management's assurance in the annual PAR** – The Circular requires VA senior management to include an assurance statement on the effectiveness of internal control over financial reporting in its annual PAR. (Concluding and Reporting Phase)
- **Correcting Material Weaknesses** – The Circular requires VA to ensure the prompt and proper resolution and implementation of corrective action on identified material weaknesses. (Correcting Phase)
- **Monitoring, Verifying and Validating Corrective Actions** – The Circular requires that corrective actions be tracked to ensure timely and effective results. (Corrective Action Monitoring, Verifying, and Validation Phase)



Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting. Internal controls are important because they prevent a loss or misuse of government assets. Financial reporting starts at the initiation of a transaction and ends with the reporting. Therefore, internal controls over the transaction process involve controls around specific processes at every step including the controls over transaction initiation, maintenance of records, recording of transactions, and final reporting. In addition, they also include the prevention/detection of unauthorized acquisition, use, or disposition of VA's assets in relation to the transaction. Personnel at all levels of VA are therefore responsible for implementing and carrying out internal controls as part of their daily operations.

Reliability of financial reporting means that VA senior management can reasonably make the following assertions:

- The financial report is presented in the proper form and any required disclosures are present (Presentation and Disclosure)
- All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date [existence and occurrence]
- All assets are legally owned by VA and all liabilities are legal obligations of VA [rights and obligations]
- All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included [completeness]
- All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (Valuation)

In addition to the above assertions, OMB Circular A-123 establishes the following assertions as they relate to reliability of financial reporting:

- The transactions are in compliance with applicable laws and regulations
- All assets have been safeguarded against fraud and abuse
- Documentation of internal control, all transactions, and other significant events is readily available for examination

Defining VA's internal controls in terms of these objectives will be the basis to support the Secretary's assurance statement on the effectiveness of internal control over financial reporting included as a subset to Section 2 of FMFIA reporting.



Guidance for Performing A-123 Activities by Phase

VA has adopted the guidance of the CFOC in developing its A-123, Appendix A, program. The CFOC is comprised of Federal Agency CFOs and Deputy CFOs, as well as representatives from OMB and Treasury. In July 2005, the CFOC published its *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting* (Implementation Guide for OMB Circular A-123, Appendix A) to provide guidance to assist agencies in understanding the requirements of the Circular and in implementing a process for assessing the effectiveness of their internal control over financial reporting. While the activities in the guide are not necessarily required, they are widely accepted as a valid approach and provide a useful roadmap for executing the requirements of A-123, Appendix A. The CFOC defines five basic steps which can be grouped into the following six phases of the *Internal Control Stakeholder Procedures Manual*:

1. **Planning** – During this phase, VA senior management defines the scope of the assessment and documents key decisions.
2. **Evaluating** – This phase involves understanding and documenting Major Transaction Classes (MTCs), identifying key controls, evaluating the design of controls, and conducting an entity-level control assessment.
3. **Testing** – This phase involves assessing the operating effectiveness of key controls.
4. **Concluding and Reporting** – During this phase, the assessment team disseminates the assessment results for internal and external reporting.
5. **Corrective Action Plans (CAPs)** – In this phase, ICS works with stakeholders to correct and monitor deficiencies identified during the Evaluating or Testing Phases.
6. **Corrective Action Monitoring, Verifying and Validation Reviews** – The SAT monitors the status of the implementation of CAPS, verifies their completion and validates the CAP has resolved the control deficiency.

This manual addresses each of the six phases covered in the Guide and the key activities performed within each phase (see Figure 1). The activities have been reordered to better reflect the order in which they are typically performed. Appendix A of this guide provides a crosswalk between the CFOC Guide and this manual. Additionally, VA has included a fifth phase on External Reporting. While this is described in Phase IV of the CFOC Guide, it is included as a separate section in this manual for clarity and flow.



Figure 1. Assessment Phases

Table 13 provides an overview of the phases and key activities. See the CFOC Guide for additional information:

Table 13. Phases and Key Activities

Phase	Overview	Key Activities
Planning	The Planning Phase involves a top-down approach to determine the documentation necessary and the nature, timing, and extent of testing of controls to be performed for each significant line item and related account, disclosure, and major transaction class. During this phase, the assessment team will develop an Appendix A Annual Review Plan which clearly addresses scoping decisions.	<ul style="list-style-type: none"> • Establish organizational structure • Determine scope of significant reports • Determine materiality • Conduct risk assessment • Determine validation testing needed for prior year's corrective actions • Plan for an updated Statement of Assurance in the annual PAR
Evaluating	The purpose of the Evaluating Phase is to gain an understanding of entity level controls and MTCs. At the MTC level, the assessment team will document MTCs, identify key controls, and evaluate the design of controls. Design deficiencies or weaknesses are reported as findings.	<ul style="list-style-type: none"> • Evaluate internal control at the entity level • Evaluate internal control at the MTC level <ul style="list-style-type: none"> - Document MTCs and controls - Evaluate control design, write findings - Evaluate the controls of cross-servicing providers • Understand IT infrastructure and associated risks
Testing	The purpose of the Testing Phase is to assess the operating effectiveness of the controls to ensure that they are properly designed.	<ul style="list-style-type: none"> • Develop process-level test plans • Develop Master Test Plan • Test key controls <ul style="list-style-type: none"> - Develop process-level test plans - Identify control gaps



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Phase	Overview	Key Activities
Concluding and Reporting	This phase of the assessment describes the process for evaluating test results, classifying deficiencies, and reporting to internal and external stakeholders and communicating the assessment results in the Statement of Assurance in the PAR.	<ul style="list-style-type: none"> • Conclude on control effectiveness • Report control weaknesses • Evaluate finding • Complete Statement of Assurance
Corrective Action Plans	This phase involves preparing, reviewing and implementing corrective action plans.	<ul style="list-style-type: none"> • Prepare Corrective Action Plan • Review Corrective Action Plan • Implement Corrective Action Plan
Corrective Action Monitoring, Verifying and Validation Reviews	This phase involves tracking and reporting corrective action, verifying completion of corrective actions and conducting validation reviews.	<ul style="list-style-type: none"> • Compile and distribute corrective action plan status reports. • Verify completion of corrective action plan. • Conduct validation reviews.

The following Responsibility Assignment Matrix (RAM) identifies the party responsible for leading the performance of each step as well as other parties that should participate in completing each step (see Table 14). Appendix G: Stakeholder Responsibility Matrix includes similar information but is organized by stakeholder.

Table 14. RAM

TOC #	Phase or Task Name	Secretary	SMC	CFO	SAT	OBO/ICS	VA personnel	P.O. Liaisons	Process Owners
Key: ⊗ - Responsible X – Involved									
1	Planning								
1	Establish organizational structure	X	X	X	⊗	X			
2	Identify significant financial reports and statements				⊗	X			
3	Consider cross servicing entities: customers and providers					⊗			
4	Update Account Process Listing				X	⊗			
5	Conduct quantitative analysis								
1	Calculate materiality				X	⊗			
2	Apply materiality to financial statement line items				X	⊗			
3	Identify material line items				X	⊗			
4	Identify immaterial line items				X	⊗			
6	Confirm/update MTCs that generate material and immaterial line items				X	⊗			

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TOC #	Phase or Task Name	Secretary	SMC	CFO	SAT	OBO/ICS	VA personnel	P.O. Liaisons	Process Owners
Key: ⊗ - Responsible X – Involved									
7	Recommend in-scope MTCs (material)				X	⊗			
8	Begin identifying preliminary financial systems supporting MTCs					⊗			
9	Conduct qualitative analysis (risk assessment)								
1	Identify qualitative risk factors				X	⊗			
2	Assess risks associated with each MTC				X	⊗			
3	Recommend additional in-scope MTCs				X	⊗			
10	Identify verified corrective actions from prior years				X	⊗			
11	Recommend administrations/programs/locations				X	⊗			
12	Identify financial reporting assertions				X	⊗			
13	Plan for an updated Statement of Assurance in the PAR				X	⊗			
14	Self assessment plan					⊗			
1	Self assessment approach					⊗			
2	Survey					⊗			
3	Identifying Test Sites					⊗			
4	Develop Survey					⊗			
5	Guidance for facility directors and process owners					⊗			
2	Evaluating								
1	Evaluate internal control at the entity level								
1	Develop assessment tool					⊗			
2	Identify sample					⊗			
3	Administer assessment					⊗			
4	Analyze and report results				X	⊗			
2	Evaluate internal control at the process level								
1	Document major transaction class and key controls								
1	Gather information					⊗	X	X	X
2	Develop narratives					⊗	X	X	X
3	Develop flowcharts					⊗	X	X	X
4	Develop risk/control matrices					⊗			X
5	Perform quality control activities					⊗		⊗	⊗
6	Retain documentation					⊗			⊗
2	Evaluate control design					⊗			X
3	Identify key controls					⊗			⊗



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TOC #	Phase or Task Name	Secretary	SMC	CFO	SAT	OBO/ICS	VA personnel	P.O. Liaisons	Process Owners
Key: ⊗ - Responsible X – Involved									
	4	Evaluate the controls of cross-servicing providers and service organizations							
	1	Assess results of SAS 70 reports				⊗	X		X
	2	Perform alternate procedures				⊗	X		X
3		Understand IT structure and associated risk							
	1	Assess general computer controls				⊗	X		X
	2	Assess application controls				⊗	X		X
3		Testing							
	1	Develop MTC-level test plan							
	1	Determine which controls will be tested			X	⊗			
	2	Identify who will perform the testing			X	⊗			
	3	Determine when testing will be performed			X	⊗			
	4	Determine where testing will be performed			X	⊗			
	5	Determine how controls will be tested (inquiry, inspection, observation, re-performance)			X	⊗			
	6	Define sample sizes			X	⊗			
	7	Determine what testing documentation (work papers) will be developed and retained				⊗			
	8	Document MTC-level test plan				⊗			
	2	Develop Master Test Plan by Site			X	⊗			
	3	Request evidence				⊗	X	X	X
	4	Test key controls							
	1	Conduct tests				⊗			
4		Concluding and Reporting							
	1	Conclude on control effectiveness				⊗			
	1	Enter operating deficiencies into the exception log				⊗			
	2	Analyze data in the Exception Log and identify findings				⊗			
	3	Obtain Finding Outline and Evaluation Worksheet template				⊗			
	4	Complete Finding Outline and Evaluation Worksheet			X	⊗			
	2	Report control weaknesses				⊗			
	1	Report internally				⊗			
	1	Report to ICS director				⊗			

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TOC #	Phase or Task Name	Secretary	SMC	CFO	SAT	OBO/ICS	VA personnel	P.O. Liaisons	Process Owners
Key: ⊗ - Responsible X – Involved									
	2	Report to SAT			X	⊗			
	2	Report externally	X		X	⊗			
5		Correcting							
1		Correcting deficiencies and weaknesses				X			⊗
	1	Overview							⊗
	2	Prepare CAPs				X	X	X	⊗
	3	Populate CAP template							⊗
	4	Review CAPs			X	⊗			
	5	Implement corrective actions				X	X	X	⊗
6		Corrective action monitoring, verifying and Validation							
1		Monitor CAPs			X	⊗		X	X
	1	Track corrective action efforts				⊗			X
	2	Project management controlling process				⊗			
	3	CAP status reports				⊗			
	4	Trending			X	⊗			
	5	Complete corrective action implementation checklist				⊗			X
	6	Distribute corrective action status report				⊗			
	7	Report corrective action status			X	⊗			
	8	Verify completion of the CAP				⊗			X
	1	Document verification in the CATS data base				⊗			
	2	Inform process owner				⊗			X
2		Validate corrective actions			X	⊗	X		X
	1	Complete validation review checklist (ICS)				⊗			
	2	Corrective action follow-up procedures/processes			⊗	X			
	3	Complete corrective action follow-up checklist for ICS				⊗			
	4	Corrective action acceptance once problem is resolved			X	⊗			
	5	Complete corrective action close-out checklist for ICS			X	⊗			



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Planning Phase



1. Planning

Planning is a key component of developing and implementing an internal control assessment. During this phase, Veterans Affairs (VA) senior management will make key recommendations that drive the assessment process. VA senior management will determine the scope of the assessment, materiality thresholds, roles and responsibilities, testing locations, and schedules. The decisions made during the Planning Phase impact future activities in the remaining phases. VA senior management and the Senior Assessment Team (SAT) have primary responsibility for conducting Planning Phase activities with significant input from the Internal Control Service (ICS).

Developing a comprehensive Appendix A Annual Review Plan is critical to the success of an assessment. This plan will help VA senior management document its assessment approach and communicate to stakeholders both within and outside of VA. The Annual Review Plan will also include validation reviews of verified corrective actions to ensure that problems found in prior years are fixed. A detailed plan uses a top-down approach, includes an analysis of qualitative and quantitative factors, and addresses materiality, cross-service entities, site schedules, and financial statement assertions. According to the Chief Financial Officer Council guide, the plan should also include the following elements:

- Description of the SAT, its authority, and members
- Plans to use contractors to perform or assist in the assessment
- Strategy for communicating with VA senior management and employees regarding the assessment
- Key planning decisions of the SAT²

Activities 1.1 through 1.12 provide details on items that will be included in VA's Appendix A Annual Review Plan. Table 15 illustrates the required inputs and key outputs of the Planning Phase.

² *CFOC Implementation Guide for A-123, Appendix A, page 21*



Table 15. Planning Phase Inputs and Outputs

Activities / Steps	Inputs	Key Outputs
1. Planning (i.e., Develop Appendix A Annual Review Plan) - all steps	<ul style="list-style-type: none"> • Validation reviews needed for prior Corrective Action Plans (CAPs) • Risk assessments/analyses • VA senior management recommendations and SAT decisions 	Appendix A Annual Review Plan (with detailed appendices)

Information Technology (IT) control reviews are performed by several groups within VA for compliance with various regulatory and/or internal VA audit requirements [i.e., Office of Management and Budget (OMB) A-127, OMB A-123, FISMA, etc.]. Each group performs separate planning activities and administers separate corrective action monitoring and effectiveness review programs. Recognizing that there is opportunity for coordination between these groups, ICS works with them to coordinate oversight and/or perform IT control review activities so as not to duplicate tasks or miss anything. In addition to ICS, these groups include VA's System Quality Assurance Service, Management Quality and Assurance Service (MQAS), and the Office of Information and Technology (OI&T).

1.1 Establish Organizational Structure

The establishment of a clear organizational structure demonstrates VA senior management support for the internal controls assessment process. The organizational structure clearly identifies VA stakeholder groups, their primary role in the assessment, and the reporting relationships of each group to the others. Because an organizational structure already exists (see Appendix K), VA senior management will confirm that no changes will be made for the current assessment period. ICS will document the organizational structure in the Appendix A Annual Review Plan.

1.2 Identify Significant Financial Reports and Statements

A top-down approach will be used in planning the assessment of internal controls over financial reporting. This type of approach starts with the significant VA-wide financial reports and works back to the major transaction classes, controls, and supporting documentation. A top-down approach helps focus the assessment on the items that are most material to the financial statements and pose the greatest risk to the Department. The SAT has primary responsibility for determining the scope of financial reporting and the material line items to be tested, but it will likely seek input and assistance from ICS. The SAT has the flexibility to determine which financial reports are significant, based on changes in financial position or accounting principles. For a flow chart of the Planning Phase process, see Figure 2.



Entity Level Assessment

Significant Reports

B/S

I/S

.

Line Items

A/R XX
XX

Assertions

1

3

Accounts

XX

Quantitative

XX

Overall
Assessment

XX

Qualitative

Figure 2. Planning Phase Process

In order to identify the significant reports, ICS will complete the following steps:

- Review OMB Circular A-136, *Financial Reporting Requirements*. Determine if there are any significant changes.



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- Review prior year VA financial statements to determine if there are any additional statements to be included.
- Review Statements of Federal Financial Accounting Standards for any standards related to federal financial reporting.
- Include additional reports as directed by SAT.
- Consider including any other report that comes to attention of ICS, which, by exclusion, could be misleading to the financial position of VA.

ICS may perform additional steps to identify other reports as significant if conditions warrant.

At a minimum, the following reports will be considered significant:

- Annual Financial Statements
 - Consolidated Balance Sheet
 - Consolidated Statement of Net Cost
 - Consolidated Statement of Changes in Net Position
 - Combined Statement of Budgetary Resources
 - Notes to the Consolidated Financial Statements
- Quarterly Financial Statements (Quarter 4 only)
 - Consolidated Balance Sheet
 - Consolidated Statement of Net Cost
 - Combined Statement of Budgetary Resources

VA may also consider including budget execution reports if such reports are particularly significant to VA operations or if VA senior management feels the reports may relate to control issues. The following budget execution reports may be included:

- **SF – 132** – Apportionment and Reapportionment Schedule
- **SF – 133** – Report on Budget Execution and Budgetary Resources
- **P&F Schedule** – Budget Program and Financing
- **FMS 2108** – Year End Closing Statement

The SAT will review the recommendations provided by ICS and determine if additional reports should be included or recommended reports should be excluded. Final



determination of significant financial reports will be clearly documented in the Appendix A Annual Review Plan.

1.3 Consider Cross-Servicing Entities: Customers and Providers

VA may use outside service organizations to process financial data. Service organizations include Federal agencies, state organizations, and commercial companies. VA senior management is ultimately responsible for the internal control over its financial information and, therefore, the assessment team may need to assess the design and operating effectiveness of the service organization's internal control, including all five components of internal control.

The ICS assessment team will identify and document a summary of its service organizations. The summary will detail key information about VA's outsourcing arrangement with each by:

- Summarizing the services provided
- Indicating whether the Department is allowed to audit the service organization
- Determining whether a Performance and Accountability Report (PAR) or Statement on Auditing Standards (SAS) 70 report exists
- Noting the expiration date of the contract

The ICS decision team will then track the results of, and rationale for decisions. To develop an accurate summary, ICS will identify the systems used to generate the line items associated with each in-scope Major Transaction Class (MTC). ICS will then determine where those systems reside and whether a service organization is being used.

1.4 Update Account Process Listing

ICS will update VA's Master Process List of major transaction processes that have an impact on financial reporting. A MTC is any sequence of transactions that enables an entity to complete tasks and achieve its objectives.

- Review Account Process Listing
ICS will obtain the Account Process Listing from the previous fiscal year and review the list of MTCs included on the list. ICS will confirm the activities that generate the balance of each financial statement line item. A portion of the Account Process Listing is shown in Figure 3. Note that this framework is applied to all in-scope financial statements (as determined in Activity 1.2).



Financial Statement Account Category			
Statement Line Item Number			
VA Component			
Key Financial Process			
1			INTRA-GOVERNMENTAL ASSETS
1	1		Fund Balance with Treasury
1	1	1	Medical Care
1	1	2	Compensation and Benefits
1	2		Investments
1	2	2	Insurance
1	3	1	Other Assets
2			PUBLIC ASSETS
		
		

Figure 3. Account Process Listing

- Update list (if needed)
ICS will also review the Department's structure to verify that any group's activities which impact the financial statements are included within a MTC. ICS will update the Account Process Listing. The Director of ICS must be consulted regarding any changes to the list.
- Create/confirm numbering scheme
ICS has assigned a reference number to each MTC, as indicated on the ICS Account Process Listing. The reference numbers will be used during the documentation, testing, and reporting phases to link related information.

1.5 Conduct Quantitative Analysis

Quantitative analysis includes measuring the financial significance of an amount, transaction, or discrepancy. Both qualitative and quantitative factors are considered when identifying significant line items and determining MTCs. Analysis involves the following steps:

1.5.1 Calculate Materiality

From a quantitative perspective, materiality has four components: a materiality base; planning materiality; design materiality; and tolerable misstatement.³ Design materiality is used to determine the tolerable misstatement.

³ Definitions adapted from the *GAO/PCIE Financial Audit Manual*, Section 230.



Calculate Materiality

ICS will calculate and document each component of materiality.

- **Materiality Base** – The materiality base is the element of the financial statements or report that is most significant to the primary users of the statements. The materiality base should generally be the greater of total assets or expenses (net of adjustment for intra-governmental balances and offsetting balances). Other materiality bases that might be considered include total liabilities, revenues, and appropriations. Multiple materiality bases can be selected based on historical presentations and current conditions. ICS will evaluate financial statements, identify the largest category of accounts, and select the materiality bases based on dollar amount. ICS will confirm its materiality base selection with the Office of Inspector General (OIG) and external auditors.

For the purposes of calculating initial materiality levels, ICS will use VA's prior fiscal year consolidated financial statements. When the current year consolidated financial statements are issued, ICS may update the numbers if there is a significant difference and recalculate materiality levels.

- In accordance with *GAO/PCIE Financial Audit Manual*, Section 230.09, ICS has chosen Intra-governmental Assets as its materiality base (see Table 16).

Table 16. Materiality Base

Materiality Base	Reported FY 2006 ⁴
Intra-governmental assets	\$29,162

- **Planning Materiality** – Planning materiality is a preliminary estimate of materiality in relation to the consolidated financial statements. Planning materiality is used to assess whether aggregated misstatements at the level of individual significant line items (and, similarly, the aggregated deficiencies in an audit of internal control) are material to the consolidated financial statements.

Planning materiality is generally 3% of the materiality base;⁵ which should be equal to or less than the external auditor's planning materiality; however, VA senior management will use judgment in evaluating whether the computed level is appropriate. ICS will consider adjusting the materiality base for the impact of items such as unfunded liabilities, contingencies, and other items that may not be reflected in the materiality base but that may be important to the financial statement user.

⁴ Amounts are in millions of dollars.

⁵ *GAO/PCIE Financial Audit Manual*, Section 230.



Planning materiality is calculated from the materiality base (see Table 17).

Table 17. Planning Materiality

Base	Factor	Planning Materiality ⁶
Intra-governmental Assets \$29,162	3%	\$875

- Design Materiality** – Design materiality is the portion of planning materiality that has been allocated to line items and related accounts and disclosures. To provide an allowance for the aggregation of misstatements across individual accounts and for detection risk (the risk that controls will fail to detect a material misstatement), the *GAO/PCIE Financial Audit Manual* recommends that design materiality be one-third (33.3%) of planning materiality.

Continuing with the example above, design materiality is calculated as follows (see Table 18).

Table 18. Design Materiality

Base	Factor	Design Materiality ⁷
Planning Materiality \$875	33.3%	\$292

ICS will document planning materiality and design materiality levels along with the rationale behind the levels.

- A-123, Tolerable Misstatement Materiality** – The GAO/PCIE recommends that tolerable misstatement for a specific test be equal to or less than design materiality. Many federal agencies calculate A-123, tolerable misstatement materiality as 75% of design materiality. A-123, tolerable misstatement materiality can then be calculated (see Table 19). GAO/PCIE FAM Section 230.13 establishes guidelines for using lower materiality levels when testing specific line items and assertions.

⁶ *ibid.*

⁷ *ibid.*



Table 19. A-123, Tolerable Misstatement Materiality

Base	Factor	A-123, Tolerable Misstatement Materiality ⁸
Design Materiality \$292	75%	\$219

When identifying significant line items, ICS will disaggregate the components of line items and related footnote disclosures to determine whether any of the components are individually significant. For example, the “Other Assets” line item on the consolidated balance sheet may include multiple accounts or classes of transactions which are connected to different risks or controls. In this case, these accounts/components should be assessed separately. Other examples include the following:

- Revenue streams having different characteristics (e.g., product revenues versus fee revenues)
- Contract-driven service fees versus expenses for materials and supplies.

If any of these components exceed the design materiality threshold, it should be considered significant, even though it is not separately presented in the financial statements.

Review materiality (Director of ICS and SAT)

The Director of ICS will review the materiality calculations and supporting documentation. ICS may consider confirming the calculations with the independent auditor and/or the OIG. ICS will update the calculations based on any feedback, and then request concurrence from the SAT. (Note that the materiality documentation is formally approved by the SAT as part of their review of the Appendix A Annual Review Plan.)

Document materiality in Appendix A Annual Review Plan

ICS will document the approved materiality calculation in the Appendix A Annual Review Plan.

1.5.2 Apply Materiality to Financial Statement line Items

ICS will apply materiality to financial statement line items in order to identify the significant line items. Each line item on each in-scope financial statement will be compared with the materiality level determined in the previous section.

Table 20 shows an example of a portion of the consolidated balance sheet. The example compares each line item to the \$219 materiality threshold calculated in the previous section and indicates whether the line item is significant.

⁸ *ibid.*



Table 20. Consolidated Balance Sheet

Consolidated Balance Sheet As of September 30, 2006 (In Millions of Dollars)		
Assets	2006	Material?
Intra-governmental Assets		
Fund Balance with Treasury	16,129	Yes
Investments	12,873	Yes
Accounts Receivable, Net	107	No

1.5.3 Identify Material Line Items

Using the results of Activity 1.4.2, ICS will compile a list of material financial statement line items.

1.5.4 Identify Immaterial Line Items

Using the results of Activity 1.4.2, ICS will compile a list of immaterial financial statement line items. The purpose of this list is to ensure that the immaterial line items are considered as part of the qualitative risk assessment (see Activity 1.7).

1.6 Confirm/Update Major Transaction Classes that Generate Material and Immaterial Line Items

In Activity 1.3, ICS updated the Account Process Listing to indicate which processes correspond to each line item. ICS will now review the Account Process Listing and focus on the material line items.

In order to confirm the MTCs that will be documented and assessed as part of the A-123, Appendix A Assessment, VA must confirm which MTCs generate the balances in the significant line items. The Account Process Listing (list of MTCs) is a key source of data for completing this mapping (see Figure 4).

- Obtain updated Account Process Listing



Financial Statement Account Category			
Statement Line Item Number			
VA Component			
Key Financial Process			
1			INTRA-GOVERNMENTAL ASSETS
1	1		Fund Balance with Treasury
1	1	1	Medical Care
1	1	2	Compensation and Benefits
1	2		Investments
1	2	2	Insurance
1	3	1	Other Assets
2			PUBLIC ASSETS
		
		

Figure 4. Account Process Listing

- List MTCs that generate material line items
ICS will compare the list of material line items (from Activity 1.4.3) with the Account Process Listing to determine which processes are in-scope (based on materiality).

1.7 Recommend In-Scope MTCs (Material)

Once ICS staff has determined the material line items and the processes that correspond to those line items, they will share the list with the Director of ICS and document the list of materially significant MTCs in the Appendix A Annual Review Plan. This list represents the material MTCs that will be in scope for the current fiscal year. The Director of ICS must provide explicit approval for any recommendations that remove a material line item from the scope of the assessment.

The results of the risk assessment (qualitative analysis) described in Activity 1.9 indicates whether additional immaterial line items should be considered within the scope of the assessment.

1.8 Begin Identifying Preliminary Financial Systems Supporting MTCs

IT staff begins working with VA accounting and finance review team to identify the universe of financial systems supporting MTCs (The process of identification is shown in Figure 5). This is accomplished by:

- Interviewing VA process owners
- Reviewing previous narratives and documents from prior reviews



- Considering substantive changes in IT from the prior year (Upgrades or new systems).
- Refining the system list whenever MTCs and key controls are refined by the financial review team
- Categorizing controls to discover IT controls that apply

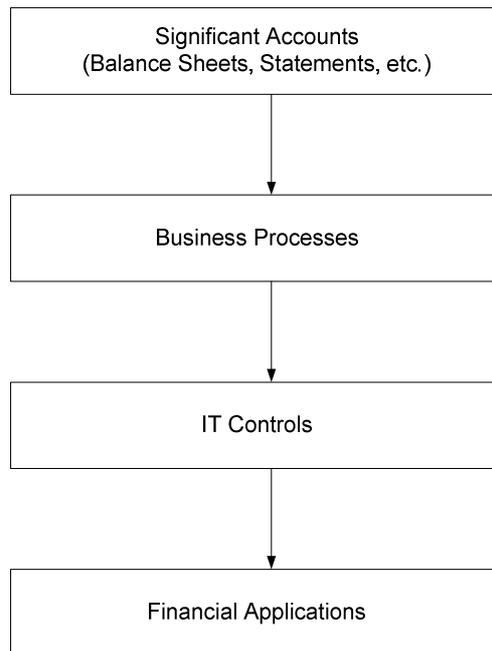


Figure 5. IT Support for MTCs

1.9 Conduct Qualitative Analysis (Risk Assessment)

The next activity in the Planning Phase is to identify the qualitative risks within each MTC that may result in a material misstatement in the financial statements.⁹ A qualitative analysis, sometimes called a risk assessment, is a critical tool used to prioritize the assessment of controls and can be used to identify, analyze, and manage risks relevant to achieving the objectives of reliable financial reporting, safeguarding of assets, and compliance with relevant laws and regulations.

As with the previous activities in the Planning Phase, the SAT is responsible for completion of the qualitative analysis, but will delegate implementation to ICS. ICS will

⁹ Risk assessments can be completed by process or by financial statement line item. The *CFOC Implementation Guide* gives instructions for conducting a line item assessment.



keep SAT informed of its progress and will document its methodology. The chart in Figure 6 presents an example of how the qualitative analysis can be documented.

1.9.1 Identify Qualitative Risk Factors

Each MTC will be evaluated on relevant qualitative risk factors. Table 21 presents some standard risk factors which may be applicable.

Table 21. Standard Risk Factors

Qualitative Risk Factors
Compliance Risk <ul style="list-style-type: none"> • Significance of applicable laws and regulations • New or amended laws, regulations, or accounting standards
Human Capital Risk <ul style="list-style-type: none"> • Changes to people/process owners • Workload stress • Knowledge/expertise of personnel/process owners • Sufficient resources • Restructuring or budget cutbacks which may include downsizing and changes in supervision and segregation of duties • New personnel or significant personnel changes
Operational Risk <ul style="list-style-type: none"> • Degree of decentralization • Changes in the operating environment • Significantly new or changed programs or operations • Significantly new or changes to process or policy
Complexity <ul style="list-style-type: none"> • MTC is complicated and/or involves numerous people or groups • Nature of transactions is non-routine • Extent of manual processes or applications • Need for accounting estimates
IT Risk <ul style="list-style-type: none"> • Number of systems and interfaces • New or revamped information systems • New technology
Volume of transactions <ul style="list-style-type: none"> • Number of transactions in a given period • Distribution of dollar value transactions
Fraud/Misappropriation Risk <ul style="list-style-type: none"> • Inherent risk of errors or irregularities due to fraud, considering opportunities and incentives for fraud
Entity-level Control Risks <ul style="list-style-type: none"> • Risks associated with the overall control environment, including tone at the top, the assignment of authority and responsibility, consistent policies and procedures, and entity-wide initiatives • Known deficiencies related to entity-level controls based on previous assessments



Historical Risk

- Known deficiencies or findings
- Open material weaknesses or significant deficiencies
- Politically sensitive
- Draws media or regular attention

Using the list provided in Table 21 as a guide, ICS will develop a list of recommended qualitative risk factors that are applicable to VA.

The Director of ICS will review the list of relevant factors and will present the risk factors to the SAT for concurrence.

1.9.2 Assess Risks Associated With Each MTC

ICS will work with representatives from the MTC to assign a recommended risk rating for each factor, for each immaterial MTC.

To assess the risk, ICS will complete the following steps:

1. Identify representatives within each MTC

ICS will identify leads for each MTC. The qualitative analysis should be performed by individuals who have sufficient knowledge of the processes and associated risks.

2. Consult with MTC leads

ICS may consult with MTC leads, the Director of ICS, Associate Director, and other interested representatives. During these consultations, the group will discuss qualitative risk factors and come to agreement on the risk ratings for each factor within each MTC, and for each MTC as a whole. ICS could ask MTC leads what they believe are the greatest risks that "keep them up at night."

3. Assign recommended ratings for each qualitative factor

ICS and MTC leads will determine the recommended risk ratings for each qualitative factor within a given MTC. They will consider risk likelihood and risk impact in its determination of risk ratings.

ICS will assign both a likelihood and impact rating score of low, moderate, or high for each factor. A score of low is assigned 1 point; moderate, 3 points; and high, 5 points (see Figure 6).



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2009 A-123, Appendix A Risk Assessment Qualitative Risk Assessment	The qualitative risk assessment uses five (5) criteria: Compliance, Human Capital, Complexity, IT, and Historical (In this example only two are shown).		IT Risk					Historical Risk					Overall Qualitative Risk	Comments	
	Administration Amount	Total GL Amount	a. Number of systems or interfaces	b. New or revamped information system	a. Known material deficiencies or finds	b. Open material weaknesses or significant deficiencies	c. Politically sensitive	d. Draws media or constituent attention	IT Risk Assessment Summary	Historical Risk Assessment Summary	FR	MR			Final
ASSETS INTERGOVERNMENT															
FUND BALANCE WITH TREASURY															
.1010 DISBURSING AUTHORITY		112,739,734,554.57	3	5	3	3	1	1	1	3	3	5	3	5	5
VBA	57,065,362,554.85														
VPA	52,598,249,428.49														
NCA	319,081,381.74														
Dept Administration	2,757,041,189.49		5	5	1	1	3	3	5	5	5	5	5	5	
.1011 DISB AUTH CENTRAL OFFICE RESERVE															
.1013 DISB AUTH REIMBURSEMENTS			3	3	3	3	3	5	5	5	5	5	5	5	
.1018 DISB AUTH TRANSFERRED			3	3	3	3	3	3	3	3	3	3	3	3	4
.1019 DISB AUTH RECEIVED			1	1	1	1	1	1	1	1	1	1	1	1	3
															1.5

Figure 6. Qualitative Analysis Methodology



ICS will then calculate the average of the likelihood and impact scores in order to assign an overall factor rating (see column four, Factor Rating, in Figure 6).

- Determine recommended overall qualitative risk level
Once ICS has recommended ratings for each risk factor, it will recommend an overall qualitative risk level. In order to assign this risk level, ICS will use an averaging technique. Factor risk ratings (determined by the likelihood and Impact scores) will be averaged for all factors in a given MTC. The result will yield the overall qualitative risk level for a MTC.
Note: If either the likelihood or impact is a 5, then the factor rating would automatically be a 5.
- Document qualitative analysis methodology
ICS must clearly document its methodology. Figure 6 presents an example of how the qualitative analysis can be documented so that it may be included as an appendix to the Annual Review Plan.
- Review qualitative analysis (Director of ICS)
The Director of ICS will review the analysis. If the Director recommends any changes, ICS staff will review the recommendations, update the documentation if required, and resubmit for the Director's approval. Use the Management's Rating Column in Figure 6.
- Review qualitative analysis (SAT)
The Director of ICS will brief the SAT on the analysis and request feedback. The director will work with the SAT to finalize the analysis. Use the Management's Rating Column in Figure 6.

1.9.3 Recommend Additional In-Scope MTCs

Quantitative analysis of financial data ensures that material items are identified and are considered in scope. To ensure that all factors are considered, VA senior management also performs a complete review of both the quantitative and qualitative analysis results. In performing a qualitative analysis or risk assessment, relevant risk factors, their likelihood of occurrence, and their impact are considered. The result is that immaterial MTCs may be included in the overall scope of that review. VA senior management may also decide to upgrade risk factors from low to moderate or downgrade them from high to moderate.

- All deviations must be adequately documented.



- The Director of ICS must approve all deviations. ICS will include a list of all in-scope MTCs in Appendix A Annual Review Plan

1.10 Identify verified Corrective Actions from Prior Years

ICS will determine the validation tests needed for assurance that prior control deficiencies or weaknesses have been corrected. ICS may include these prior control failures in the risk assessment for the current year if the process owner asserts the control failure has been resolved and ICS has verified the completion of the CAP.

1.11 Recommend Administrations/Programs/Locations

Because VA has three administrations (Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration) and multiple locations, VA must develop an assessment approach that covers the Department as a whole. VA faces a unique challenge in obtaining coverage since the Department has over 1,300 facilities throughout the country. ICS and the SAT will determine the best approach to conduct a Department-wide assessment. The Appendix A Annual Review Plan will detail which locations have been approved by the SAT.

- Complete template
ICS will work as a team to develop a recommended location selection approach. ICS will complete certain fields in the template (see Table 22).

Table 22. Location Selection Recommendations Fields for ICS to Complete

Field	Description
In-Scope MTC	List each in-scope MTC (as determined in Activity 1.7.3)
Organization	Mark each applicable administration/organization with an X
Programs	Indicate all program(s) each MTC impacts (i.e., Medical Research, Insurance, etc.)
Recommended Locations	List all locations that are recommended to be in the scope of the assessment
Rationale	Document the rationale for each recommended location (see guidance below)

- Document rationale for recommendations
ICS will document its rationale for recommending each location. Table 23 lists suggested factors that might impact whether a location is included in the assessment.

Table 23. Recommendation Factors

Factor	Considerations
Financial Data	<ul style="list-style-type: none"> • Do we have access to financial data that would direct us to this location?



Factor	Considerations
•	
Program Presence	<ul style="list-style-type: none"> Does VA perform the program associated with the MTC at this location?
• Significance of process	<ul style="list-style-type: none"> How significant is the process (based on data or institutional knowledge)?
• Known Issues	<ul style="list-style-type: none"> Are there any known weaknesses at particular locations? Have there been recent findings at this location during OIG, MQAS or other assessments?
• Nature of program	<ul style="list-style-type: none"> Has the program/location undergone any significant changes? Is the location inherently susceptible to risk?
• Coverage	<ul style="list-style-type: none"> What is the total value of transactions processed? Does it meet the materiality threshold? What percentage of the total transactions is processed at this location?
Other Knowledge about the Site	<ul style="list-style-type: none"> Are there other factors that would contribute to including the location in the assessment?
Entity-level Evaluation	<ul style="list-style-type: none"> Are there any known deficiencies related to entity-level controls at this location? Did the previous year's entity-level assessment indicate potential issues at a particular location?
Validation Review	<ul style="list-style-type: none"> Can a Validation Review be conducted at the site at the same time as the annual tests?
Logistical Considerations	<ul style="list-style-type: none"> Are certain locations located in close proximity, for efficient use of testing resources? How does the timeline for A-123, Appendix A site visits correspond with a location's participation in other Department-wide activities (i.e., visits from the external auditor)?

- Review recommendations
The Director of ICS will review the proposed locations, and, if needed, will work with ICS staff to revise the recommendations.
- Document recommendations in Appendix A Annual Review Plan
The Director-approved location selection recommendations will be included in the Annual Review Plan, for review and approval by the SAT.

1.12 Identify Financial Reporting Assertions

ICS will determine which relevant financial reporting assertions apply to the significant line items. (Recall that the significant line items were identified in 1.3.2.) This step is an important aspect of planning for the following reasons:



- Identifying assertions at the line item level will help ICS ensure that their assessment covers all relevant assertions for each significant line item. In a later step, ICS will verify that key controls exist to support the relevant assertions determined in this step.
- Identifying the assertions at the line item level will help ICS develop tests that cover all relevant assertions for each significant line item.
- Determining relevant assertions prior to testing to minimize the likelihood of testing controls that address assertions that are not relevant to a particular significant account

The acronym PERCV represents the five assertions:

- **Presentation and Disclosure.** The financial report is presented in the proper form and any required disclosures are present (Is it recorded in the right place?)
- **Existence or Occurrence.** All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (Did it happen and when?)
- **Rights and Obligations.** All assets are legally owned by VA and all liabilities are legal obligations of the Department (Do we own or owe what we think we do?)
- **Completeness and Accuracy.** All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (Is anything missing?)
- **Valuation or Allocation.** All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (i.e., Are the numbers right?)

Additionally, A-123, Appendix A defines three additional assertions:

- The transactions are in compliance with applicable laws and regulations
- All assets have been safeguarded against fraud and abuse
- Documentation of internal control, all transactions, and other significant events is readily available for examination

Relevant assertions are assertions that have a meaningful bearing on whether the account or disclosure is fairly stated. The degree to which an assertion is relevant to each significant account will vary. For example, assertions about valuation may not be relevant to the accounts receivable account unless there is doubt regarding



- Complete Financial Statement Assertions template
ICS will complete the following columns in the template:
 - **Financial Statement**
 - **Financial Statement Line Item**
 - **Financial Statement Assertions** – the assertions that are relevant to that particular line item
 - **Amount** - the dollar amount in millions for the line item
 - **Major Transaction Class** – the main process that feeds the line item
 - **Sub-Process** - processes within the primary process which feed the line item
 - **Critical Systems** – applications which impact the relevant line item

The Risk Control Matrix (RCM) is used for documenting risks, controls, and financial statement assertions as follows:

1. Obtain RCM template.

ICS will obtain the approved RCM template from SharePoint. The template includes a sample RCM, based on the Property, Plant & Equipment Personal Property Disposal sub-process documented in Appendix M. Refer to Appendix Q.2 for a large screenshot (also see Figure 8).

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Department of Veterans Affairs Risk Control Matrix

Major Transaction Class

Assertions (mark all that apply)	
Presentation/Disclosure	X
Existence or Occurrence	X
Rights and Obligations	
Completeness	
Valuation or Allocation	X
Fraud, Waste and Abuse	X
Compliance	X
Documentation	X

Risk	Control Objective	Risk Level (H, M, L)	Expected Key Control	Control Reference Number	Actual Control Activity	Process Owner (name, title, division)	Information Processing Objectives			Financial Statement Assertions				Control Description		Key Control (Y/N)	Design Gap (Y/N)	Gap Description			
							Completeness (C)	Accuracy (A)	Validity (V)	Restricted Access (R)	Existence and Rights and Obligations	Completeness	Valuation or Allocation	Presentation and Disclosure	Documentation				Preventative (P) or Detective (D)?	Manual (M) or Automated (A)?	Application (if Automated)
Unauthorized disposal transactions	Disposals of fixed assets and removals from service are properly authorized	L	The designated Custodial Officer reviews the Turn-in Request for completeness and accuracy of the request. If the Custodial Officer approves the Turn-in Request, the Custodial Officer sends the approved Turn-in Request to Property Management Specialist. If the Custodial Officer rejects the request, the Custodial Officer sends the Turn-in Request back to the assigned VA employee.	C - 6.1.1.2	The designated Custodial Officer reviews the Turn-in Request for completeness and accuracy of the request. If the Custodial Officer approves the Turn-in Request, the Custodial Officer sends the approved Turn-in Request to Property Management Specialist. If the Custodial Officer rejects the request, the Custodial Officer sends the Turn-in Request back to the assigned VA employee.	Custodial Officer	X	X	X	X	X				X	P	M	Continuous	N	N	
Disposal of personal property is unauthorized or inaccurately input for processing resulting in an error on the financial statements	Disposals of fixed assets and removals from service are properly authorized	H	The Property Management Specialist reviews the Turn-in Request and compares the information on the Turn-in Request to the equipment preventive maintenance and repair record in AEMSMERS to ensure the information is accurate and complete, and that the facility owns the item.	C - 6.1.1.3	The Property Management Specialist reviews the Turn-in Request and compares the information on the Turn-in Request to the equipment preventive maintenance and repair record in AEMSMERS to ensure the information is accurate and complete, and that the facility owns the item.	Property Management Specialist	X	X	X	X	X	X	X	X	X	P	M	Continuous	Y	N	
Disposal of personal property is unauthorized or inaccurately input for processing resulting in an error on the financial statements	Disposals of fixed assets and removals from service are properly authorized	H	The Warehouse Personnel picks up the equipment from the Custodial Officer, signs the Turn-in Request for receipt of equipment, gives a copy of the Turn-in Request to the Custodial Officer, brings the equipment to the holding area, and notifies the Property Management Specialist.	C - 6.1.1.5	The Warehouse Personnel picks up the equipment from the Custodial Officer, signs the Turn-in Request for receipt of equipment, gives a copy of the Turn-in Request to the Custodial Officer, brings the equipment to the holding area, and notifies the Property Management Specialist.	Warehouse Personnel	X	X	X	X	X	X	X	X	X	P	MA	Continuous	Y	N	

* Note: This process relates to the Fixed Asset Accounting Process (formerly 11.3) which includes a monthly reconciliation control. This control addresses the Completeness assertion and Information processing objective. Additionally, the section on PP&E Systems (formerly 2.6) addresses the Restricted Access objective for AEMSMERS.

Figure 8. RCM Template

2. Document financial statement assertions in Appendix A Annual Review Plan and RCM.

ICS will document, in the Appendix A Annual Review Plan, the financial statement assertions for each line item. Additionally, ICS will document the financial statement assertions in the RCM for each MTC. At a minimum, ICS will specify the assertions that apply to the MTC at the top of the RCM table. Identifying the assertions related to each control (columns within the body of the table) is optional.

3. Populate RCM with risks, control objectives, and risk level.

For each MTC, ICS will complete the first three columns of the RCM by populating the risks, control objectives, and corresponding risk level for each MTC. Risks and control objectives are based on how a MTC is designed rather than how it is working in practice. For example, within Financial Reporting, some of the risks may include the following:

- Inaccurate changes to the chart of accounts result in financial reporting errors.
- Incorrect postings result in inaccuracies in subsidiary ledgers and the general ledger.



- Budgetary and Proprietary accounts do not balance, causing an inaccuracy in the Statement of Budgetary Resources.
- Adjustments are inaccurate, incomplete, and not made in the correct accounting period.

ICS will complete certain information in the RCM template (see Table 24).

Table 24. RCM Template Fields for ICS to Complete

Title	Definition
Risk	Risk is the threat that an event, action, or non-action will have an adverse affect on the ability to achieve one's objectives. The potential negative outcome that could result if a control activity does not exist to meet the goal of the control objective.
Control Objective	A reasonable assurance that is meant to be provided by the active and effective operational use of a control. Describes the purpose of a control activity as a policy, procedure, or activity put into place by VA senior management to offset identified risks. An example of a control objective: "To ensure only individuals with appropriate responsibility have the ability to record appropriations in the General Ledger."
Risk Level	Each risk and control objective should be assigned a risk level of high, medium, or low.

Appendix N includes suggested risks and control objectives for some of the common processes.

4. Identify and Document Expected Key Controls.

For each MTC, ICS will identify the controls necessary to effectively address the relevant financial statement assertions. These controls will be deemed the key control that should be in place. A key control is a control, or set of controls, that addresses the relevant assertions for a financial statement line item. These expected key controls will be documented in the RCM and, in Phase 2.2, compared to the actual control activities being performed. These key controls will include both manual and automated, or application, controls. In subsequent years, when the MTC documentation is updated, additional MTC steps and control activities may be added to these documents in order to provide further detail and enable a more comprehensive assessment.

During the Evaluating Phase (Activities 2.2.1.4 and 2.2.3), ICS will identify the control activities within each MTC and map those to the expected key controls and financial statement assertions. If controls within a MTC do not address all of the expected key controls and/or relevant assertions specified for that MTC, the controls may not be properly designed.



1.13 Plan for an Updated Assurance Statement in the PAR

VA is required to provide an assurance statement over the effectiveness of control over financial reporting as of June 30. This statement is a sub-statement of the overall Statement of Assurance required under Section 2 of the FMFIA.

1. Develop Annual Plan.

The SAT will work closely with ICS to develop a project plan that will allow the Secretary to sign the statement of assurance on internal control for inclusion in the annual PAR issued in November (see Figure 9).

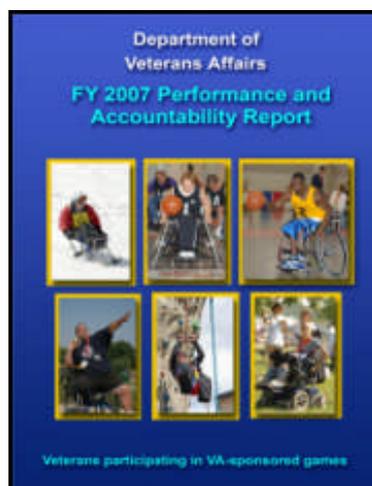


Figure 9. Performance Accountability Report

Table 25 shows the schedule that will assist the SAT in meeting the required deadline for submission of the annual statement.

Table 25. Schedule for Submission of the Annual Statement

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Planning															
					Evaluating										
										Testing					
												Concluding and Internal Reporting			
Correcting															
														External Reporting	

2. Review/approve Appendix A Annual Review Plan.



The Director of ICS will brief the SAT on the Appendix A Annual Review Plan described in Activities 1.1 - 1.12. ICS will work with the SAT to revise the plan if needed. The SAT must approve the final plan.

3. Develop project plan.

Following SAT approval of the Appendix A Annual Review Plan, ICS will develop a project plan which outlines key activities and deliverables. When developing a project plan, ICS will consider the following:

- Resources (contractor and civilian)
- Dependencies and predecessors
- Scheduling issues (audit site visits, training dates, federal holidays)

Table 26 lists the key activities for each phase, suggested dates, and key outputs. At a minimum, this information will be included in the project plan.

Table 26. Key Phase Activities

Phase	Key Activities	Dates	Key Outputs
<ul style="list-style-type: none"> • Planning 	<ul style="list-style-type: none"> • Scope assessment (1.1- 1.12) 	<ul style="list-style-type: none"> • August 	<ul style="list-style-type: none"> • Appendix A Annual Review Plan • Appendix A Annual Review Plan Appendices
	<ul style="list-style-type: none"> • Conduct quantitative analysis (1.5) 	<ul style="list-style-type: none"> • August - November 	
	<ul style="list-style-type: none"> • Conduct qualitative analysis (risk assessment) (1.8) 	<ul style="list-style-type: none"> • August - November 	
	<ul style="list-style-type: none"> • Integrate and coordinate with other control-related activities 	<ul style="list-style-type: none"> • August - November 	
	<ul style="list-style-type: none"> • Develop annual plan (1.12) 	<ul style="list-style-type: none"> • August - November 	
<ul style="list-style-type: none"> • Evaluating 	<ul style="list-style-type: none"> • Evaluate internal control at the entity level (2.1) 	<ul style="list-style-type: none"> • September - March 	<ul style="list-style-type: none"> • Entity assessment questionnaire and results
	<ul style="list-style-type: none"> • Document major transaction classes (2.2.1) and identify key controls (2.2.3) 	<ul style="list-style-type: none"> • July - March 	<ul style="list-style-type: none"> • Documentation packages - narratives and flowcharts • RCM • Quality control checklists
	<ul style="list-style-type: none"> • Evaluate control design (2.2.2) 	<ul style="list-style-type: none"> • July - March 	<ul style="list-style-type: none"> • Completed RCMs

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Phase	Key Activities	Dates	Key Outputs
	<ul style="list-style-type: none"> Conclude on control design (2.2.2) Prepare CAPs for design deficiencies (5.1.2) 	<ul style="list-style-type: none"> April 	<ul style="list-style-type: none"> Exception Log and Finding Outline and Evaluation Worksheet CAPs for design deficiencies
	<ul style="list-style-type: none"> Evaluate controls of cross-servicing providers (2.2.4) 	<ul style="list-style-type: none"> July - March 	<ul style="list-style-type: none"> Cross-servicing providers assessment and results
	<ul style="list-style-type: none"> Understand IT structure (2.3) 	<ul style="list-style-type: none"> July - March 	<ul style="list-style-type: none"> IT GCC assessment results
<ul style="list-style-type: none"> Testing 	<ul style="list-style-type: none"> Develop MTC-Level Test Plans (3.1) 	<ul style="list-style-type: none"> April 	<ul style="list-style-type: none"> Overall test plan
	<ul style="list-style-type: none"> Develop Master Test Plan by Site (3.2) 	<ul style="list-style-type: none"> April 	<ul style="list-style-type: none"> Process-level test plans
	<ul style="list-style-type: none"> Request evidence (3.3) and key controls (3.4) 	<ul style="list-style-type: none"> May - July 	<ul style="list-style-type: none"> Work papers (test sheets)
<ul style="list-style-type: none"> Concluding and Reporting 	<ul style="list-style-type: none"> Conclude on control effectiveness (4.1) 	<ul style="list-style-type: none"> August - September 	<ul style="list-style-type: none"> Exception Log (Final) Finding Outline Worksheets
	<ul style="list-style-type: none"> Report Externally (4.2.2) 	<ul style="list-style-type: none"> September - November 	<ul style="list-style-type: none"> Statement of Assurance
<ul style="list-style-type: none"> Correcting 	<ul style="list-style-type: none"> Develop and Approve CAPs (5.1) Correct Findings (5.1.4) 	<ul style="list-style-type: none"> Ongoing, as Findings are identified 	<ul style="list-style-type: none"> CAPs Verification and validation reports
<ul style="list-style-type: none"> Monitoring, Verifying and Validating 	<ul style="list-style-type: none"> Monitor CAPs (6.1) Review Evidence of Completion (6.1.8) Conduct Validation Reviews (6.2.1) 	<ul style="list-style-type: none"> Ongoing, as CAPs are implemented and completed 	<ul style="list-style-type: none"> CAP status reports Validation reports



Phase	Key Activities	Dates	Key Outputs
<ul style="list-style-type: none"> Follow-Up to Validation Review 	<ul style="list-style-type: none"> Determine next steps if CAP is not effective (6.2.2) Close the CAP if control is effective (6.2.4) 	<ul style="list-style-type: none"> –Within 30 days after validation review 	<ul style="list-style-type: none"> New CAP or other corrective measure CAP close-out checklist

Table 27 displays key SAT meeting dates and the purposes of those meetings:

Table 27. Key SAT Meeting Dates

Date	Purpose
<ul style="list-style-type: none"> November / December 	<ul style="list-style-type: none"> Present results of the qualitative and quantitative analyses Review and approve Appendix A Annual Review Plan
<ul style="list-style-type: none"> July 	<ul style="list-style-type: none"> Present preliminary test results
<ul style="list-style-type: none"> September 	<ul style="list-style-type: none"> Present findings
<ul style="list-style-type: none"> September 	<ul style="list-style-type: none"> Approve draft Corrective Action Plans and draft Statement of Assurance
<ul style="list-style-type: none"> October 	<ul style="list-style-type: none"> Approve final Statement of Assurance

4. Monitor progress against the Annual Review Plan.

ICS will monitor progress against the project plan and provide regular updates to the Director of ICS.

1.14 Self-Assessment Plan

The objective of the self assessment plan is to provide guidance to process owners for completion of the self assessment survey for low risk internal controls across VA as it relates to VA’s compliance with OMB Circular A-123, Appendix A for FY 2009. See Appendix R for survey examples.

Independent tests are only one source of evidence. Self assessments and surveys completed by process owners can also be a significant part of a balanced testing plan. This balanced approach must address both initial annual assessments and ongoing assessments.

1.14.1 Self Assessment Approach

Once the high and medium risk controls have been identified and planned for in the quantitative and qualitative analysis, the remaining controls identified on the risk control matrices but not selected for the test plan are examined by assessing key financial assertions. All of the low risk controls and a sample of the medium risk controls left over are chosen for testing, using a self assessment approach. To avoid any redundancy at the sites, these controls will be evaluated to ensure that they do not overlap with any of the high or medium risk controls that have been chosen for field testing.



1.14.2 Survey

The survey for these low and medium risk controls and guidance will be provided to each site director to distribute to the appropriate process owners within his or her unit for the actual self assessment. This survey allows the process owners to review and certify whether their respective controls are operating as intended. A certification signoff form will be included at the end of the survey for both the process owner and the director to sign, certifying that the self assessment was in fact performed and reviewed. A selection of Regional Office and VA Medical Center sites has been identified for testing during the months of June and July.

1.14.3 Identifying Test Sites

Testing could be conducted at sites that were previously scheduled to conduct field testing. This allows the process owners to ask questions of the staff members from ICS while they are in the field. Self assessments were conducted at Regional Offices and VA Medical Centers in FY 2009 in order to best evaluate trends across the VA and exclude singular operations. In future years, self assessment could be considered for centers such as the Hines Finance Center and the Debt Management Center.

1.14.4 Develop Survey

Based on the risk assessment identification, the low risk and chosen medium risk controls will be written into a question format so that they can easily be answered with a yes or no. A section will be provided for comments in the event that the process owner would like to provide additional information. If necessary, some background information will also be included in the survey for questions that require some additional context.

1.14.5 Guidance for Facility Directors and Process Owners

Facility directors are crucial for ensuring that the self assessment gets to the correct process owners and is completed in a timely manner. ICS sends a standard email (See Appendix R) to each facility director, clearly defining the objective and purpose of the self assessment. It also provides the facility directors with details on what areas the self assessment will cover. The facility directors are then responsible for identifying the process owners and providing them with the instructions on how they should conduct the self assessment. The email sent to the facility directors contains additional guidance for the process owners on how to fill out the self assessment survey. No other formal training will be provided; however, a point of contact must be assigned to coordinate the completion of the survey, and this individual is welcome to contact ICS with any questions that arise. Once the process owners complete the self assessment survey, the point of contact is required to sign the bottom of the survey certifying that the self assessment was in fact performed. The director is also required to sign the survey, certifying that they have reviewed and approve the self assessment results. The surveys are then returned to the contractor.



Internal Controls Stakeholder Procedure Manual



Evaluating Phase



2. Evaluating

The Evaluating phase involves understanding the Major Transaction Classes (MTCs) that support material line items and the controls placed over those MTCs. It includes assessing controls at the entity level as well as documenting MTCs, identifying financial systems that support key MTC internal controls, and evaluating manual and Information Technology (IT) controls. Table 28 reflects the required inputs and the key outputs of this phase. The Responsibility Assignment Matrix (RAM) developed during the Planning Phase identifies the party responsible for leading the performance of each step as well as other parties that should participate in completing each step.

Table 28. Evaluating Phase Inputs and Outputs

Activities / Steps	Inputs	Key Outputs
2.1 - Evaluate internal control at the entity level	None or <i>Appendix A Annual Review Plan</i> (if entity-level plan is included)	<ul style="list-style-type: none"> Assessment tool / survey questions Survey responses / meeting minutes Entity-level assessment results
2.2 - Evaluate internal control at the MTC level	<ul style="list-style-type: none"> Appendix A Annual Review Plan: MTCs Locations Numbering scheme 	<ul style="list-style-type: none"> Process narratives Process flowcharts Risk Control Matrix (RCM)
2.3 - Understand the IT infrastructure and associated risks for identified financial systems	<ul style="list-style-type: none"> Appendix A Annual Review Plan: MTCs 	<ul style="list-style-type: none"> IT General Computer Controls (GCC) assessment results Cross-servicing provider assessment results

2.1 Evaluate Internal Control at the Entity Level

Entity-level controls address the five elements of internal control as defined by the Government Accountability Office (GAO) and the Committee of Sponsoring Organizations (COSO). These five elements are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In addition to these five elements, entity-level controls may also include other controls that are pervasive in nature and that Veterans Affairs (VA) has determined to be necessary in order to carry out its operations.

As part of the assessment, the Internal Controls Service (ICS) will document, test, and evaluate the design and effectiveness of the five standards of internal control. While the Senior Assessment Team (SAT) is ultimately responsible for the entity controls evaluation, the Director of ICS will coordinate the effort and assign a sub-team within ICS to collect information and analyze results. Because entity level controls form the foundation for other controls, the testing and evaluation of these controls will occur early in the assessment phase. Weaknesses or deficiencies noted within these foundation



controls will need to be corrected as soon as possible in order to prevent the weakening of other internal controls.

2.1.1 Develop Assessment Tool

With the exception of the Control Activities element, evaluating entity level controls is generally accomplished through observation, inquiry, and inspection rather than the detailed transaction-level testing. (The Control Activities component will be tested with detailed testing as described in the Testing Phase of this manual.) Interviews, questionnaires, and checklists are usually helpful at the entity level. GAO has prepared a tool to assist in the evaluation of entity controls. The *Internal Control Management and Evaluation* Tool is available on the GAO website. Other tools are also available including online survey tools and interview protocols.

- Determine goal of entity assessment
ICS will determine its goal for the entity assessment. Are there certain elements of internal control that are of particular interest to the SAT? Will the assessment focus on all five elements each year?
- Develop survey questions
ICS will develop survey questions or extract appropriate parts of the GAO tool to meet its goal. The questions will address both culture/control environment and the underlying documentation or support for control activities (e.g., policies and procedures).

Key Outputs	Assessment Tool / Survey Questions
-------------	------------------------------------

2.1.2 Identify Sample

ICS will determine which individuals to survey or interview as part of the entity-level assessment. The sample will include representatives from various parts of VA and at various levels. However, ICS may consider weighing the sample toward the Office of Chief Financial Officer personnel since A-123, Appendix A, is focused on VA senior management's control over financial reporting. Both VA senior management and staff will be included in the sample in order to determine whether there is a difference between management and employees' views of entity-level controls.

2.1.3 Administer Assessment

- Determine administration method.
ICS will work with the SAT to determine the most appropriate administration method based on the selected assessment tool. For example, a checklist is suitable for web-based administration, whereas a face-to-face interview is more appropriate for open-ended questions.



- Administer survey and/or conduct interviews.
Once ICS has determined the administration method, they will administer the survey and/or conduct interviews. For a web-based survey, ICS will plan for a response time of about two weeks. Interviews will be scheduled for approximately one-hour in length.
- Prepare meeting minutes
Any information gathered during interviews will be documented in meeting minutes and saved in TeamMate (the ICS document repository). Any supporting documentation will be retained as part of the work papers.

Key Output

Survey Responses / Meeting Minutes

2.1.4 Analyze and Report Results

Upon completion of the entity-level assessment, ICS will review the results and supporting documentation. This includes conducting an analysis of verbal feedback and a review of documentation. ICS will extract themes relating to the five elements of internal control (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring). For example, within Control Environment, themes may center on ethical tone, code of conduct, and ethics training.

Any findings will be reported to the SAT and addressed during the Concluding, Internal Reporting, and Correcting Phase.

For each of the above steps, ICS will develop and maintain detailed documentation including method of sample selection, interview protocols, test results, and analysis.

Appendix D describes, in more detail, the five components of internal control; the factors that the assessment team will consider when documenting, testing, and evaluating these components; and the level where the results will be documented.

Key Output

Entity-Level Assessment Results

2.2 Evaluate Internal Control at the MTC Level

Internal control is an integral component of an agency's management that provides reasonable assurance in the achievement of the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. Documentation forms the basis for establishing written descriptions of MTCs which are used to evaluate control design and effectiveness. Further, Office of Management and



Budget (OMB) Circular A-123, Appendix A, requires the SAT to document its understanding of VA's internal control over financial reporting.¹¹

2.2.1 Document MTCs and Key Controls

The documentation will identify the key controls performed as part of the in-scope MTCs specified in the Appendix A Annual Review Plan, as well as categorize controls to discover IT controls that apply to refine the list of in scope financial systems.

ICS and the process owners will share responsibility for developing the documentation, reviewing it to verify that it is clear to someone with no knowledge of the process, and confirming its accuracy. The flow chart in Figure 10 illustrates the ideal documentation process.

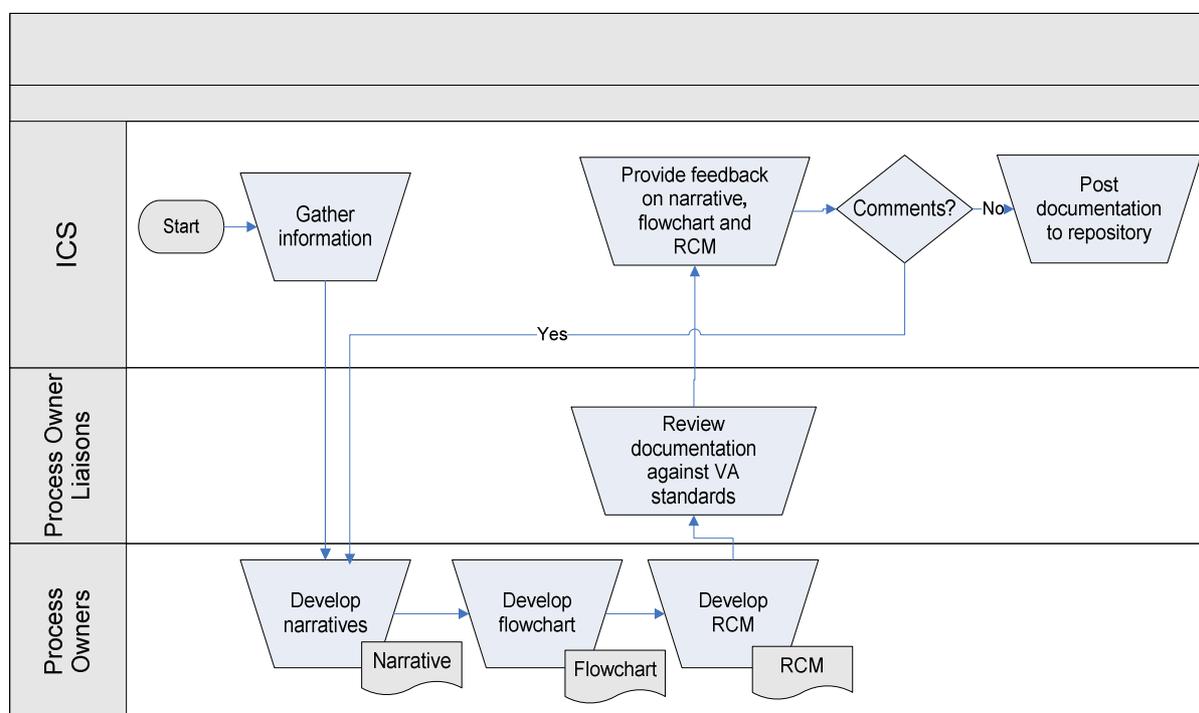


Figure 10. Documentation Process

2.2.1.1 Gather Information

Creating documentation for a given MTC begins with developing a basic understanding of the MTC and identifying the appropriate process owners.

- Identify process owner liaisons and process owners

¹¹ CFOC Implementation Guide for A-123, Appendix A, page 28.



SAT members will identify process owner liaisons for each in-scope MTC. Process owner liaisons will identify process owners who perform the processes. The process owner liaisons will also coordinate activities and facilitate communications between ICS and the process owners.

- Review existing documentation

Prior to contacting process owners, ICS will review existing documentation related to the MTC including cycle memos, relevant VA policies, and other internal documentation. Existing documentation will be saved in TeamMate.

2.2.1.2 Develop Narratives

A narrative is used to break down processes into individual, granular control activities. The individual MTC steps will be extracted from the meeting minutes, cycle memos, or other supporting documentation provided by the process owner (i.e., standard operating procedures, procedural memos) (see Table 29).

Table 29. Elements of Good Documentation

Tip: Elements of good documentation include references to the following:

- Financial statement line items and general ledger accounts included in the cycle
- Processing documents
- Inputs, activities, and outputs
- Policies and procedures governing transactions
- Provisions of laws and regulations (e.g., the process used by VA senior management to ensure compliance with laws and regulations such as the Anti-Deficiency Act)
- Computer information systems used to support the process
- Performance measures used by VA senior management to ensure operational controls are in place (e.g., fund balances with Treasury, suspense accounts, delinquent accounts receivable, etc.)
- Monitoring activities
- Relationship to other MTCs

1. Determine appropriate numbering for assigned MTC

ICS and the process owners will use the numbering scheme assigned to their MTCs. The numbering scheme, which organizes documentation according to major MTCs, is included in the Master Process List.

2. Conduct interviews

ICS and the process owners will call station Points of Contact to arrange interviews and/or workshops with ICS and the process owners to gain an understanding of MTCs. The information gathered is the foundation for the A-123, Appendix A process documentation. Often a single MTC will have more than one process owner. Ideally, all of the individuals involved in a given MTC would participate in the workshop. In cases where this is not possible, one-on-one or small group interviews work as well.



ICS and the process owners will facilitate interviews, being sure to ask the following questions:

- What is the risk being addressed?
- What is the control activity?
- Why is the activity performed?
- Who (or what system) performs the control activity?
- When (or how often) is the activity performed?
- What mechanism is used to perform the activity (reports and systems)?

When documenting a MTC, there is typically an associated IT element. As the interview discussion develops, it is important to ask the process owner how IT assists in the MTC and specifically what systems they use to perform their duties. For example, if a process owner states "Once an invoice is received, it is posted," the interviewer should follow up by asking the following questions:

- Where is the invoice posted?
- What steps are performed to post the invoice?
- Who has approval and or access authority to perform the same function?

Additional IT questions could include the following:

- What systems/applications support the MTC?
- When do you use the systems/applications indicated in the course of the MTC?
- What types of reports are generated from these systems in the course of the MTC?
- How often are these reports generated?
- If an inspection is not in place, are there associated IT mitigating controls?

Table 30 provides tips on interviewing and gathering information for documentation:

Table 30. Interviewing and Information Gathering Tips

Tip	Details
Determine the start and end point of a particular MTC	<ul style="list-style-type: none"> • Consider what would initiate the particular MTC, keeping in mind that sometimes the MTC is actually initiated in a separate sub-MTC • Recognize that the end point will be often be how data is reported into the financial system and hits the general ledger



Tip	Details
Make contact with process owners before the interview	<ul style="list-style-type: none"> Briefly explain the purpose of the interview Confirm the meeting time and place Specify exactly which areas will be covered so the process owner can invite all of the necessary people to the meeting (this will help avoid inconsistencies in the description of the MTC since differences can be resolved during the interview) Request that process owners bring copies of relevant documentation (reconciliations, journal vouchers, etc.)
Ask open-ended questions	<ul style="list-style-type: none"> Ask process owners to demonstrate how certain tasks are completed Questions should seek to obtain the who, what, when, why, and how of the activity.
Take notes and obtain documentation	<ul style="list-style-type: none"> Gather as many sample documents as possible (reconciliations, reports, journal vouchers, screen prints, etc.) Consider taking notes directly on sample documents. These notes can then be scanned and electronically included with the meeting minutes and work papers

3. Prepare meeting minutes

ICS will write meeting minutes based on discussions with process owners. The meeting minutes will document the following:

- Meeting date, time, and location
- Names and titles of participants
- Meeting purpose
- Definition of the MTC
- Process start and end points
- Detailed description of the activities, inputs, outputs, general ledger accounts, and policies related to the MTC

If clarification is needed, ICS may send the meeting minutes to the process owners for review and comment. ICS will retain meeting minutes in TeamMate (the ICS document repository).

4. Obtain Documentation template

ICS and the process owners will obtain and use the approved documentation template, which includes a section for the MTC narrative. The template is available on SharePoint; additionally, a sample narrative is included as Appendix M of this manual.

There are three columns in the MTC narrative: key process activity, process owner, and control matrix reference (see Table 31).



Table 31. MTC Narrative Columns

Major Transaction Activity	Process Owner	Control Matrix Reference
Background: [An overview of the MTC, including scope (MTC starting and ending points)]		
X.Y.Z.A [Step Title] [Description of step]	[Title]	
X.Y.Z.B [Step Title] [Description of step]	[Title]	C - X.Y.2

5. Complete narrative portion of Documentation template

ICS and the process owners will use the meeting minutes to complete the following fields for each step of the MTC:

- **Process Activity** – Individual process activities refer to single, distinct actions that occur in the overall MTC. Activities should focus on relevant policies and procedures, impacted financial statement accounts and assertions, and manual and automated controls in place. When a MTC is broken out into activities, the activities should be presented in a manner that tells a story, in order from start to finish. Descriptions of activities should be comprehensive enough to facilitate a clear understanding of the MTC, identify general and key controls that are in place, and highlight any control gaps that may exist. The description of the MTC should start with the material financial statement line item and move backward through the summarizing MTC. The end point is the initiation of the transaction.
- **Process Owner** – The process owner signifies the organizational unit or group that takes ownership of the specific activity within the MTC (e.g., Accounts Payable or Industrial Property Division). The process owner does not have to be the same for the entire MTC, as control of activities within the MTC can transfer between different individuals/groups multiple times. Titles of specific individuals who perform activities within the MTC should be included in the activity text. While the meeting minutes may include individual names, the narratives will identify people by title only.
- **Control Matrix Reference** – After the process activities are built, the assessment team will determine which activities are controls. A control is a policy, procedure, or activity put in place by VA senior management to offset identified risks and ensure that its mission and directives are essentially carried out. Not every activity is a control. Activities that are controls are signified with C#, where '#' corresponds to the step number. Additionally, append the node number of the activity step to the C# designation. It should read, C – 1.1.3.1, for example, signifying that the control is associated with step 1.1.3.1. This numbering will be used to populate the RCM, ensuring that it can be tied to the process narrative.

6. Complete additional information within the Documentation template



In addition to the narrative, ICS and the process owners will complete the following sections of the Documentation template:

- **Significant Accounts** – Enter the account number, account name, and financial statement line item for the main accounts affected by the MTC.
- **Policies and Procedures** – Document the policies and procedures that relate to the MTC.
- **Interfaces with Other MTCs** – Document touch points with other MTCs. For example, the Accounts Payable sub-process may reference a separate sub-process for the rejection of invalid invoices.
- **Significant Documents or Reports** – List any reports or outputs generated during the MTC. For example, if the process owner prepares a SF-424 reconciliation as part of the Funds Management MTC, the SF-424 form should be listed.
- **Sources of Information** – List the names, title and interview date for each person interviewed.

Key Output	MTC Narrative
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See Appendix M for a sample narrative based on existing VA documentation of the Personal Property Disposals sub-process within the Property, Plant, and Equipment Management MTC.

2.2.1.3 Develop Flowcharts

ICS and the process owners will develop flowcharts to complement their narratives. Flowcharts graphically depict the sequential flow of a process through events as objects, using a number of shapes. The flowcharts tie back to the narratives through "node numbers" that are placed on each object, directly corresponding to each control activity number in the narrative. Flowcharts are less detailed than the narratives, capturing only the principal steps in the MTC.

A simple example of a narrative (see Table 32) and its corresponding flowchart (see Figure 11) are displayed below.



Table 32. Narrative Example

MTC Activity	Process Owner	Control Matrix Reference
8.1.1 Input Data into X.Y.Z System The accountant reviews the payment data from Treasury and enters the data into the X.Y.Z system. The accountant prints the ABC report from the X.Y.Z system.	Accountant	
8.1.2 Review ABC Report The accounting supervisor reviews the ABC report and signs/dates the report as evidence of review.	Accounting Supervisor	C - 8.1.2

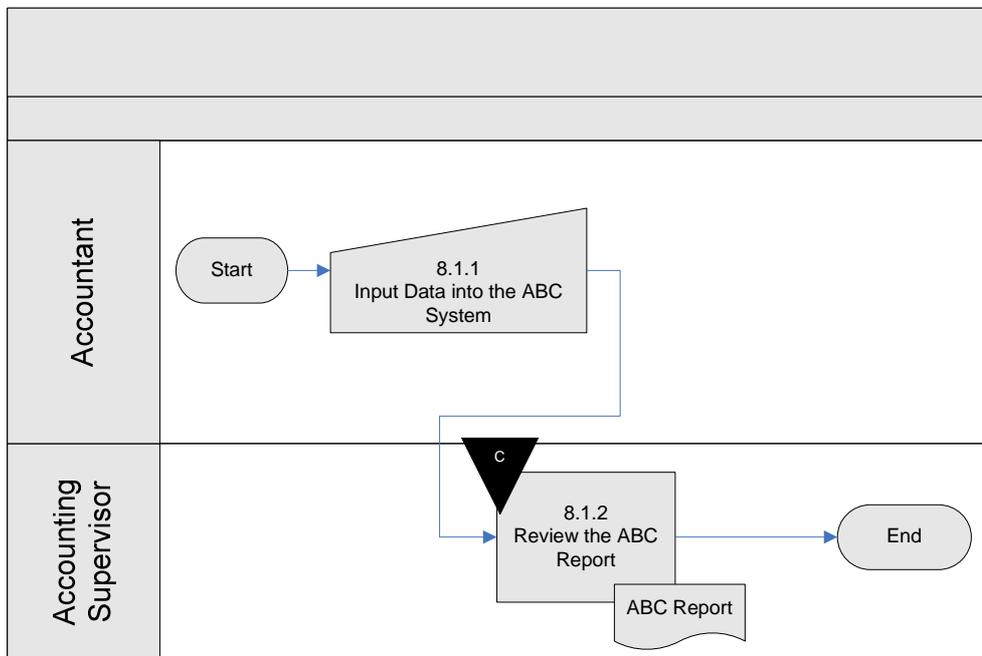


Figure 11. Flow chart Example

Appendix M includes a complete sample narrative and corresponding flowchart based on a Property, Plant and Equipment sub-process.

1. Obtain Visio template

ICS and the process owners will obtain the approved Visio template for flowcharts. The flowcharts will then be embedded in the documentation template with the corresponding narrative.

2. Create flowchart in Visio



Using the narrative, ICS and the process owners will develop a corresponding flowchart in Microsoft Visio. There are three key components of the cross-functional flowchart: header, swim lanes, and key controls.

- **Header (Title Bar)** – Header entries will follow the X.Y.Z numbering scheme discussed above and defined in the Appendix-A Annual Review Plan.
- **Swim Lanes** – Bands, or "swim lanes", are used in cross-functional flowcharting to highlight the relationship and timing between participants (actors) in the MTC. Each band belongs to an "actor". Actors are defined as the job role that performs the activity, such as AP clerk or property accountant. If a flow continues across multiple pages, and an actor is not part of the MTC on one of those pages, the empty swim lane should remain on the page whenever space allows in the event the actor comes back into play on a future page.
- **Controls** – In the narrative, the assessment team-identified controls. If a narrative's MTC activity is determined to be a control, an inverted triangle (black fill with white text) is placed over the top left corner of the corresponding shape in the flow. The control number (C#) without the activity reference (1.1.1.3) is placed inside the triangle.

Additional flowchart guidance, including the usage of shapes, can be found in Appendix F.

Key Output

Flowchart (within Documentation template)

3. Insert flowchart into documentation package

ICS and the process owners will save their flowcharts in Visio and then use copy-and-paste-special (see Figure 12) to copy the flowchart from Visio® and paste it into the Word® documentation package as a picture.



Figure 12. Paste Special



2.2.1.4 Develop Risk/Control Matrices

Once ICS and the process owners have prepared documentation for the in-scope MTCs, they will identify key controls within the MTCs in a Risk Control Matrix (RCM). An RCM lists all controls (both key and non-key) and captures additional detail around each. The goals of the RCM are as follows:

Identify key controls and assess the design of controls

1. Determine if the controls in place adequately mitigate the risks and meet the stated control objectives
2. Obtain RCM

ICS and the process owners will obtain the RCM from SharePoint. During the Planning phase, the RCM was populated with risks, control objectives, risk level, financial statement assertions and expected key controls.

3. Update risks and control objectives

ICS and the process owners will confirm the risks, control objectives, and expected key controls for each MTC. Since control objectives and risk are based on how a MTC should be designed rather than how it is working in practice, this step can actually be completed before the documentation step. For example, within Financial Reporting, some of the risks may include the following:

- Inaccurate changes to the chart of accounts result in financial reporting errors.
- Incorrect postings result in inaccuracies in subsidiary ledgers and the general ledger.
- Budgetary and proprietary accounts do not balance causing an inaccuracy in the Statement of Budgetary Resources.
- Adjustments are inaccurate, incomplete, and not made in the correct accounting period.

4. Populate RCM with actual control activity information

ICS and the process owners will use the narratives to complete the remaining columns of the RCM template in Excel® (see

Table 33). At a minimum, the RCM should include the key controls that correspond to risks and the expected key controls. Note that if there is a control objective and risk that does not have a corresponding control, the remaining columns within that row should be left blank. (This will be covered further in Activity 2.2.2).

Table 33. RCM Columns

Title	Definition
Control Reference Number	Used as a unique identifier for tracking, consolidation, and aggregation purposes. This number corresponds to the documentation and is determined by numbering scheme specified in the Appendix A Annual Review Plan.



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Title	Definition
Actual Control Activity	Indicates the MTC to which the control objective and control activity apply. The control activity can be obtained directly from the MTC narrative. (This may or may not be the same as the Expected Key Control documented during the Planning Phase.)
Process Owner	Used to identify the owner and key contact personnel. The process owner's title (rather than name) should be used.
Information Processing Objective (optional)	Describes VA senior management's goal in relation to controls to help support VA senior management's implicit financial statement assertions. The information processing objectives are: <ul style="list-style-type: none"> • Completeness of records (C) • Accuracy of records (A) • Validity of records (V) • Restricted access to assets and records (R) • See Appendix E for details on the information processing objectives.
Financial Statement Assertions (optional)	Lists the financial statement assertions that the control addresses. These are as follows: <ul style="list-style-type: none"> • Presentation and Disclosure • Existence or Occurrence • Rights and Obligations • Completeness • Valuation or Allocation • Laws and Regulations • Recall that the assertions were mapped to the financial statement line items and MTCs during the Planning Phase (See Activity 1.10). The top portion of the RCM (completed during the Planning Phase) indicates the financial statement assertions for the MTCs as a whole. • In the Evaluating Phase, the assertions are being associated with individual risks and controls. If a MTC does not have any gaps, the group of controls within the MTC will address all relevant assertions identified in Activity 1.10. • Appendix E also includes details on the financial reporting assertions.
Preventive or Detective	Preventive controls (P) are typically "front-end" actions/activities that deter errors in financial reporting, whereas Detective controls (D) are actions/activities that serve the purpose of discovering errors in financial reporting that have already been processed. For example, journal voucher approval is a preventative control while reconciliation is a detective control.
Manual or Automated?	Indicates whether a control is being performed manually, or if it is automated. For automated controls, a column has been included so that the application used to perform the control can be noted as well.
Application (if Automated)	For manual controls, this column should be marked "N/A". For automated controls, the application used to perform the control should be noted.



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Department of Veterans Affairs A-123, Appendix A, Assessment					
Documentation Quality Review Checklist					
Document Name					
Originator(s)					
Deliverable Due Date					
Date Provided					
Reviewers: Place check marks in each of the boxes to indicate review of the attribute. Initial and date the bottom of the column as evidence of your review.					
<div style="display: flex; justify-content: space-around; width: 100%;"> Process Owner Process Owner Liaison ICS Other: _____ Other: _____ </div>					
Narrative					
Describes the complete process as defined by VA					
Is formatted in accordance with template					
Contains clear descriptions of activities and controls					
Specifies Process Owners for each step					
Contains clear activity/step headings (Verb+object)					
Addresses all various scenarios (i.e.- What if the supervisor does <i>not</i> approve the JV?)					
Contains correct spelling, grammar, formatting					
Flowchart					
Displays consistent step names and numbers with narrative and RCM					
Uses correct shapes for each step					
Displays start and end points					
Includes yes/no options for all decision boxes					
Contains correct spelling, grammar, formatting					
Risk Control Matrix					
Is consistent with narrative and flowchart					
Contains all required fields					
Includes correct identification of objectives and risks					
Identifies key controls					
Identifies application name for all automated controls					
Contains correct spelling, grammar, formatting					
Initials					
Date					

Figure 14. Documentation Quality Review Checklist



1. Complete Documentation Quality Review checklist (ICS/process owners)
ICS and process owners will complete the Documentation Quality Review checklist and send the completed checklist with the documentation package to respective liaisons.
2. Complete Documentation Quality Review checklist (liaisons)
Process owner liaisons will complete the Documentation Quality Review checklist and submit the completed checklist with the documentation package to ICS.
3. Complete Documentation Quality Review checklist (ICS)
ICS will determine if any other stakeholders, such as the Associate Director for Financial Controls Division or the Director of ICS, should review the documentation and finalize the quality checklist. The necessary stakeholders will complete and retain the checklist with the final documentation.
4. Provide status updates (process owner liaisons)
Process owner liaisons are responsible for reporting progress as requested by ICS. At a minimum, process owners may be asked to report status of documentation (not started, interviewing, drafting, reviewing, or complete) and an estimated completion date for each assigned sub-process.

2.2.1.6 Retain Documentation

ICS will retain documentation and quality control checklists in TeamMate.

2.2.2 Evaluate Control Design

In assessing the design of controls, ICS and the process owners will determine whether the controls will, if operating as intended, provide reasonable assurance that VA senior management information processing objectives [Completeness, Accuracy, Validity and Restricted Access (CAVR)] are being met in relation to the relevant financial statement assertions for all significant accounts and disclosures. While ICS and the process owners share responsibility for this task, it may be difficult for process owners to evaluate their own MTCs. ICS will serve as an independent perspective and assist in the design evaluation.

- Complete the evaluation columns of the RCM template
The RCM discussed in Activity 2.2.1.4 is a useful tool for documenting control design. ICS should complete the Title and Definition columns of the RCM template in order to document the control design (see Table 34):



Table 34. RCM Template Title and Definition

Title	Definition
Design Gap (Y/N)	Indicates whether a control is designed effectively. In cases where a design gap exists, it is also necessary to fill out the columns prioritizing and describing the gap.
Gap Description	Describes in detail why the control design is considered to be inadequate, and the impact of the design gap.

When evaluating the design of controls, key questions to consider include the following:

- Are there any objectives/risks that were not matched to corresponding controls? (These would be indicated by blank rows in the RCM.)
- Do the control activities in place cover all CAVR?
- Do the control activities in place cover all associated financial statement assertions? In other words, is there at least one key control that addresses each of the relevant assertions specified in the Planning Phase? (See Activity 1.5)
- Are there mismatches between a control activity in place and the associated CAVR?
- Are there excessive control activities addressing a single CAVR or assertion?
- Is there an appropriate balance of preventive and detective controls?

If the answer to any of the above questions is "no", a control gap may be present. Other considerations regarding the evaluation of control design are included in Table 35.¹²

Table 35. Evaluation of Control Design

Consideration	Detail
The alignment between the controls and the risks identified (i.e., whether the MTCs and related controls appear to be effective in achieving VA senior management's stated objectives and managing its risks)	<p>The appropriateness of a control alignment relates to the control's directness and selectivity.</p> <ul style="list-style-type: none"> • The more direct the alignment/relationship, the more effective the control may be in achieving the objective. • Selectivity refers to the magnitude of the amount, or the significance of other criteria or distinguishing characteristics, that a specific control will identify as an exception condition.

¹² CFOC Implementation Guide for A-123, Appendix A, Page 28. Based upon the GAO/PCIE Financial Audit Manual, Section 340.



Consideration	Detail
<p>Frequency of the control - whether the control will detect or prevent the risk identified on a timely basis (i.e., in some cases, a detective control may be adequate, but in other cases, an entity should ensure adequate preventative controls are in place)</p>	<p>The regularity with which controls are applied can determine the effectiveness of the control. Generally, the more frequently a control is applied, the greater the likelihood that it will be effective.</p>
<p>Knowledge and experience of the people involved in performing the controls</p>	<p>The person applying a control should have the necessary knowledge and expertise to properly apply it. The lesser the person's experience and skills, the less likely that the control will be effective (i.e., effectively applied). Also, the effective application of a control is generally adversely affected if the activity (1) is performed by an employee who has an excessive volume of work or (2) is not performed carefully.</p>
<p>Segregation of duties relevant to the process being controlled</p>	<p>Lack of segregation of duties over control activities and monitoring controls hinders the effectiveness of the control. For example, an effectively designed control activity such as a reconciliation of Fund Balance with Treasury-to-Treasury records should be considered ineffective if the related monitoring activity of supervisory review of the reconciliations is performed by the same person.</p>
<p>Timeliness in addressing issues and exceptions that result from the control activity (follow-up procedures)</p>	<p>A control's effectiveness is dependent on the effectiveness of follow-up procedures. To be effective, these procedures should be applied on a timely basis and should (1) determine whether control exceptions represent misstatements and (2) correct all misstatements noted. For example, as a control, an accounting system may identify and put exception transactions into a suspense file or account. Lack of timely follow-up procedures to (1) reconcile and review the suspense file or account and (2) correct items in the suspense file or account would render the control ineffective.</p>
<p>Reliability of the information used in the performance of the control</p>	<p>If the control is contingent upon specified data, the reliability of the information will determine the effectiveness of the control. For example, if one of the controls over compliance with the Prompt Pay Act requires VA senior management to review a system-derived management information report that ages receipt of invoices, the control will be rendered ineffective if the controls over the system (General or Application controls) used to produce the management information report are determined to be ineffective (i.e., unreliable).</p>
<p>Period covered by the control</p>	<p>To be effective, the controls should be in place during the period under assessment.</p>



ICS will also evaluate controls based on the level of assurance provided by the control. In evaluating the level of assurance provided by a given control, ICS will consider the nature of the control, how the control is applied, the consistency with which it is applied, and who applies it.

The degree of assurance over internal control will vary based on several factors, including those listed in Table 36.

Table 36. Degree of Assurance

Less Assurance	Greater Assurance
Manual control	Automated control
Complex control (requires many steps, multiple calculations, etc.)	Simple control (single step, single calculations, etc.)
Control is performed by a junior, inexperienced person	Control is performed by an experienced manager
Detective control (detects a potential problem after a transaction is executed)	Preventive control (prevents a problem)
Single control	Multiple, overlapping controls
High-level control (analytics)	Detailed, transaction-level control
Control uses sampling	Control involves checking all items
Control takes place well after the transaction	Control occurs in real time (i.e., as the transaction takes place)

VA senior management’s evaluation of design effectiveness is important because only properly designed controls can mitigate risk. Thus, ICS will document its evaluation in a clear and comprehensive manner within the "Gap Description" column of the RCM.

1. Review design assessment (Associate Director).

The Associate Director for the Financial Controls Division will review the assessment columns of the RCM. Once the Associate Director has reviewed and approved all RCMs within a given MTC, he will inform the Director that the RCMs are ready for the Director’s review.

2. Review design assessment (Director of ICS).

The Director of ICS will review the completed RCM. If needed, the Director will seek guidance from the Office of Business Oversight (OBO), SAT, or the Office of Inspector General in order to finalize design gaps and design deficiencies.

3. Update Exception Log.

ICS will enter exceptions related to control design (missing and poorly designed controls) into an Exception Log. The Exception Log template and instructions for completing in are described in Activity 4.1.

4. Write Finding.

ICS will report a Control Design Effectiveness finding in accordance with 4.1 and the Finding Outline and evaluation Worksheet at Appendix Q.12.



5. The correction of the deficiency begins immediately after the finding is approved by the SAT.

2.2.3 Identify Key Controls

Within the RCM, ICS and process owners will identify the key controls. A key control is a control, or set of controls, that addresses the relevant assertions for a financial statement line item (see Table 37). RCMs assist in the identification of key controls and the presentation of controls-related analysis. Controls over effectiveness and efficiency of operations and compliance with laws and regulations that have a direct and material impact over financial reporting will be included in the RCMs. Documentation related to the design will include a description of controls over the prevention and detection of fraud, including who performs the control and the related segregation of duties.

Table 37. Sample Key Controls

Sample key controls from the Property, Plant and Equipment major transaction class
<ul style="list-style-type: none"> • The facility director reviews the investment matrix to ensure that it is complete and accurate and authorizes and approves the matrix with a signature and date. • The property management specialist sends a copy of the inspection report as well as an email to the contracting officer at the national acquisition center to notify the contracting officer of the completion of the inspection.

Key controls will be determined using the following steps:

1. Identify controls that cover the most Presentation and Disclosure, Existence and Occurrence, Rights and Obligations, Compass and Accuracy, Valuation and Allocation (PERCV) and CAVR elements for each control objective.

For example, if a control covers seven out of the ten PERCV and CAVR elements, it may be a key control whereas, if a control covers only two out of the ten elements, it may be a mitigating control.

2. Determine the control that addresses the most control objectives and select it as a key control.

For example, “Supervisor reviews and approves the reconciliation of time reports to time sheets performed by the Analyst” addresses more control objectives than “Analyst reconciles time reports to time sheets and notes any discrepancies in a log.”

3. Select a control as key if it is the only control for a PERCV or CAVR element
4. Be sure to select at least one key control for each control objective
6. Mark a "Y" in the Key Control column of the RCM template for each key control



2.2.4 Evaluate the Controls of Cross-Servicing Providers and Service Organizations

Cross-servicing providers and service organizations are entities outside of VA that process financial data. The use of such organizations was covered in detail in Activity 1.11. During the Evaluating Phase, ICS will perform its assessment of service organization controls.

2.2.4.1 Assess Results of Statement on Auditing Standards (SAS) 70 Reports

In assessing the results of the SAS 70 reports, ICS will determine whether the failure of any controls would diminish the ability of VA to place reliance on the application reviewed. For example, the failure of the controls related to two control objectives and the fact that several control objectives have not been met does not necessarily diminish the ability of VA to place reliance on the reviewed application because the nature of the control failures is such that any risk related to VA financial statements is minimal. Also, it is important to note that if a failure is identified, but mitigating controls have been applied, the application could be considered reliable.

1. Obtain SAS 70 Assessment Checklist template

ICS has developed a SAS 70 checklist template in Microsoft Excel (see Figure 15). ICS will obtain the template from SharePoint. Refer to Appendix Q.4 for a larger screenshot:



Department of Veterans Affairs A-123, Appendix A, Assessment SAS 70 Assessment Checklist	
Cross Servicing Organization	
Report Title	
Report Data	
Date Provided	
Questions:	Y/N Notes:
Are controls in place to provide reasonable assurance that physical and logical access to VA mainframe and client-server resources, using computer terminals at client locations, is restricted to authorized individuals?	
Are controls in place to provide reasonable assurance that designated individuals at client locations, comply with VA security policies, standards, and procedures?	
Are controls in place to provide reasonable assurance that audit reports of system use made available by VA are reviewed?	
Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes for individuals who are authorized to add, change, and delete user access to VA application production regions?	
Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes for individuals who are authorized to add, change, and delete user access to VA application production regions?	
Are controls in place to provide reasonable assurance that comprehensive user acceptance testing for any fixes and enhancements are performed and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that the record-retention (e.g., off-line storage) requirements for financial statements is documented and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that on-line retention and archiving of VA data has been established and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that Computer Incident Response procedures have been developed in coordination with the responsible individual(s)?	
Are controls in place to provide reasonable assurance that the production cycles are properly maintained and changes to them are timely communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that obligations are not incurred in excess of the available budgetary amounts?	
Are controls in place to provide reasonable assurance that appropriate users review output reports for completeness and accuracy?	
Are controls in place to provide reasonable assurance that the processed transactions processed are complete, accurate, and appropriately authorized and approved?	
Are controls in place to provide reasonable assurance that erroneous data is corrected and resubmitted?	
Are controls in place to provide reasonable assurance that incompatible job functions surrounding the processing of VA transactions are identified and pertinent policies and procedures are enforced to segregate these job functions?	
Conclusions:	
Completed by:	Date:
Reviewed by:	Date:

Figure 15. SAS 70 Assessment Checklist



2. Complete SAS 70 Assessment Checklist

ICS will review the SAS 70 reports and complete a SAS 70 Assessment Checklist for each service provider. The checklist addresses the following questions:

- Are controls in place to provide reasonable assurance that physical and logical access to VA mainframe and client-server resources, using computer terminals at client locations, is restricted to authorized individuals?
- Are controls in place to provide reasonable assurance that designated individuals at client locations comply with VA security policies, standards, and procedures?
- Are controls in place to provide reasonable assurance that audit reports of system use made available by VA are reviewed?
- Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes of individuals who are authorized to add, change, and delete user access to VA application production regions?
- Are controls in place to provide reasonable assurance that client custom programming changes are appropriately documented, reviewed, tested, and implemented?
- Are controls in place to provide reasonable assurance that comprehensive user acceptance testing for any fixes and enhancements are performed and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that the record-retention (e.g., off-line storage) requirements for financial statements are documented and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that on-line retention and archiving of VA data has been established and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that Computer Incident Response procedures have been developed in coordination with the responsible individual(s)?
- Are controls in place to provide reasonable assurance that the production cycles are properly maintained and changes to them are timely communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that obligations are not incurred in excess of the available budgetary amounts?
- Are controls in place to provide reasonable assurance that appropriate users review output reports for completeness and accuracy?
- Are controls in place to provide reasonable assurance that the transactions processed are complete, accurate, and appropriately authorized and approved?



- Are controls in place to provide reasonable assurance that erroneous data is corrected and resubmitted?
- Are controls in place to provide reasonable assurance that incompatible job functions surrounding the processing of VA transactions are identified and pertinent policies and procedures are enforced to segregate these job functions?

3. Review SAS 70 Assessment Checklist

The Associate Director for the Financial Controls Division within ICS will review the SAS 70 Assessment Checklist and sign/date the bottom of the checklist as evidence of his review.

4. Retain documentation

ICS will retain the checklists in TeamMate.

2.2.4.2 Perform Alternate Procedures

If an annual assurance statement or SAS 70 does not exist, ICS will conduct the alternate procedures outlined in its Appendix A Annual Review Plan. Refer to Appendix H for an explanation of alternative procedure options.

Key Output

Cross-servicing provider assessment results

2.3 Understand IT Structure and Associated Risks

IT controls fall into two categories: general computer controls and IT application controls. General controls include controls over the IT environment, computer operations, access to programs and data, program development, and program changes. These controls represent the foundation of the IT control structure. They help ensure the reliability of data generated by IT systems and support the affirmation that systems operate as intended and that output is reliable.

Application controls refer to the transactions and data controls that ensure the completeness and accuracy of records and the validity of the entries resulting from both manual and programmed processing. Examples of application controls include data input validation, agreement of batch totals, and the accuracy of reports. These controls vary based on the business purpose of the specific application. Application controls also include interface controls, which help ensure the privacy and security of data transmitted between applications.

The A-123, Appendix A assessment of general computer and application controls should be coordinated with other IT-related assessments, where possible, as documented in the Appendix A Annual Review Plan (see Activity 1.13 of this manual). The plan also documents which systems (for application controls) and host environments (for general controls) should be included in the current year's assessment.



2.3.1 Assess General Computer Controls (GCC)

As part of its assessment, ICS must evaluate GCCs. GCCs are pertinent for all applications. The objectives of general controls are to ensure a controlled operating environment is maintained for the development and functioning of applications. As such, all relevant control environments should be assessed.

VA's Office of Information and Technology (OI&T) conducts FISMA internal assessments based on the control requirements listed in National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, as required by VA Directive 6500. As part of its assessment, ICS should consider Certification and Accreditation (C&A) documentation, FISMA assessments, and other Department-wide efforts in order to determine what additional testing, if any, needs to be completed in order to meet the guidelines established in the Federal Information System Controls Audit Manual (FISCAM), and to satisfy the level of testing required by A-123, Appendix A.

The steps below provide VA with an IT internal control framework to help VA effectively identify and document its general computer controls. Several of these frameworks exist; however, FISCAM was created by the GAO as the primary methodology to evaluate general computer controls and application controls for financial systems in federal government agencies.

1. Determine relevant FISCAM elements

Although FISCAM should be used to help VA identify and document its general computer controls, VA should carefully consider which of FISCAM's "critical elements" (control objectives) and related "control activities" are relevant to its specific risks and unique IT environment. VA may not need to include all control activities specified by FISCAM, or may need to include others not specified by FISCAM. Additional controls are often included from NIST SP 800-53 *Recommended Security Controls for Federal Information Systems*.

Accordingly, VA must use judgment to tailor FISCAM, so it is appropriate to the size and complexity of the IT environment. The security categorization of information and information systems completed by VA as a result of Federal Information Processing Standards (FIPS) Publication 199 can help the Department appropriately tailor FISCAM for each system. According to FIPS Publication 199, "the security categories [low, moderate, and high] are based on the potential impact on an organization should certain events occur which jeopardize the information and information systems needed by the organization to accomplish its assigned mission, protect its assets, fulfill its legal responsibilities, maintain its day-to-day functions, and protect individuals." This security categorization is based on the following three security objectives: confidentiality, integrity, and availability.

Table 38 is an overview of what will be documented for each of the major categories of FISCAM and how the financial statement assertions link to each of these categories.



Table 38. FISCAM Major Categories

FISCAM Category	What Should be Documented?	Financial Statement Assertions Affected
Security Management (SM), FISCAM Section 3.1	The design of the entity-wide security controls pertaining to in-scope applications and IT environments. (Note: As indicated in Section 3, the in-scope applications are those that play a role within the processes/cycles that are considered significant to the financial statements.)	All
Access Control (AC), FISCAM Section 3.2	The design of the access controls pertaining to in-scope applications and IT environments.	All – but most relevant to completeness and existence
Configuration Management (CM), FISCAM Section 3.3	The design of the system configuration controls necessary to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended,	All
Segregation of Duties (SD), FISCAM Section 3.4	The design of the segregation of duties controls pertaining to in-scope applications and IT environments.	All
Contingency Planning (CP), FISCAM Section 3.5	The design of the system contingency controls pertaining to in-scope applications and IT environments as necessary for the operating environment.	All – but most relevant to completeness and existence

2. Obtain GCC Template

GCCs should be evaluated once for each environment [e.g., operating environment (Mainframe, Active Directory) or host site] in which they operate, and they apply to all applications hosted within that environment.

The Appendix A Annual Review Plan indicates which environments/host sites are in scope for the current fiscal year. GCCs can be documented in their own evaluation template (see Figure 16) which is categorized by FISCAM area. There will be one GCC form for each in-scope environment. The ICS-approved template is located on SharePoint. Refer to Appendix Q.5 for a larger screenshot:



Department of Veterans Affairs
General Computer Controls Assessment

Environment (Host Site):
VACO

FISCAM Reference	Critical Element (Control)	Description and Frequency of Control Activity	Control Techniques	P or D (1)	A or M (2)	Control Effective (Y/N)?
Five domains within FISCAM include: Security Management (SM), FISCAM Section 3.1; Access Control (AC), FISCAM Section 3.2; Configuration Management (CM), FISCAM Section 3.3; Segregation of Duties (SD), FISCAM Section 3.4; Contingency Planning (CP), FISCAM Section 3.5.	Describe the purpose of the control activity	Explain the actual activity being performed and how often the activity is performed, e.g., daily, weekly, monthly, annually	Describe the requirements associated with an effective control for this control activity	Indicate the control approach as either preventive or detective	Identify the control activity as automated (performed using a system or application) or manual (requires human intervention or judgment)	Indicate the control design as effective (Y) or not effective (N)
AC-2.1	<i>Resource owners have identified authorized users and their access is authorized.</i>	<i>Access authorizations are (a) documented on standard forms and maintained on file, and (b) evidence of management approval is retained. Daily activity.</i>	<i>1. Appropriate business owners periodically review current access levels and determine whether users and their associated access rights remain appropriate. Documentation of management review and corrective actions taken are retained. 2. Inactive users' accounts are monitored and removed after a predetermined period of inactivity (i.e., 120 days)</i>	P	M	Y

Figure 16. GCC Assessment Template

3. Complete GCC Template

The assessment team should complete the fields in the GCC Template.

- **Environment (Host Site)** – Specify the environment for the particular GCC assessment. (Note that there will be a completed GCC Template for each in-scope environment.)
- **FISCAM Reference** – Specify one of the five domains within FISCAM which are: SM, AC, CM, CP, and SD
- **Critical Element (Control Objective)** – Describe the purpose of the control activity
- **Description and Frequency of Control Activity** – Explain the actual activity being performed and how often the activity is performed, e.g., daily, weekly, monthly, annually
- **Control Techniques** – Describe the requirements associated with an effective control for this control activity
- **Preventive or Detective** – Indicate whether the control is preventative (P) or detective (D)



- **Automated or Manual** – Identify the control activity as “A” for automated (performed using a system or application) or “M” for manual (requires human intervention or judgment)
- **Control Effective (Y/N)?** – Indicate whether the control design is effective (Y) or not effective(N)

Key Output

Cross-servicing provider assessment results

2.3.2 Assess Application Controls

Application software handles business transactions. Many major transaction classes involve applications and, therefore, contain an associated IT element. The Director of ICS is responsible for coordinating the documentation and assessment of both manual and IT controls. The Chief Financial Officers Council implementation guide notes, "Although assessing computer-related controls generally requires specific expertise and procedures not employed in the evaluation of manual controls, the evaluation of computer-related controls should be planned in conjunction with the evaluation of manual internal control over financial reporting."¹³ The documentation and assessment of application controls is part of the documentation and assessment of business process-level controls, and consideration should be given to FISCAM Chapter 4, "Evaluating and Testing Business Process Application Controls." See steps in Activity 2.2. All of these steps apply to application controls as well as manual controls.

¹³ *CFOC Implementation Guide for A-123*, Appendix A, page 31.



Internal Controls Stakeholder Procedure Manual



Testing Phase



3. Testing

Once the assessment team has documented controls and evaluated the design of those controls, they will test properly-designed key-controls to validate their effectiveness. The ultimate goal of testing a control is to verify that it is functioning properly (i.e., as designed). Internal Control Service (ICS) staff and process owners will conduct testing, with oversight from the Director of ICS, the Office of Business Oversight (OBO), and the Senior Assessment Team (SAT). ICS will retain evidence of testing to support the assessment.

One of the most critical activities for ICS is to develop an overall Test Plan. Like the Appendix A Annual Review Plan developed in the Planning Phase, the Test Plan documents Veterans Affairs (VA's) approach to testing. This plan is described in detail in a later section of this guide.

Testing will be conducted by objective personnel. The person performing the test will not be the person responsible for performing the control, or report directly to the person performing the control.

The responsibilities for the stakeholders involved in the Testing Phase are displayed in Table 39.

Table 39. Testing Phase Inputs and Outputs

Activities / Steps	Inputs	Key Outputs
3.1- Develop Test Plan	Appendix A Annual Review Plan: <ul style="list-style-type: none"> • Major Transaction Classes (MTCs) • Locations • Resources • Project Schedule • Validation Review Plan 	<ul style="list-style-type: none"> • MTC-level test plans • Master test plan • Evidence Request list by location
3.2 - Test key controls	<ul style="list-style-type: none"> • MTC-level test plans • Validation Review Plan 	<ul style="list-style-type: none"> • Testing documentation and results (completed MTC-level test plan templates and Test Sheets) • Exception Log

3.1 Develop MTC-Level Test Plans

During the initial years of A-123, Appendix A, VA will test key controls in order to verify that controls are operating effectively. ICS will document its testing approach, as well as other planned testing procedures. This documentation may be included in an overall Test Plan or in the Appendix A Annual Review Plan covered in Phase 1.



VA will consider using a risk-based approach. More information regarding risk-based testing approaches is included in Appendix I. Regardless of whether VA uses a risk-based approach, its Test Plan will address the following items:

- Which controls will be tested (entity-level, manual controls, application controls, GCCs)
- Who will perform the testing (ICS, process owners, contractors)
- When testing will be performed
- Where testing will be performed
- How controls will be tested (inquiry, inspection, observation, re-performance)
- What sample sizes will be used
- What testing documentation (work papers) will be developed and retained

Each of these testing dimensions is discussed in more detail in the following section.

3.1.1 Determine Which Controls Will Be Tested

ICS will demonstrate that controls covering the five components of internal control (Appendix D) are operating effectively relative to significant line items and related accounts, disclosures, MTCs, and locations. The test plan will also include remediated controls from the corrective action plan validation review plan. In general, ICS will test key controls that are in place and properly designed. They will exclude the following controls:

- Controls deemed to be non-existent or insufficient in operation or design by VA senior management, GAO, Office of Inspector General, or independent public auditors. In these instances, ICS will determine if remediation is underway, and if not, recommend that corrective actions be implemented.
- Controls tested during other reviews such as Statement on Auditing Standards 70, FISMA, or FFMIA compliance reviews. The team will review assessment results, applicable reports, or supporting documentation and incorporate results into the overall assessment of controls.
- Remediated controls that have not been in operation for a sufficient period of time to assess operating effectiveness (See Appendix I on Risk-based Testing).

ICS will document which controls will be tested in the Overall Test Plan.



3.1.2 Identify who will perform the testing

It is important that process owners and personnel completing the control activities are trained and knowledgeable about the assessment of controls within their MTCs. If process owners are involved in testing, ICS will ensure that the testers are objective. The person performing the test should not be the person responsible for performing the control, or report directly to the person performing the control. ICS will document who will perform the testing in the Test Plan.

3.1.3 Determine When Testing Will Be Performed

ICS will schedule testing in the late spring or summer. This will facilitate VA's ability to prepare its Statement of Assurance as of June 30 for inclusion in the annual Performance and Accountability Report issued in November. The test population will be transactions occurring from October 1 through March 30, except in the case of annual controls applicable to the prior year's financial reports. Office of Management and Budget's (OMB's) A-123 Frequently Asked Question Memorandum states:

“The year-end financial reporting controls in place for the prior fiscal year may be included in the current year's assessment, if the control environment has remained fairly stable.”¹⁴

ICS will also plan to conduct additional testing in the late summer and early fall to address any changes in the control environment that occurred between June 30 and the end of the fiscal year or to conduct validation reviews. ICS will document the testing schedule in the Test Plan.

3.1.4 Determine Where Testing Will Be Performed

The locations selected and the testing performed at each location will follow from the decisions made during the Planning Phase. See Activity 1.8 for additional guidance. ICS will document where testing will be performed in the Test Plan.

3.1.5 Determine How Controls Will Be Tested (Inquiry, Inspection, Observation, Re-Performance)

ICS will determine how controls will be tested based on the nature and frequency of the control. The type of tests to be performed is classified into four categories: inquiry, observation, inspection, and re-performance. ICS will likely use a combination of testing types (see Figure 17). The testing types are described in Appendix J.

¹⁴ OMB A-123 Frequently Asked Question Memorandum, April 2006



Level of Assurance

Inspection

Observation

Inquiry

Figure 17. Level of Assurance by Types of Tests

Combining two or more of these tests will provide greater assurance than using only one technique. The more significant the account, disclosure, or MTC and the more significant the risk, the more important it is to determine if audit evidence extends beyond one testing technique. The nature of the control also influences the nature of the tests of controls that will be performed. Most manual controls will be tested through a combination of inquiry, observation, examination, or re-performance.

ICS will document the overall approach to testing in the Test Plan. When developing MTC-level test plans (see Activity 3.2.1), the team will determine how best to test each individual control.

3.1.6 Define Sample Sizes

The sample size selected for testing will be based on the significance of the control in question and the level of assurance desired or on the sample size indicated in the Validation Plan. The fewer items tested, the greater the risk of an erroneous conclusion. Thus, when a single manual control provides the sole support for a financial statement assertion relative to a significant line item, ICS will consider increasing its sample size. This decision will be made after considering other evidence available (e.g., self-assessment results or evidence from other monitoring controls). The combination of evidence will provide a high level of assurance that the control is operating effectively. When no exceptions are found, these sample sizes will also provide a high level of assurance that the control is operating effectively. Sample sizes will be based on the frequency of a control.

Table 40 is a recommendation from the Chief Financial Officer Council (CFOC) guide.



Table 40. CFOC Implementation Guide for OMB Circular A-123, Appendix A Recommendations

Frequency of Control	Minimum Sample Size	Example
Ongoing	45	Approval of requisitions
Daily	30	Daily downloads of charge card transactions
Weekly	10	Weekly receipt of invoices
Monthly	3	Month end journal entry approval
Quarterly	2	Reconciliations
Semi-annually	1	Reconciliations
Annually	1	Approval of budgetary documents

In cases where a control happens as a result of a trigger event, the assessment team will assume that the control is "ongoing" for sample size selection purposes.

Any deviations from the sample sizes specified in the Test Plan will be clearly documented in the work papers for the specific test. For example, if a control occurs every time a reimbursable agreement is initiated and a particular site initiated 23 agreements over the course of the year, the testing team would review all 23 agreements and document the reason for not testing a sample of 45 (in this case, the population is less than the minimum sample).

The Test Plan will specify the number of exceptions allowed in order for a test to pass. A standard practice is to allow one exception for a sample of 45 or more, and no exceptions for samples less than 45.

ICS will document the sample size guidance and pass/fail criteria in the Test Plan.

3.1.7 Determine What Testing Documentation (Work Papers) Will Be Developed and Retained

A-123, Appendix A, requires VA senior management to have "well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process."¹⁵

ICS has prepared templates for MTC-level test plans, test sheets, and exception log. Process owners and ICS staff are required to use the templates to create consistency. At the conclusion of the testing period, ICS will coordinate the process of storing electronic test files. Approved templates will be included as attachments to the Test Plan.

ICS will document what testing documentation will be retained in the Test Plan.

¹⁵ OMB Circular, A-123, Appendix A, page 6.



3.1.8 Document MTC-Level Test Plans

Testers will prepare a detailed test plan for each MTC to include the elements described above. The detailed test plans, which document the elements of the test and the results, will facilitate VA senior management review and approval.

- Obtain MTC-level test plan template

ICS will obtain the approved MTC-level test plan template from SharePoint (see Figure 18). The template includes a sample MTC-level template based on the sample Property, Plant & Equipment documentation in Appendix Q. Refer to Appendix Q.7 for a larger screenshot:

Department of Veterans Affairs
Test Plan

Major Transaction Class:

Reference Number	Location	Risk	Control Objective	Actual Control Activity	Process Owner	Frequency	Sample Size	Test Steps	Workpaper Reference Number	Test Result	Summary of Results
C - 6.1.1.2	VACO	Unauthorized disposal transactions	Disposals of fixed assets and removals from service are properly authorized	The designated custodial officer reviews the Turn-in Request for completeness and accuracy of the request. If the custodial officer approves the Turn-in Request, the custodial officer sends the approved Turn-in Request to property management specialist. If the custodial officer rejects the request, the custodial officer sends the Turn-in Request back to the assigned VA employee.	Custodial Officer	Continuous	45	A. Obtain a list of all equipment disposals between 10/1/07 to 5/31/08. B. For the sample selected obtain Turn-In Request (Form 2237) and print out the equipment preventative maintenance repair record from AEMS/MERS C. Verify that the Turn-In Request is approved (signed and dated) by the custodial officer D. Compare info on Turn-In Request to AEMS/MERS to verify accuracy.	X.Y.Z	Failed	Three of 45 Turn-In Requests were not signed by the custodial officer.
C - 6.1.1.3	VACO	Disposal of personal property is unauthorized or inaccurately input for processing resulting in an error on the financial statements	Disposals of fixed assets and removals from service are properly authorized	The property management specialist reviews the Turn-in Request and compares the information on the Turn-in Request to the equipment preventative maintenance and repair record in AEMS/MERS to ensure the information is accurate and complete, and that the facility owns the item.	Property Management Specialist	Continuous	45	A. Obtain a list of all equipment disposals between 10/1/07 to 5/31/08. B. For the sample selected obtain Turn-In Request (Form 2237) and print out the equipment preventative maintenance repair record from AEMS/MERS (signed and dated) C. Verify that the Turn-In Request is approved (signed and dated) by the Warehouse Personnel D. Compare info on Turn-In Request to AEMS/MERS to verify accuracy.	X.Y.Z	Passed	This control appears to be designed effectively and operating as intended.

Figure 18. MTC-Level Test Plan Template

- Complete MTC-level test plans

Test plans will cover all controls that are selected for testing. ICS will specify the following key elements in the MTC-level test plan:

- **Reference Number** – The reference number of key controls comes from the Risk Control Matrix (RCM). All high-risk and one-third of the medium-risk controls from the RCM will be included in the MTC-level test plan. If the control is not



being tested, ICS will include an explanation (e.g., the control is not properly designed) in the Test Steps column.

- **Location** – Because a control may be tested at more than one location and test steps may differ by location, this field identifies the location/site of the testing. If a control is being tested at multiple sites, it should be listed in the test plan separately (i.e., in separate rows).
- **Risk and Control Data (Risk, Control Objective, Actual Control Activity, and Process Owner)** – These attributes describe the control and should come directly from the RCM developed in Phase 2: Evaluating.
- **Process Owner** – The test plan will include the process owner's name, title, and division.
- **Frequency** – The frequency of the control activity is important in determining the minimum sample size. The control may occur daily, weekly, monthly, quarterly, semi-annually, annually, or on an ongoing basis. In cases where a control happens as a result of a trigger event, ICS will assume that the control is "ongoing" for sample size selection purposes.
- **Sample Size** – The sample size is based on frequency and is determined as described in 3.1.6.
- **Test Steps** – The test steps (or test attributes) describe the procedures that will be performed for each test (see Table 41).

Table 41. Sample Test Steps

<p>Sample Test Steps: Funds Management SF224 Reporting and Reconciliation</p>
<ol style="list-style-type: none"> 1) Obtain the selected SF224 reconciliation. 2) Verify that the Statement of Transactions Report is signed by the accountant. 3) Verify that the SF224 Monitoring and Control Reconciliation is signed and dated by the certifying officer. 4) Re-perform the reconciliation on a sample basis by tying the data to the supporting documentation.

- **Work Paper Reference Number** – The template includes a work paper reference number to direct readers to the testing details. This will be completed after testing is conducted.
- **Test Result** – The plan will indicate whether the test passed or failed. This will be completed after testing is conducted.
- **Summary Test Results** – The plans provide a brief description of any exceptions noted during the test. This will be completed after testing is conducted.



The MTC-level test plan has one row for each key control. A single test can address more than one control; however, this must be clearly documented in the MTC-level test plan.

3.2 Develop Master Test Plan by Site

- **Draft Master Test Plan**
ICS will draft the master test plan to include all the tests from the MTC-level test plans and organized by location.
- **Review Test Plan**
The Director of ICS will review the master test plan prior to the start of any field work. The Director will obtain feedback from OBO and the SAT as needed.
- **Retain documentation**
ICS will store the approved Test Plan on SharePoint.

3.3 Request Evidence

The completed Master Test Plan will be used to determine the evidence required for testing.

- **Obtain Evidence Request List Template**
ICS will obtain the Evidence Request List template from SharePoint (see Figure 19). There will be one Evidence Request List for each site. Refer to Appendix Q.8 for a larger screenshot:



Internal Controls Stakeholder Procedure Manual

Department of Veterans Affairs Evidence Request List

Date
Key Financial Process
Sub-Process

As part of the A-123, Appendix A assessment, the Internal Control Service is beginning the testing phase of the assessment. We have identified below evidence that will be needed to allow us to test the operating effectiveness of controls identified during documentation. Upon completion of the evidence, please group all appropriate Item Numbers together (in folders, binder clips, etc). Thank you for your continued help with our assessment.

Note: Please be prepared with copies of all requested evidence. The assessment team will not be able to return original copies back to process owners. Note: If you are not the responsible party for the specific item, please forward this list onto the appropriate personnel/department.

Sample Item Number	Location	Key Financial Process	Sub-process	Control Reference Number	Process Owner	Document Description	Evidence Requested	Date Due	Note
1	VACO	Funds Management	Accounts Payable	C - 1, 3, 5, 6	Joe Smith, Accountant	Approved Invoices and all supporting documentation	Invoice numbers: 2533563, 6796396, 6678260	05/15/08	

Figure 19. Evidence Request List



- Create Evidence Request Lists
ICS will create evidence request lists and inform process owners of the selected sample so they can gather the required documentation. Requests will be specific and include the following:
 - **Summary Information** – Sample Item Number, Location, MTC, Sub-Class, Control reference number, process owner
 - **Document Description** – The list will clearly describe what is required for testing (i.e., Suspense Account Journal Vouchers and all supporting documentation)
 - **Evidence Dates Requested** – The list will specify the samples required (i.e., Reconciliations for the months ending January 31, 2007, February 28, 2007 and July 31, 2007.)
 - **Due Date to ICS**When developing the testing schedule, ICS will provide process owners with enough time to pull and make copies of the evidence requested.
- Send Evidence Request Lists to site/station points of contact
Two weeks prior to the site visit, ICS will email the completed Evidence Request List to the site/station point of contact.
- Collect and copy test evidence
Site points of contact will coordinate with process owners to collect and organize test samples. Process owners will make copies of requested evidence since ICS will not return test samples. Additionally, samples should be grouped together (in folders or with paper clips) and be clearly labeled with the sample item number that corresponds to the evidence request list.

3.4 Test Key Controls

As part of testing key controls, the assessment team will test samples, document results, and identify control gaps. Each of these sub-steps is shown in Figure 20.



Figure 20. Test Procedures



Testing teams will be comprised of a site lead/supervisor and testers. The Associate Director will assign a supervisor to each test location. Supervisors are responsible for managing testers and reviewing their work.

3.4.1 Conduct Tests

The assessment team will conduct the tests specified in the MTC-level test plans using the evidence provided by process owners. The testing procedures and results will be sufficiently documented to allow an independent person to understand and re-perform the test. Documentation will include the identification of items tested (for example, the title and date of the report, invoice numbers, and check numbers), who performed the test, the test results, and the overall conclusion.

1. Complete test steps

ICS will complete test steps for each test as specified in the MTC-level test plan. Testing procedures will differ depending on the type of test. When appropriate, ICS will mark hardcopy work papers (actual test evidence) with a red pencil. For example, when testing reconciliation, ICS may tie numbers from the reconciliation to supporting documentation. Hardcopies of all potential exceptions will be retained.

ICS will document any irregular issues relating to a particular test or sample. For example, the testing team will document whether a control was put in place in the middle of the year and, therefore, has a sample size that is less than the required guidance.

2. Document test results on test sheets

Test procedures and results will be documented on test sheets. Test sheets are located as tabs within the MTC-level test plan file. ICS will create one test sheet for each test performed. ICS will document the following information on the test sheet for the respective test (see Table 42).

Table 42. Test Results

Test Results
<p>Test results should reference the <i>issue</i> and <i>number of deviations</i>.</p> <p>Sample Exception: The Finance Division could not provide documentation of the reconciliation of the monthly In-force system report on overdue accounts receivable and past due payment notices for the three months sampled.</p>

- **MTC and Sub-Class.**
- **Basic Test Information** – Reference Number, Location, Control Activity, Control Frequency, Sampling Unit, Sample Size, Test Results (Pass/Fail), Number of Deviations, Exceptions, Sampling Procedure Performed
- **Control Attribute Information** – Control Attribute Description, Sample Number, Sample Date, Sample Title, Control Attribute, Work Paper Reference



-
- **Additional Information** – Notes, Testing Performed By, Testing Completed On, Testing Reviewed By, Testing Reviewed On

Figure 21 shows a sample of the Test Sheet Template. Refer to Appendix Q.9 for a larger screenshot:



**Department of Veterans Affairs
Test Sheet Example**

Major Transaction Class

Reference Number	C - 6.1.1.2						
Actual Control Activity	The designated custodial officer reviews the Turn-in Request for completeness and accuracy of the request. If the custodial officer approves the Turn-in Request, the custodial officer sends the approved						
Location	Palo Alto, CA						
Control Frequency	Continuous						
Sampling Unit	Turn-In Request Forms						
Sample Size	45						
Test Results	Failed						
Number of Deviations	3						
Exception(s) - if any	Three of 45 Turn-In Requests were not signed by the						
Cause of Exception(s) -if known							
Sampling Procedure Performed	Explanation of how the sample was selected (i.e. Randomly selected a sample of 3 monthly						
Control Attribute Description:							
<ul style="list-style-type: none"> A. Obtain a list of all equipment B. For the sample selected C. Verify that the Turn-In Request is approved (signed and D. Compare info on Turn-In 							
Sample Number	Sample Identification		Control Attribute A	Control Attribute B	Control Attribute C	Control Attribute D	Work Paper Reference
	Title	Date					
1	HP Ultrasound	4/31/06	X	X	#,1	X	X.Y.Z
2							
3							
Testing Tickmark Explanation:							
X - Attribute Present; No Exception Noted							
# - Attribute Not Present; Exception Noted							
Notes:							
<ul style="list-style-type: none"> 1. Turn-In Request was not signed by the custodial officer. 2. 3. 							
Testing:							
Performed By:							
Completed On:							
Reviewed By:							
Reviewed On:							

Figure 21. Test Sheet Template



3. Prepare test binders

ICS will print out the test sheet and include it in a binder followed by copies of any exceptions for that particular test. Multiple tests can be included in a single binder.

4. Share results with process owners and facility directors

ICS will meet with process owners to discuss preliminary test results. Process owners are given an opportunity to provide explanations for any exceptions identified during testing. ICS will then update the "cause" information on the test sheet.

5. Review test work papers and complete Testing Quality Review Checklist

The supervisor will review the test sheet and all exceptions for each control. The supervisor will review a sampling of the remaining test evidence. The supervisor should consider the following questions during his/her review:

- Do the test steps meet the desired objective?
- Were the test steps carried out correctly?
- Were the test steps sufficiently documented?
- Are all exceptions documented?
- Does the exception logically follow the test procedures and is it clearly communicated?

The supervisor will complete the Reviewed By fields at the bottom of the test sheet as evidence of his/her review. In addition, the supervisor will complete the Testing Quality Review Checklist.

6. Brief Director of ICS

The supervisor will hold a one-hour conference call with the Director of ICS to brief him on each site visit and discuss exceptions. The Associate Director and all testers involved in the MTC will also participate in the conference call. The conference call will take place within two weeks of the site visit.

7. Review Work Papers

The Associate Director of the Financial Controls Division and the Director of ICS will review all testing documentation including MTC-level test plans, test sheets, and hardcopy work papers (binders). The Associate Director and the Director will use the Testing Quality Review checklist as a guide for his/her review. Refer to Appendix Q.11 for a screenshot of the template.



Concluding and Reporting Phase



4. Concluding and Reporting

The Senior Assessment Team (SAT) is responsible for concluding on the results of the assessment and reporting these conclusions to appropriate stakeholders. A-123, Appendix A, requires Veterans Affairs (VA) to issue an annual assurance statement on the effectiveness of internal control over financial reporting, including the identification of any material weaknesses. The assurance statement on the effectiveness of internal control over financial reporting is a subset of the overall Statement of Assurance and is based on the results of the internal control assessment. The Statement of Assurance must be included in VA's annual Performance and Accountability Report (PAR).

In order to complete the activities within this phase, the Internal Control Service (ICS) will perform the activities on behalf of the SAT under the guidance of the Director of ICS. The Responsibility Assignment Matrix (RAM) developed during the Planning Phase identified the party responsible for leading the performance of each step as well as other parties that will participate in completing each step. Table 43 illustrates the key inputs and outputs within the Concluding and Reporting Phase.

Table 43. Concluding and Reporting Inputs and Outputs

Activities / Steps	Key Inputs	Key Outputs
4.1 - Conclude on Control Effectiveness	Major Transaction Class (MTC)-level test plans and test results Entity assessment results GCC evaluation results Cross-servicing entities evaluation results	Documentation of control gaps Exception Log Finding Outline and Evaluation Worksheet Conclusion/categorization of findings (on Finding Outline and Evaluation Worksheet)
4.2 - Report Control Weaknesses	Documentation of control gaps Exception Log Finding Outline and Evaluation Worksheets Conclusion/categorization of findings (on Finding Outline and Evaluation Worksheets)	Statement of Assurance Findings Reports Assessment Status Report

4.1 Conclude On Control Effectiveness

In order to enable the SAT to conclude on control effectiveness, ICS will review the results of the Testing Phase. ICS staff will compile an Exception Log and evaluate the significance of any exceptions. In this step, ICS will analyze exceptions and identify/categorize findings.

Findings may relate to either the design or operation of a control. Design issues, covered in Activity 2.2.2, occur when a control does not exist (design gap) or cannot meet the control objective, even if it is functioning as intended (design deficiency). During the Evaluating Phase of the assessment, design gaps and design deficiencies



were documented in the Risk Control Matrices (RCMs) and Exception Log. (Recall that poorly designed controls are not tested because they must first be remediated.)

4.1.1 Enter operating deficiencies into the Exception Log

Using the individual test sheets, ICS will update the listing of exceptions (design gaps and design deficiencies from the RCM, operating deficiencies from the testing work papers and any exceptions resulting from the review of cross-service entities) into an Exception Log. There will be one master Exception Log that covers all MTCs. The Exception Log is a working document that ICS updates throughout the assessment phases.

The Exception Log will assist ICS and the SAT in assessing and classifying internal control deficiencies during the Concluding and Reporting Phase of the A-123, Appendix A, effort.

Figure 22 shows a sample of the Exception Log template. Refer to Appendix Q.10 for a larger view:



Internal Controls Stakeholder Procedure Manual

Department of Veterans Affairs Exception Log

Date:

ID Number	Major Transaction Class	Sub-Process	Location	Key Control Number	Potential Risk	Control Activity	Frequency	Exception/Finding	Cause (if known)	Suggested Corrective Action	Management Response	Exception/-Finding Type (Design Deficiency, Design Gap, Operating Deficiency)	Notes
1	Property Management	Personal Property	VACO	C-8.4.1.1.22	PP&E acquisitions were not authorized resulting in misappropriation of Capital funds.	The Branch Head reviews the JV and reconciles the JV with the supporting documentation. If any discrepancies exist, he/she returns the JV to the Property Accountant to resolve the error. If no discrepancies exist, he/she signs and dates the JV and returns it to the Property Accountant. He/she prints and attaches screenshots of the PO Inbtrmation (acquisition document control number) and costs.	Continuous	Four exceptions noted. One exception was due to posting prior to JV approval. One exception due to lack of JV approval date. One exception due to lack of supporting documentation. One exception due to inability to reconcile with supporting documentation.	Cause unknown.	Sign and date JV's prior to posting.	Agreed with corrective action	Operating Deficiency	

Figure 22. Exception Log Template



4.1.2 Analyze Data in Exception Log and Identify Findings

Exceptions from the log may or may not constitute findings. Exceptions can be grouped together to form findings. ICS will hold a working meeting to analyze the Exception Log and identify preliminary findings. (Note that findings are not official until they have been reviewed and approved by the Director of ICS and the SAT.) The ICS staff members analyzing the data in the log must not be the same people that originally identified the exceptions. This enables ICS to consider the exceptions in aggregate, and identify exceptions that may not have been clearly documented.

During the meeting, ICS will review the Exception Log data and can use the sort/filter functions in Microsoft Excel® to analyze exceptions by MTC, location, and control ID. This review will enable ICS to look for trends and group exceptions into findings.

As part of the analysis, ICS considers compensating controls. A compensating control is an activity designed to mitigate another control design deficiency, ineffective operation of a control, or a control gap. These controls are documented in the narrative during the Evaluation Phase. Compensating controls are taken into account when assessing the likelihood of a misstatement occurring without being prevented or detected. In addition, a compensating control may limit the potential magnitude of a deficiency (for example, the compensating control only operates above a given dollar amount). However, the existence of a compensating control does not affect whether a control deficiency exists. If ICS believes there are compensating controls in place that could address the financial statement assertion or risk resulting from the issue, it will consider and validate the following questions:

- Is the compensating control effective?
- Would the compensating control identify an error and address the assertion?

ICS may document its consideration of compensating controls on the Exception Log in the **Notes** column.

4.1.3 Obtain Finding Outline and Evaluation Worksheet Template

ICS will obtain the Finding Outline and Evaluation Worksheet template located on SharePoint. For VA-wide issues noted, these exceptions/issues by site will be consolidated and rolled up into individual findings. Refer to Appendix Q.11 for a screenshot of the Finding Outline and Evaluation Worksheet template.

4.1.4 Complete Finding Outline and Evaluation Worksheet

ICS will use the Finding Outline and Evaluation Worksheet to document the condition, criteria, cause, effect, recommendation, and proposed severity rating for presentation to SAT as described below:

- **Condition** – Description of the finding (what is happening)



- **Criteria** – Policies or requirements supporting the control (what should be happening)
- **Cause** – Reason for the deficiency
- **Effect** – Effect of the deficiency on financial reporting
- **Recommendation** – Recommended steps for correcting the deficiency
- **Severity Rating** – Potential of the deficiency to have an impact on financial reporting (Determination of this rating is described later in this section)

The worksheet will also be used to evaluate the recommendation by:

1. Analyzing the root cause of the deficiency
2. Evaluating the cost to mitigate the risk (may include range of costs for mitigation at various levels)
3. Assigning a time-frame for correcting the findings consistent with the significance, complexity, and impact of each finding (short-term, medium-term, long-term)
4. Categorizing findings

ICS will use the draft Finding Outline and Evaluation Worksheet to assist with the categorization of control deficiency findings. Findings can range from an internal control deficiency to a significant deficiency to a material weakness.

- **Internal Control Deficiency** – This 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. Control deficiencies are internal to the organization and are not reported externally (for example, missing initials indicating a supervisor's review on one of 26 sampled reconciliations).
- **Significant Deficiency** – An internal control deficiency, or combination of internal control deficiencies, that is less severe than a material weakness, but important enough to merit attention by those charged with governance (For example, only eight monthly reconciliations were performed for the year.).
- **Material Weakness** – A significant deficiency, or combination of significant deficiencies, such that there is a reasonable possibility¹⁶ that a material

¹⁶ In this SAS, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as those terms are used in Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*.



misstatement of the financial statements or other significant financial reports, will not be prevented, detected, or corrected on a timely basis (For example, reconciliation of several key accounts was not performed throughout the year, only at year-end.).

While A-123, Appendix A, still classifies deficiencies as internal control deficiencies, reportable conditions and material weaknesses, Statement on Auditing Standards (SAS) 115 classifies deficiencies as internal control deficiencies, significant deficiencies, and material weaknesses. VA consulted with OMB and will use their terms and definitions from the SAS 115 for audits. These definitions are effective for audits ending on or after December 15, 2009.

The categorization of findings of control deficiencies is not necessarily linked to materiality or a dollar amount and is subjective in nature. Considering both the likelihood of misstatement and the potential magnitude for misstatement is a useful framework for categorizing deficiencies.

- **Likelihood** – An event is considered remote if the chance of occurrence is slight. The following factors impact likelihood:
 - The nature of the financial statement accounts, disclosures, and assertions involved
 - The susceptibility of the related assets or liability to loss or fraud (that is, greater susceptibility increases risk)
 - The subjectivity, complexity, or extent of judgment required to determine the amount involved (that is greater subjectivity, complexity, or judgment, like that related to an accounting estimate, increases risk)
 - The cause and frequency of known or detected exceptions for the operating effectiveness of a control
 - The interaction or relationship of the control with the other controls (that is, the interdependence or redundancy of the control)
 - The interaction of the deficiencies
 - The possible future consequences of the deficiency
- **Magnitude** – In evaluating magnitude, a misstatement is considered inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when combined with other misstatements, would clearly be immaterial to the financial statements. The following factors may impact magnitude:
 - The financial statement amounts or total of transactions exposed to the deficiency (a potential misstatement that is less than 20% of overall financial statement materiality may be inconsequential)



- The volume of activity in the account balance or class of transactions exposed to the deficiency that has occurred in the current period or that is expected in future periods

SAS 115 provides the following guidance for evaluating magnitude:

“In determining whether a potential misstatement would be more than inconsequential, the auditor must consider qualitative and quantitative factors. Inconsequential, in this context, is not the same concept as the threshold amount the auditor establishes in an audit of financial statements below which known and likely misstatements need not be accumulated. For example, for the purposes of evaluating control deficiencies, a potential misstatement that is less than 20 percent of overall financial statement materiality may be considered inconsequential, before considering qualitative factors; however, a potential misstatement that is less than 20 percent of overall financial statement materiality may be considered more than inconsequential as a result of qualitative factors, risk of error, or misstatement that could occur in a financial report that would impact management’s or users’ decisions or conclusions based on such report.”¹⁷

Table 44 contains criteria used to assess the classification of an internal control deficiency:

Table 44. Classification of Internal Control Deficiencies

Likelihood of Misstatement		Potential Magnitude of Misstatement		Classification of Deficiency
More than remote	AND	Material	=	Material Weakness
More than remote	AND	More than inconsequential	=	Significant Deficiency
Remote	OR	Inconsequential	=	Control Deficiency

Appendix L provides a detailed framework for assessing deficiencies.

ICS will include the proposed categorization on the Finding Outline and Evaluation Worksheet.

- Review Finding Outline and Evaluation Worksheets and categorizations (ICS supervisor or Associate Director)
An ICS supervisor (or the Associate Director) will review the Finding Outline and Evaluation Worksheets for completeness, clarity, and supporting evidence. ICS staff will work with process owners to update the worksheets to reflect his/her

¹⁷ SAS No. 115



comments. The supervisor will sign and date each Finding Outline and Evaluation Worksheet as evidence of review/concurrence.

- Review Finding Outline and Evaluation Worksheets and categorizations (Director of ICS)
The Director of ICS will review the Finding Outline and Evaluation Worksheets and provide ICS staff with comments. ICS staff will work with process owners to update the worksheets to reflect the Director's comments. The Director will sign and date each worksheet as evidence of review/concurrence.
- Present recommendations to SAT
The Director of ICS will share the Finding Outline and Evaluation Worksheets (for significant deficiencies and material weaknesses only) with the SAT and work with the SAT to agree on the final set of findings, recommendations, severity ratings. If needed, ICS will contact process owners for additional information as they revise the worksheets.
- Update Finding Outline and Evaluation Worksheets with SAT recommendations
ICS will update the Finding Outline and Evaluation Worksheets based on final SAT decisions. The worksheet has a section for a SAT member's signature; however, the SAT may opt to provide approval verbally or via email. In those cases, ICS will document SAT approval on the worksheet.

4.2 Report Control Weaknesses

The final assessment results will be shared internally for correction and tracking purposes, and reported externally in VA's PAR.

4.2.1 Report Internally

Internal reporting is critical throughout the assessment during all phases (Planning, Evaluating, Testing, Concluding, Reporting, and Correcting). ICS has developed an A-123, Appendix A Executive Dashboard to track progress and assessment results. Status reports will be generated through the dashboard.

Reporting will occur at two levels - within ICS and to the SAT.

4.2.1.1 Report to ICS Director

ICS will run a bi-weekly Assessment Status report for the ICS Director which pulls data from the ICS A-123, Appendix A Executive Dashboard. The purpose of the report is to keep the Director informed of the progress of the A-123, Appendix A, assessment and raise issues that require the Director's attention. (This report does not capture remediation activities. That information is reported separately.)

ICS staff will run the Assessment Status Report. The report will include the following sections:



- **Dashboard** – Including the following:
 - **Risk Management** – Pie chart identifying control risks, including high, medium, low, and not tested (because they are defective)
 - **Testing** – Pie charts for test sites and high, medium, and low risks
 - **Program Management** – Graph indicating planned, actual, and projected budget
 - **Remediation** – Pie charts indicating total, in process, and late remediations by year
 - **Deliverables** – List of completed deliverables and date completed since last status report (including documentation packages, test plans, and exception logs)

ICS staff will export the Assessment Status report into Excel. In addition to the data pulled from the dashboard for the report, ICS will write a brief status summary which will include the following topics:

- **Next Month Planned Activities**
- **Open Issues**

ICS staff will email the report to the ICS Director and Associate Director.

4.2.1.2 Report to the SAT

The ICS Director is responsible for reporting to the SAT throughout the year. The SAT requires updated progress information in order to ensure that VA is meeting its responsibilities for documenting, assessing, monitoring, and improving internal controls.

- **Review Assessment Status report**
The ICS Director will review the Assessment Status report described in the previous section and will work with ICS personnel to make any necessary updates.
- **Post Assessment Report on SharePoint**
While the Assessment Status report is developed for the ICS Director every two weeks, the Director will share it with the SAT on a monthly basis only. Upon approval from the ICS Director, ICS will post the report on SharePoint.
- **Present to SAT**
The ICS Director will distribute the most recent month's Assessment Report at each SAT meeting. The ICS Director will provide a high-level overview of the report during the meeting.



4.2.2 Report Externally

VA is required to provide a statement of assurance on the effectiveness of internal control over financial reporting, as of June 30, in its annual PAR. The assurance statement on the effectiveness of internal control over financial reporting is a subset of the overall Statement of Assurance reported pursuant to Section 2 of the FMFIA legislation.

The assurance statement on the effectiveness of internal control over financial reporting is required to include the following:

- A statement of VA senior management's responsibility for establishing and maintaining adequate internal control over financial reporting for VA
- A statement identifying OMB Circular A-123, *Management's Responsibility for Internal Control*, as the framework used by VA senior management to conduct the assessment of the effectiveness of VA's internal control over financial reporting
- An assessment of the effectiveness of VA's internal control over financial reporting as of June 30, including an explicit conclusion as to whether controls over financial reporting are effective. The statement can be categorized as follows:
 - **Unqualified** – No material weaknesses were noted.
 - **Qualified** – Material weaknesses were noted, but not pervasive.
 - **Statement of No Assurance** – No assessment process is in place or noted material weaknesses were pervasive.¹⁸
- Once the SAT and ICS agree on the classification of deficiencies, ICS will draft an assurance statement and present it to the SAT for review. Exhibit 6 of the *Chief Financial Officers Council Guide* provides sample Statement of Assurance templates. The SAT will review the statement, work with ICS to make any necessary changes, and submit the statement to the Secretary for signature and inclusion in the PAR. The Secretary will review and sign the assurance statement for inclusion in the annual PAR.

¹⁸ CFOC Implementation Guide for A-123, Appendix A, page 42.



Correcting Phase

Correcting Phase



5. Correcting

5.1 Correcting Deficiencies and Weaknesses

5.1.1 Overview

Correcting deficiencies is an integral part of Veterans Affairs (VA) senior management accountability and is considered a priority by VA. Process owners are responsible for addressing weaknesses in their respective areas while the Internal Control Service (ICS) is primarily responsible for tracking remediation activities and reporting progress to the Senior Assessment Team (SAT).

During the Testing Phase, the ICS assessment team will inform process owners of deficiencies in their respective areas. Process owners do not have to wait for formal assessment results and can begin implementing corrective actions as soon as a deficiency is identified. However, deficiencies identified at this time may not be findings for the VA as a whole. Corrective actions taken by individual facilities may not be a part of the Corrective Action Plan (CAP) for VA as a whole.

A strong corrective action program has the following characteristics (see Table 45):

- Identifies, documents, evaluates, and trends findings to ensure the root causes, severity and significance of each finding is understood
- Develops, monitors, and implements timely corrective actions to resolve the identified findings
- Verifies completion and reviews the effectiveness of the completed corrective actions to validate that they successfully resolve and prevent recurrence of the same and similar findings
- Maintains strong VA senior management support and emphasis throughout the lifecycle of the program
- Provides easy access for reporting information across the agency to capture important information
- Provides timely feedback on program actions so employees can see results and be encouraged to support the process



Table 45. Corrective Action Input and Output

Activities / Steps	Inputs	Key Outputs
5.1 - Correcting deficiencies and weaknesses	MTC-level test plans and test results Exception Logs GCC evaluation results Cross-servicing entities evaluation results Categorization of deficiencies	CAPs

5.1.2 Prepare CAPs

OMB policy directs VA senior management to develop, implement, and manage CAPs for all areas where control deficiencies exist. The purpose of the CAP is to assist VA senior management in identifying, assessing, prioritizing, and monitoring the progress of remediation efforts for control deficiencies (see Table 46).

Table 46. Purpose of CAPs

Purpose of CAPs
<ul style="list-style-type: none"> • Serve as a management tool to address and resolve control deficiencies • Provide a detailed view of steps needed to correct identified deficiencies • Facilitate reporting to the SAT and Secretary regarding control deficiencies

A CAP permits VA senior management to present a comprehensive plan for correcting a control deficiency or multiple deficiencies within a corrective action lifecycle (see Table 47). The plan includes phases with specific dates and actions needed to correct the deficiency, as well as the method of retesting for verifying that the corrective action has addressed the root cause of the control deficiency.

Table 47. Corrective Action Lifecycle

Corrective Action Lifecycle Step	Stakeholders (SAT)	Process Owner ¹⁹	Program Managers	ICS
Develop and Approve CAP.	Approve CAP. Assign process/CAP owners.	Develop CAP in conjunction with the program managers.	Work with process owners and provide any detail necessary to develop the CAP.	Coordinate with the process owners and program managers to develop CAP. Approve CAP before presentation to the

¹⁹ VACO contact or local field contact for site-specific findings



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Corrective Action Lifecycle Step	Stakeholders (SAT)	Process Owner ¹⁹	Program Managers	ICS
				SAT.
Implement Corrective actions.	Send a memo to process owners to indicate that correcting the finding is a priority.	Focal point of getting problem resolved. Corrective action coordinator or the implementer, depending on the finding.	For a field site fix, provide input to process owner on status of corrective action. For a Central Office fix, provide input to process owner for validation purposes on the corrective action that is put in place (i.e. development of a policy and procedure).	Coordinate with process owners to complete corrective action.

As process owners and program managers develop corrective actions to resolve each finding, the following considerations must be made:

Each causal factor of the identified finding must be addressed in the CAP. This may entail one or several corrective actions to resolve the finding and prevent the same or similar finding from recurring.

Prioritize the corrective actions based on the risks, significance and impact of each finding using the following ICS guidelines:

1. **Short term fix** – six weeks, immediate action necessary
2. **Medium term fix** – one year; install manual processes until a system fix is put in place
3. **Long term fix** – more than a year (acceptable only if the long-term fix is associated with a new or redesigned information system, or budget impact requirement. In all cases where the long-term fix is longer than 1 year, there must be a short-term or medium term fix.)

Determine and document the resources (funding, personnel, time) needed to complete each corrective action.

Develop a schedule taking into consideration a resource's cost and priority (short, medium or long term) with projected dates for initiating, completing, and implementing each of the corrective actions. Process owners will be held accountable for meeting the planned corrective action completion dates.



For long term corrective actions, develop and document (including implementation dates) interim (medium term) corrective actions and/or compensatory measures that will be implemented pending completion of the long term corrective action.

Develop clear and concise descriptions of the actions to be performed in sufficient detail to allow all personnel directly and indirectly involved in the corrective action to understand the specific activities to be conducted.

Specify the deliverable that will result from the corrective action. The deliverable will provide the evidence that the correction action is completed (i.e. revised VA policy and procedures). The corrective action for the identified finding must be achievable and measurable.

5.1.3 Populate CAP Template

Process owners will obtain the approved CAP template from ICS. Figure 23 shows a screenshot of the CAP template. Refer to Appendix Q.13 for a larger screenshot:



Internal Controls Stakeholder Procedure Manual

Department of Veterans Affairs Corrective Action Plan (CAP)

Date:			
Summary Information			
Finding Reference		Finding	
Source of Finding		Validation Plan/Methods (ICS use only)	
Finding Category			
Fiscal Year/Frequency			
Major Transaction Class			
Sub-Process			
Owner			
Total Resources			
Phase Number	1	Phase Description	Estimated Completion Date
Task Number	1.1	Task Description	Estimated Completion Date
Resources (\$)		Owner(Office, POC)	
Phase Number	2	Phase Description	Estimated Completion Date
Task Number	2.1	Task Description	Estimated Completion Date
Resources (\$)		Owner(Office, POC)	
Phase Number	3	Phase Description	Estimated Completion Date
Task Number	3.1	Task Description	Estimated Completion Date
Resources (\$)		Owner(Office, POC)	

Figure 23. CAP Template



Process owners will complete each section of the CAP as described in Table 48.

Table 48. CAP Instructions

Title	Definition
Issue Reference Number	A tracking identification number provided by ICS.
Source of Deficiency	Sources include A-123, Appendix A, Office of Inspector General Audit, GAO Audit, Independent Public Accountant Audit, Management Quality and Assurance Service (MQAS) Review, or Other.
Fiscal Year	Year the deficiency was identified.
Owner	Person responsible for the deficiency as a whole (In many cases, this may be the process owner or the point of contact for some/all of the phases). Owners can include individuals outside of the financial management line of business.
Submission Date	Date that the CAP was first submitted to the SAT.
Major transaction classes	Area where the deficiency was identified.
Process Owner	Key contact person of the area where the deficiency was identified.
Deficiency Category	A-123, Appendix A-related deficiencies are categorized as one of the following: control deficiency, material weakness, and significant deficiency. (See Section 4.1 for definitions of each category.) Deficiencies resulting from other reviews (A-127, MQAS reviews, or audit findings) may be categorized as "other".
Control ID Numbers	If the source of the deficiency is an assessment of internal control, the control reference numbers (from the Risk Control Matrix (RCM), Test Plans, and Exception Logs) that relate to the deficiency are listed here. Since deficiencies are assessed in aggregate, a single deficiency may be associated with more than one control.
Description of Deficiency	A summary of the issue which captures the root causes of the deficiency.
Status	<p>Approved – SAT has approved the CAP (task, resources, phases, and completion dates)</p> <p>In Progress – Program manager is taking action to correct deficiency.</p> <p>Action Complete – Verification completed. ICS determined that agreed upon corrective actions were taken.</p> <p>Closed – Validation completed. ICS conducted tests to ensure corrective actions fixed the finding.</p>
Phase and Task Detail	
Phase No.	A number indicating the phase of the CAP (1, 2, 3, etc.)
Phase Description	Each CAP must include phases for remediation. Generally, the phases represent major efforts by time. For example, the first phase might be the immediate tasks that VA will accomplish in 30-60 days (actions to prevent or limit damage). The second phase might be a larger system change that VA can accomplish in 90-120 days (usually a manual work-around to fix a problem). A third phase might be larger systemic changes (e.g., new system implementation, major program changes, etc.) that may take a year or more to complete.



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Title	Definition
Estimated Completion Date of Phase	A date that all tasks in the phase are expected to be complete.
Task No.	A number indicating the phase and task sequence. For example, the first task in Phase 1 is 1.1, the second 1.2, and so on.
Task Description	Each CAP includes a sufficient number of action activities to establish a critical path to resolve the deficiency. Task descriptions must effectively communicate the major steps that will be performed to mitigate a control deficiency. The number of tasks must reflect the number of steps or corrective actions needed to address the deficiency, grouped by phase. In the event that a CAP has a gap between any tasks greater than 3 months, the process owner must include interim phases for that timeframe. If the task results in an output, the task description should describe the output including the format, data elements, the process for reviewing and approving the output and other criteria.
Owner Office, (Point Of Contact)	The office or group, as well as the person responsible for completing or coordinating completion of the task. The point of contact may be the same or different for each task, but must represent the accountable person for completion of the action. The individual's name and some contact information must be provided. The actual completion date is recorded when all steps to complete a phase have been accomplished. Credible evidence must exist to support the completion date.
Est. Completion Date of Task	Estimated completion date of the task based on realistic estimates of the amount of time to complete the task. The date must be entered in a XX/XX/XXXX format.
Hours	Estimated total hours required to implement the task.
Details and Specifications (ICS use only)	Additional information needed to write the tasks order for CAP completion. May include volume of work, time and format specifications, or responsible party for incidental expenses. Column may also indicate if task output will be a deliverable if a contract is issued to implement the CAP. This column is usually hidden to users other than ICS.
Verification Plan/Method (ICS use only)	ICS enters a description of the method(s) it will use to verify whether the CAP was completed. ICS will enter this information based on the Finding Outline and Evaluation Worksheet.
Validation Plan/Method (ICS use only)	ICS enters a description of the method(s) it will use to validate whether the CAP resolved the finding (upon completion of the CAP). ICS will enter this information based on the Finding Outline and Evaluation Worksheet.

Process owners are responsible for updating their CAPs on a regular basis and providing updates to ICS as requested. Upon completion of the CAP, process owners must:

- E-mail the completed CAP to ICS for review
- Update CAP as requested by ICS



5.1.4 Review CAPs

The development and tracking of CAPs requires involvement from various personnel within VA including process owners, ICS, and SAT. ICS is responsible for reviewing CAPs for quality and for monitoring the status of corrective actions. Quality control procedures involve checking for accuracy and consistency across outputs (Exception Log and CAP) and ensuring that CAPs are prepared on schedule.

1. Complete Quality Review Checklist (ICS)

Once process owners submit their plans to ICS, ICS staff will review the plans for completeness and accuracy using the CAP Quality Review Checklist available on SharePoint. Key review questions include the following:

- Are the tasks specific, measurable, attainable, relevant and timely?
- Are the interim task dates less than 3 months apart?
- Are all fields filled out completely?
- Do the task steps sufficiently address the finding?
- Does the plan clearly identify the position(s) and office(s) responsible for guiding the implementation of the CAP?
- Are the acronyms for the offices spelled out?
- Is it clear where the office responsible is placed within the VA organization?

2. Conduct Quality Review (ICS Director)

Upon completion of their review, ICS staff will submit the CAP to the Director for a secondary review. They will complete the CAP Quality Review Checklist and return it to the ICS staff person responsible for retaining it.

3. Present to SAT for approval

The Director will present the CAPs for significant deficiencies and material weaknesses to the SAT for review and approval. ICS staff will work with process owners to address SAT feedback and revise the plans. Revised plans will be resubmitted to the SAT for approval.

ICS will also inform the SAT of any office or person who does not respond to requests for a CAP, does not complete the CAP as requested by ICS, or does not report on the status of the corrective action in a timely manner. The office or person not responding may be asked to address the SAT directly.

4. Create record in the A-123, Appendix A Executive Dashboard

ICS staff will enter the approved CAP into the A-123, Appendix A Executive Dashboard for tracking.

5.1.5 Implement Corrective Actions

VA senior management and staff are responsible for implementing the corrective actions assigned to them. These actions will vary, depending on the nature of the deficiency and the steps required to correct it.



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Corrective Action Monitoring, Verifying, and Validation Phase

Corrective Action Monitoring, Verifying, and Validation Phase



6. Corrective Action Monitoring, Verifying, and Validation

6.1 Monitor Corrective Action Plans (CAPs)

Monitoring corrective action status is important for several reasons. It helps Veterans Affairs (VA) senior management ensure that deficiencies are being properly addressed and promotes timely review of progress. Monitoring is also required for external reporting (see Table 49). Office of Management and Budget (OMB) A-123, Appendix A, requires that a summary of the CAPs for material weaknesses be included in the Performance and Accountability Report (PAR). The summary discussion will include a description of the material weakness, status of corrective actions, and timeline for resolution.

Table 49. Corrective Action Monitoring

Activities / Steps	Inputs	Key Outputs
6.1 - Monitor CAPs	Status updates from process owners	Reports on pending CAPs
6.2 – Verify Completion of CAPs	Documents to support assertion that all tasks of the CAP are complete	Reports on CAPs completed and ready for validation

6.1.1 Track Corrective Action Efforts

OMB A-123, Appendix A, requires that agencies maintain accurate records of the status of the identified material weaknesses through the entire process of resolution and corrective action. The status of these corrective actions must be made available to OMB at its request. Like most federal agencies, VA tracks significant deficiencies (and in some cases control deficiencies) in addition to material weaknesses. Issues resulting from A-127 reviews, Management Quality Assurance Service (MQAS) assessments, Office of Inspector General reviews, and external audits will also be monitored in conjunction with A-123, Appendix A deficiencies.

6.1.2 Project Management Controlling Process

The project management controlling process involves internal Control Service (ICS) procedures and processes to track, trend, and report on the implementation of corrective actions.

6.1.3 CAP Status Reports

ICS staff will generate a CAP status report and a CAP summary report, which give an overall status of CAPs, issues, and tasks. Report fields include the following:



- Issue Description
- Expected completion date
- Senior Assessment Team (SAT) approval date
- Status overview by issue
- Total open issues (any issue that is not 100 percent complete)
- Issue status report
- Issue not started (none of the issues have any percentage complete for any task within that issue)
- Issues in progress (one/more task for that issue is more than 0 percent complete)
- Issues complete (all tasks 100 percent complete)
- CAP status overview by task (pie chart including the corrective action status)
- Total open tasks (any task that is not 100 percent complete)

Additionally, the issue log links to the CAP for an associated issue.

6.1.4 Trending

Part of the project management controlling process involves analyzing findings to determine the existence of trends to identify the same or similar occurrences, systemic problems and vulnerabilities. ICS will trend data and report this information to the SAT during periodic meetings. The benefits of trending include the ability to:

- Consistently document historical data in measurable, visible terms
- Identify changes in certain areas as they occur (i.e. occurrence of findings in a certain process, site or Administration)
- Identify areas where significant weaknesses exist based on consistent identified deficiencies

6.1.5 Complete Corrective Action Plan Checklist

An ICS staff member will obtain and review documentation surrounding the progress of implementing corrective actions. The Corrective Action Plan Checklist templates are available on SharePoint. Also see Appendix Q for example templates.



6.1.6 Distribute Corrective Action Status report

ICS staff will distribute the report to the Director and Associate Director.

6.1.7 Report Corrective Action Status

ICS will monitor the progress of CAPs and report status to the SAT on a regular basis during meetings and through SharePoint. The SAT is responsible for determining that the progress is sufficient or if additional action must be taken to expedite the remediation. If the process is not sufficient, the process owner may be asked to address the SAT directly.

The ICS Director will review the status reports to ensure that sufficient progress is being made. Monthly, or as needed, ICS will post the most recent report to SharePoint. ICS will also email SAT members to inform them that a new status report is available.

The ICS Director will brief SAT members on corrective actions at the SAT meetings. The SAT will review the progress of the corrective actions and determine whether CAPs must be revised. The SAT will also work with ICS to determine what information must be included in the Department's PAR. (See Section 4.2.2 for guidance on PAR reporting).

6.1.8 Verify Completion of the CAP

When the process owner asserts that all tasks and phases of the approved CAP have been completed, ICS will request evidence of completion. The evidence may be in the form of new policies adopted, training materials developed, email or reports, depending on the nature of the CAP.

Verification may also occur at the end of a short-term or medium-term phase to confirm that the actions in those phases have been completed, pending the overall solution in the long-term phase.

6.1.8.1 Document Verification in the CATS Data base

Upon verification, store the evidence, or a document describing the evidence, in the shared drive for ICS. Use the Find feature in the CATS data base to hyperlink to the document.

6.1.8.2 Inform Process Owner

ICS informs the process owner that the CAP completion has been verified and may be subject to validation testing.

6.2 Validate Corrective Actions

This step involves an independent follow-up assessment by ICS to verify closure and review the effectiveness of the corrective actions in resolving each finding and preventing recurrence.

The key objectives of the validation review are to:



- Review the implemented corrective actions and determine if the corrective actions for each finding have effectively resolved the finding and will prevent recurrence of the same or similar findings.
- Determine the reasons the corrective actions are ineffective if the corrective actions have not effectively resolved the finding or prevented recurrence.
- Identify revised or additional corrective actions to effectively resolve the finding and prevent recurrence

ICS will perform validation reviews in the same manner that the original testing was conducted during the testing phase; using one or more of the following testing methods: inquiry, inspection, observation, or re-performance. ICS will develop and distribute a standard communication to process owners and program managers informing them of the process for conducting the validation reviews. The communication will include the following:

- Description of each finding including root causes that the corrective actions were to resolve
- A listing of the completed corrective actions to review for each finding
- An explanation of the acceptance criteria for determining effectiveness of the reviewed corrective actions
- Planned start and completion dates for each of the validation review activities

ICS will conduct the validation review based on the Validation Plan/Method developed as part of the CAP in phase 5.2. and/or previous tests conducted for the control. These results will be documented in test sheets with supporting documentation provided by the process owner and/or program manager. ICS will conclude on the effectiveness of corrective actions for presentation to the SAT. ICS conclusion on the effectiveness of corrective actions will fall into one of the following categories:

- **Effective** – corrective actions have been effectively implemented and are expected to prevent recurrence of the finding.
- **Partially Effective** – corrective actions have been implemented and have partially resolved the findings and/or may not prevent recurrence. Additional or revised corrective actions are recommended to resolve and effectively prevent recurrence of the finding.
- **Ineffective** – implemented corrective actions have not resolved and/or will not effectively prevent recurrence of the finding.



6.2.1 Complete Corrective Action Effectiveness Reviews Checklist for ICS

An ICS staff member will obtain and review the work papers and/or deliverables to support the completion of validation reviews. The Corrective Action Effectiveness Reviews Checklist template is available on SharePoint. Also see Appendix Q for an example.

6.2.2 Corrective Action Follow-Up Procedures/Processes

The SAT must make a determination on appropriate next steps if corrective actions were found to be partially effective or ineffective. During this step ICS will summarize validation review results and present partially effective or ineffective corrective actions to the SAT for a determination of next steps.

Possible reasons for ineffective corrective actions may include:

- The root causes of the finding were not all identified or were incorrectly identified during the evaluation step of the corrective action lifecycle
- The site/Administration Office responsible for implementing the corrective actions did not fully understand the identified finding, or did not accept ownership
- Inadequate or insufficient corrective actions were developed to resolve the finding
- The corrective actions were not implemented as intended or as outlined in the CAP
- Lack of implementing corrective actions in a timely manner

For all corrective actions found to be ineffective ICS will re-evaluate risk ratings to determine if the finding is still a high risk or whether the risk has been reduced. The follow-up processes for partially effective and ineffective corrective actions will be primarily based on the risks present for the given control. Possible next steps for the partially effective and ineffective corrective actions may include the following:

- Reanalyzing quantitative and qualitative risk factors for the specified control to determine what has changed
- Implementing compensating actions while the finding and effectiveness of corrective actions are re-examined
- Analysis of the noted ineffective corrective actions and determine why they did not effectively resolve the finding
- Conducting a follow-up effectiveness review of revised or additional corrective actions that are developed and implemented



6.2.3 Complete Corrective Action Follow-Up Checklist for ICS

An ICS staff member will obtain and review the work papers, deliverable, or other documentation to support the plan of action for findings that were not resolved as a result of corrective actions put in place. The Corrective Action Follow-up Checklist template is available on SharePoint. Also see Appendix Q for an example.

6.2.4 Corrective Action Acceptance Once Problem is Resolved

The SAT may accept the corrective action once the problem is resolved. ICS will present effective corrective action results to the SAT for approval. This presentation will include the following:

- Identification of the fiscal year the deficiency was identified and the CAP owner
- Identification of the responsible site/administration office responsible for implementing the corrective action
- Identification of the control where the finding originated
- Summary description of the finding and implemented corrective actions
- Summary description of the verification steps performed by ICS in conducting the effectiveness review
- Summary description of the results of the review and proposed next steps
- Identification of the deliverable resulting from the implemented corrective actions (i.e. new or revised policies and procedures)

Upon SAT approval of the effective corrective actions for the identified finding; ICS will close out the finding and ensure that all documentation to support the implemented corrective actions is maintained.

6.2.5 Complete Corrective Action Close-Out Checklist for ICS

An ICS staff member will obtain and review the work papers, deliverables, and other supporting documentation necessary to closeout a corrective action once accepted by the SAT. The Corrective Action Acceptance Once a Problem is Resolved Checklist template is available on SharePoint. For an example see Appendix Q.



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Appendices



Appendix A: Veterans Affairs (VA) Chief Financial Officers Council (CFOC) Guide Crosswalk to Procedures Manual

Table 50 contains material cross referenced between this manual and the CFOC Implementation Guide for the Office of Management and Budget (OMB) Circular A-123, Appendix A.

Table 50. CFOC Guide to Stakeholders Procedure Manual Cross References

CFOC Implementation Guide		VA Implementation Guide	
Activity	Page Number	Phase	Activity
Step 1: Planning	6-23		
<ul style="list-style-type: none"> Organizational Structure 	6	1. Planning	1.1: Establish organizational structure
<ul style="list-style-type: none"> Determine Overall Approach: Top-Down Focus 	9	1. Planning	Introduction to Phase 1: Planning
<ul style="list-style-type: none"> Integrate and Coordinate with Other Control-Related Activities 	12	1. Planning	1.11: Integrate and coordinate with other control-related activities
<ul style="list-style-type: none"> Determine Scope of Significant Financial Reports 	15	1. Planning	1.2: Identify significant financial reports and statements
<ul style="list-style-type: none"> Determine Materiality 	16	1. Planning	1.4: Conduct quantitative analysis
<ul style="list-style-type: none"> Determine Key Processes Supporting Material Line Items 	18	1. Planning	1.5: Confirm/update Major Transaction Classes (MTCs) that generate material and immaterial line items
<ul style="list-style-type: none"> Financial Reporting Assertions 	19	1. Planning	1.10: Identify financial reporting assertions
<ul style="list-style-type: none"> Risk Assessment 	19	1. Planning	1.8: Conduct qualitative analysis (risk assessment)
<ul style="list-style-type: none"> Documentation 	20	1. Planning	Referenced throughout Phase 1: Planning
<ul style="list-style-type: none"> Monitor Control Effectiveness 	22	1. Planning	Referenced throughout all phases
<ul style="list-style-type: none"> Plan for an Updated Assurance Statement in the Performance and Accountability Report (PAR) 	23	1. Planning	1.13: Plan for an updated assurance statement in the PAR
Step 2: Evaluating Internal Control at the Entity Level	24-26	2. Evaluating	2.1: Evaluate internal controls at the entity level
Step 3: Evaluating Internal Control at the Process Level	27-34		
<ul style="list-style-type: none"> Understanding Key Financial Reporting Processes 	27	2. Evaluating	2.2: Evaluate internal control at the MTC level
<ul style="list-style-type: none"> Identifying Key Controls 	27	2. Evaluating	2.2: Evaluate internal control at the MTC level

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CFOC Implementation Guide		VA Implementation Guide	
Activity	Page Number	Phase	Activity
<ul style="list-style-type: none"> Understanding Control Design 	28	2. Evaluating	2.2: Evaluate internal control at the MTC level
<ul style="list-style-type: none"> Evaluating Controls of Cross-Servicing Providers and Service Organizations 	29	2. Evaluating	2.2: Evaluate internal control at the MTC level
<ul style="list-style-type: none"> Documenting Key Business Processes and Related Key Controls 	30	2. Evaluating	2.2: Evaluate internal control at the MTC level
<ul style="list-style-type: none"> Understanding the Information Technology (IT) Infrastructure and Associated Risks 	31	2. Evaluating	2.3: Understand IT structure and associated risks
Step 4: Testing at the Transaction Level	35-37		
<ul style="list-style-type: none"> Risk-Based Approach 	35	3. Testing	3.1: Develop MTC-level Test Plans
<ul style="list-style-type: none"> Testing Key Controls 	36	3. Testing	3.4: Test key controls
Step 5: Concluding, Internal Reporting, and Correcting Deficiencies and Weaknesses	38-45		
<ul style="list-style-type: none"> Concluding on Effectiveness 	38	4. Concluding, and Reporting	4.1: Conclude on control effectiveness
<ul style="list-style-type: none"> Reporting 	39	4. Concluding and Reporting	4: Internal and External Reporting
<ul style="list-style-type: none"> Correcting Deficiencies or Weaknesses 	41	5. Correcting	5.2: Correct findings
<ul style="list-style-type: none"> Determining Effectiveness of Corrective Actions 	43	6. Corrective Action Monitoring, Verifying, and Validation	6.2: Validate corrective action



Appendix B: Glossary of Acronyms

Table 51 contains a list of acronyms and full names found in this manual.

Table 51. List of Acronyms

Acronym	Term
AC	Access Control
AICPA	American Institute of Certified Public Accountants
C&A	Certification and Accreditation
CAP	Corrective Action Plan
CAVR	Completeness, Accuracy, Validity, Restricted Access
CFO	Chief Financial Officer
CFO Act	CFOs Act of 1990
CFOC	CFOs Council
CM	Configuration Management
CobIT	Control Objectives for Information and Related Technology
CO	Contracting Officer
COSO	Committee on Sponsoring Organizations
CP	Contingency Planning
EDMS	Electronic Document Management System
FBwT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIPS	Federal Information Processing Standards
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAO	General Accountability Office
GCC	General Computer Controls
GPRA	Government Performance and Results Act
GMRA	Government Management Reform Act of 1994
ICC	Internal Controls Committee
ICS	Internal Controls Service
IG Act	Inspector General Act of 1978
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
MTC	Major Transaction Class
MQAS	Management Quality and Assurance Service
MSN	Memorial service Network
NIST	National Institute of Standards and Technology
OBO	Office of Business Oversight
OIG	Office of Inspector General
OI&T	Office of Information and Technology
OMB	Office of Management and Budget

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Acronym	Term
PAR	Performance and Accountability Report
PCAOB	Public Company Accounting Oversight Board
PERCV	Presentation and Disclosure, Existence and Occurrence, Rights and Obligations, Compass and Accuracy, Valuation and Allocation
PO	Process Owner
POC	Point Of Contact
QAS	Quality Assurance Service
RA	Reimbursable Agreement
RAM	Responsibility Assignment Matrix
RCM	Risk Control Matrices
RO	Regional Office
SAS	Statement on Auditing Standards No.XX
SAT	Senior Assessment Team
SD	Segregation of Duties
SM	Security Management
SMC	Strategic Management Council
SoV	Summary of Validation
SOX	Sarbanes-Oxley Act of 2002
VA	Veterans Affairs
VACO	VA Central Office
VARO	VA Regional Office
VISN	Veterans Integrated Service Network
Yellow Book	GAO Government Auditing Standards



Appendix C: Glossary of Terms

This implementation guide uses many key terms when discussing how VA senior management will evaluate its internal control over financial reporting. The following is a list of these key terms and their definitions:

Adjusted Exposure

Gross exposure (see definition below) multiplied by the upper limit deviation rate.

Application Controls

Automated control procedures (e.g., calculations, posting to accounts, generation of reports, edits, control routines, etc.) or manual controls that are dependent on IT (e.g., the review by an inventory manager of an exception report when the exception report is generated by IT). When IT is used to initiate, authorize, record, process, or report transactions or other financial data for inclusion in financial statements, the systems and programs may include controls related to the corresponding assertions for significant accounts or disclosures or may be critical to the effective functioning of manual controls that depend on IT.

Automated Controls

Automated controls encompass those control procedures performed by a computer.

Compensating Controls

Controls that operate at a level of precision that would result in the prevention or detection of a misstatement that was more than inconsequential or material, as applicable, to annual or interim financial statements. The level of precision should be established considering the possibility of further undetected misstatements.

Complementary Controls

Are controls that function together to achieve the same control objective.

Component

Formerly referred to as bureaus, or operational elements, or distinct departmental offices within an Agency.

Control Deficiency

A deficiency in the design or operation of a control that 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if it operates as designed, the control objective is not always met



- A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Control Objective

The objective(s) related to internal control over financial reporting to achieve the assertions that underlie an organization's financial statements.

De Minimis

The full expression is de minimis non curat lex. This is a Latin phrase which means "the law does not care about very small matters". It can be used to describe a component part of a wider transaction, where it is in itself insignificant or immaterial to the transaction as a whole, and will have no legal relevance or bearing on the end result.

Design Effectiveness

Internal control over financial reporting is designed effectively when the controls in place would meet the control objectives and be expected to prevent or detect errors or fraud that could result in material misstatements in the financial statements.

Detective Control

Detective controls have the objective of detecting errors or fraud that has already occurred that could result in a misstatement of the financial statements.

Entity-Level Controls

Entity-level controls are controls VA senior management has in place to provide assurance that appropriate controls exist throughout the organization, including at the individual locations or operational units. Entity-level controls include the following:²⁰

- Controls within the control environment, including tone at the top, the assignment of authority and responsibility, consistent policies and procedures, and entity-wide initiatives, such as codes of conduct and fraud prevention
- VA senior management's risk assessment process
- Centralized processing and controls
- Controls to monitor other controls, including the activities of the Office of Inspector General (OIG), VA senior management, and self-assessment programs
- The period-end financial reporting process

²⁰ PCAOB AS 2.



- Approved policies that address the entity's significant control and risk management practices

Financial Reporting ²¹

Includes annual financial statements of an agency as well as significant internal and external financial reports that could have a material effect on a significant spending, budgetary or other financial decision of the agency or that is used to determine compliance with laws and regulations on the part of the agency.

Financial Statement Assertions

VA senior management and the IPA should document and test internal control over relevant financial statement assertions. Financial statement assertions are defined as representations by VA senior management that are embodied in the financial statement components and can be classified in the following broad categories:²²

- **Existence or Occurrence** – This assertion addresses whether assets or liabilities of the entity exist at a given date and whether recorded transactions have occurred during a given period
- **Completeness** – This assertion addresses whether all transactions and accounts that should be presented in the financial statements are so included
- **Valuation or Allocation** – This assertion addresses whether asset, liability, equity, revenue, and expense components have been included in the financial statements at appropriate amounts
- **Rights and Obligations** – This assertion addresses whether assets are the rights of the entity and liabilities are the obligations of the entity at a given date
- **Presentation and Disclosure** – This assertion addresses whether particular components of the financial statements are properly classified, described, and disclosed

Additionally, A-123, Appendix A defines three additional assertions:

1. The transactions are in compliance with applicable laws and regulations (compliance)
2. All assets have been safeguarded against fraud and abuse
3. Documentation of internal control, all transactions, and other significant events is readily available for examination

²¹ OMB Circular A-123, page 22.

²² Ibid.



Although the financial statement assertions appear to be similar to the information processing objectives/Completeness, Accuracy, Validity, and Restricted Access (CAVR), there is not a one-for-one relationship, and they are used for different purposes. CAVR are used to evaluate the design effectiveness of controls, particularly application controls, within a MTC. Assertions are representations by VA senior management as to the fair presentation of the financial statements.

General Computer Controls

General computer controls are one of the types of information processing controls included in the internal control component of control activities. These are the processes and procedures that are used to manage and control an entity's information technology activities and computer environment. The Federal Information System Controls Audit Manual (FISCAM) was created by the Government Accountability Office (GAO) as the primary tool used by agencies within the Federal government to evaluate their IT controls.

Gross Exposure

A worst-case estimate of the magnitude of amounts or transactions exposed to the deficiency with regard to annual or interim financial statements, without regard to the upper limit deviation rate or likelihood of misstatement, and before considering complementary, redundant, or compensating controls. The following factors affect gross exposure:

- The annual or interim financial statement amounts or total transactions exposed to the deficiency
- The volume of activity in the account balance or class of transactions exposed to the deficiency that has occurred in the current annual or interim period or that is expected in future periods

Inconsequential

- Potential misstatements equal to or greater than 20% of overall annual or interim financial statement materiality are presumed to be more than inconsequential
- Potential misstatements less than 20% of overall annual or interim financial statement materiality may be concluded to be more than inconsequential as a result of the consideration of qualitative factors, as required by AS 2

Information Processing Objectives (CAVR)

The four information processing objectives (CAVR) are a standard means to assess the integrity of the data that flows through a process. The four components of CAVR are listed in Table 52.

Table 52. Information Processing Objectives



Information Processing Objective	Definition
Completeness	<ul style="list-style-type: none"> All recorded transactions are accepted by the system (only once) Duplicate postings are rejected by the system Any transactions that are rejected are addressed and fixed
Accuracy	<ul style="list-style-type: none"> Key data elements for transactions (including standing data) that are recorded and input to the computer are correct Changes in standing data are accurately input
Validity	<ul style="list-style-type: none"> Transactions, including the alteration of standing data, are authorized Transactions, including standing data files, are not fictitious and they relate to the organization
Restricted Access	<ul style="list-style-type: none"> Unauthorized amendments of data are barred from the system The confidentiality of data is ensured Entity assets are physically protected from theft and misuse The segregation of duties is ensured

Although control activities that achieve the information processing objectives do not always provide us with direct comfort on financial statement assertions, Table 53 could be useful in linking our controls work to the financial statement assertions, assuming that the MTC to which the controls relate is designed effectively.

Table 53. Links between Information Processing Objectives and Financial Statement Assertions

Information Processing Objective	Financial Statement Assertion
Completeness	Completeness, Existence/Occurrence
Accuracy	Valuation/Allocation
Validity	Existence/Occurrence, Rights & Obligations
Restricted Access	Most, except for Rights & Obligations

Internal Control ²³

An integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations
- Reliability of financial reporting

²³ GAO *Standards for Internal Control in the Federal Government (Green Book)*, page 6.



- Compliance with applicable laws and regulations
- Safeguarding of assets

Internal Controls Service

The Internal Controls Service (ICS) is part of the Office of Business Oversight. Its role with regard to A-123, Appendix A, is to complete the following activities:

- Evaluate and perform tests of controls
- Document procedures performed, evidence obtained, and conclusions reached

Internal Control over Financial Reporting

A process designed by, or under the supervision of, the agency head and chief financial officers, and effected by VA senior management, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other reports for internal and external purposes. This process involves the maintenance of records, the recording of transactions, and the prevention/detection of unauthorized acquisition, use, or disposition of the entity's assets.²⁴

Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation as well as assure compliance with laws and regulations pertaining to financial reporting.²⁵

Internal Control Standards²⁶

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the GAO to issue standards for internal control in government. These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. These standards define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated. These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance. The GAO has identified and defined the five standards of internal control as follows:

- 1. Control Environment** – management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

²⁴ Adapted from PCAOB AS 2.

²⁵ OMB Circular, A-123, Appendix A, page 22.

²⁶ GAO *Standards for Internal Control in the Federal Government (Green Book)*, page 3 - 9.



- 2. Risk Assessment** – internal control should provide for an assessment of the risks the agency faces from both external and internal sources.
- 3. Control Activities** – internal control activities help ensure that VA senior management’s directives are carried out. The control activities should be effective and efficient in accomplishing the agency’s control objectives.
- 4. Information and Communications** – information should be recorded and communicated to management and others within the entity who need it and in a form and within a timeframe that enables them to carry out their internal control and other responsibilities.
- 5. Monitoring** – internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

VA Senior Management ²⁷

Management is required to include an assurance statement on the effectiveness of internal control over financial reporting in its annual Performance and Accountability Report. This statement is based on management’s assessment of the effectiveness of an agency’s internal control over financial reporting.

Management Controls

Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that:

- Programs achieve their intended results.
- Resources are used consistent with agency mission.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported and used for decision making.

Manual Controls

Manual controls encompass those controls performed manually, not by computer systems.

²⁷ OMB Circular, A-123, Appendix A, page 29.



Material Weakness

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.

Materiality ²⁸

The risk of error or misstatement that could occur in a financial report that would impact management's or users' decisions or conclusions based on such report.

Operational Effectiveness

Internal control over financial reporting is operating effectively when a properly designed control is operating as designed and the individual performing the control possesses the necessary authority and qualifications to perform the control effectively.

Opinion on Internal Control ²⁹

The auditor's opinion on internal control is based upon the auditor's evaluation of the entity's internal control and the results of other audit procedures. The opinion may be unqualified, unqualified with reference to deficiencies, qualified, or adverse. Additionally, there may be restrictions on the scope of the procedures that result in a qualified opinion or a disclaimer of opinion.

The Chief Financial Officer (CFO) Act agencies generally receive a report on internal control which is not the same as an opinion.

Potential Misstatement

An estimate of the misstatement that could result from a deficiency with a more-than-remote likelihood of occurrence.

Preventive Control

Preventive controls have the objective of preventing errors or fraud from initially occurring that could result in a misstatement of the financial statements.

Major Transaction Class (MTC)

A major transaction class is any sequence of transactions that enables an entity to complete tasks and achieve its objectives. These transactions may range, in order of complexity, from performing simple activities (such as processing invoices), to managing key elements of operations (such as an inventory management system), to executing functional tasks (such as maintaining an organization's financial records), to cross-functional elements (such as the entity's Human Resources Department).

²⁸ OMB Circular, A-123, Appendix A, page 23.

²⁹ GAO/PCIE *Financial Audit Manual*, Sec. 500.38.



MTC Risk Assessment

As part of the scoping exercises, management should identify the primary MTCs. In order to evaluate the extent of documentation and testing over each MTC, management should perform a risk assessment of each MTC. This risk assessment involves the identification of relevant risks to achieving the financial reporting objectives related to each account affected by each MTC. Higher risk MTCs will be subject to a greater extent of documentation and testing.

Reasonable Assurance

The concept of reasonable assurance encompasses the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance.

Remote or Remote Likelihood

As defined in Statement of Federal Financial Accounting Standards No. 5, the term “remote” is used when the chance of the future event, or events, occurring is slight.

Report on Internal Control³⁰

A report on internal control (in which no opinion is issued) is a by-product report, a report that provides a limited degree of assurance about internal control. When no opinion is issued, the report on internal control is not the primary objective of the engagement. If the purpose of the audit is not to render an opinion on internal control, the auditor should report material weaknesses and other deficiencies in internal control, or state that no material weaknesses were found.

Senior Assessment Team³¹

The team should be comprised of senior executives and derive its authority and support from the Secretary and/or the CFO. The team could take many forms, such as a financial management improvement committee or as a subset of the Strategic Management Council. The senior assessment team is responsible for the following:

- Oversight of the assessment process
- Ensuring that assessment objectives are clearly communicated throughout the agency
- Ensuring that the assessment is carried out in a thorough, effective, and timely manner

³⁰ GAO/PCIE *Financial Audit Manual*, Sec. 500.49.

³¹ OMB Circular, A-123, Appendix A, page 24.



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- Identifying and ensuring adequate funding and resources are made available
- Identifying staff and/or securing contractors to perform the assessment
- Determining the scope of the assessment, i.e., those financial reports covered by the assessment
- Determining the assessment design and methodology

Significant Account and Disclosure

An account or disclosure is significant if there is a more-than-remote likelihood that the account or disclosure could contain misstatements that individually, or when aggregated with others, could have a material effect on the financial statements, considering the risks of both overstatement and understatement.

Strategic Management Council

Serves as a collaborative and deliberative body providing oversight and guidance to the Senior Assessment Team (SAT) on final decisions and recommendations concerning the A-123, Appendix A, program. The CFO is a member of the Strategic Management Council. The Senior Assessment Team reports to the CFO, who coordinates A-123, Appendix A, activities with the Strategic Management Council.

Sub-Process (Sub-MTC)

A sub-MTC is a group of transactions for which specific accounting procedures and controls are established by an entity's management. For example, a revenue and receivables MTC may include sub-MTCs, such as invoicing, pricing, or processing of receipts.

Test Objective

The design of the test of a control activity is to determine whether the control is operating as designed. The test should consider the following:

- The nature of the control and the definition of an exception
- The frequency with which the control operates
- The desired level of assurance in combination with the reliability of the control, for example, whether the control is designed to achieve the control objective alone or in combination with other controls
- The number of exceptions expected



Upper Limit Deviation Rate

The statistically derived estimate of the deviation rate based on the sample results, for which there is a remote likelihood that the true deviation rate in the population exceeds this rate (refer to American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audit Sampling).

Walkthrough

A walkthrough is the process in which a transaction is traced from origination through the entity's information systems until the transaction is reflected in the entity's financial reports. A walkthrough should encompass the entire process of initiating, authorizing, recording, processing, and reporting individual transactions and controls for each MTC, including controls to address the risk of fraud.



Appendix D: The Five Standards of Internal Control

The GAO issues the *Standards for Internal Control in the Federal Government* commonly referred to as the “*Green Book*.”³² These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement.

As part of the assessment, the assessment team should document, test, and evaluate the design and effectiveness of the five standards of internal control. Because these standards form the foundation for all other controls implemented within an organization, it is important to document these controls during the Planning Phase of the assessment. Testing and evaluating these controls may be completed as part of the Planning Phase or during the very early stages of the Testing Phase. However, it is recommended that the testing and evaluation of these foundation controls occur as early in the assessment phase as possible. Weaknesses or deficiencies noted within these foundation controls will need to be corrected as soon as possible to prevent the weakening of other internal controls.

Control Environment

The control environment establishes the overall tone for the organization and is the foundation for all other components of internal control. It provides discipline and structure as well as the climate which influences the quality of internal control.³³ The GAO identified seven sub-components of the control environment:

- Integrity and ethical values
- Commitment to competence
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human capital policies and practices
- Relationship with Congress and central oversight groups (i.e., OMB, Inspector General, Senior Management Councils)

³² *Standards for Internal Control in the Federal Government*, GAO Report # GAO/AIMD-00-21.3.1 (11/99),

³³ *Ibid.*



The assessment team should also address anti-fraud and abuse, programs and entity governance when evaluating the control environment.³⁴

Anti-Fraud and Abuse Considerations

Controls should be evaluated that are intended to address the risks of fraud and abuse and have at least a reasonably possible likelihood of having a material effect on the financial statements.³⁵ Abuse is distinct from fraud. When abuse occurs, no law or regulation is violated. Rather, the conduct of a program or entity falls far short of behavior that is expected to be reasonable and necessary business practices by a prudent person.³⁶

Effective anti-fraud and abuse programs include the following key elements:

- Code of conduct/ethics
- Hotline/whistleblower program
- Hiring and promotion (i.e., background checks)
- Investigation and remediation of identified fraud
- Oversight
- Risk assessment

The assessment team should consider each of these elements in its documentation and evaluation of its anti-fraud and abuse program. Additionally, the assessment team's documentation should adequately support its assessment of anti-fraud programs and controls by conducting the following activities:

- Providing sufficient information regarding the flow of transactions, which enables management to determine where material misstatements could occur as a result of fraud
- Determining which controls prevent and detect fraud
- Determining (1) who will perform the controls and (2) the related segregation of duties

³⁴ PCAOB AS 2.

³⁵ Ibid.

³⁶ Adopted from the GAO *Government Auditing Standards* commonly referred to as the "Yellow-Book", paragraph 4.19.



Qualitative Analysis (Risk Assessment)

Another component of internal control is qualitative analysis (risk assessment). For an organization to exercise effective control, it should establish clear, consistent objectives and understand the risks it faces in achieving those objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans developed under the Government Performance and Results Act, and forming a basis for determining how risks should be managed.³⁷

The assessment team needs to comprehensively identify risks and must consider all significant interactions between the entity and other parties as well as internal factors at both the entity-wide and activity level. Risk identification methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.³⁸

According to the *Green Book*, once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken. The specific risk analysis methodology used can vary by organization because of differences in organizations' missions and the difficulty in qualitatively and quantitatively assigning risk levels. Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms should be provided to identify and deal with any special risks prompted by such changes.

Control Activities

Control activities are the policies and procedures that help to ensure that management's directives are implemented. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.³⁹ Control activities occur throughout the organization, at all levels, and in all functions. The activities involve approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, maintenance of records, and segregation of duties.

There are many different types of control activities including preventive controls, detective controls, manual controls, computer controls, and internal controls. Control activities address specified information processing objectives/ Completeness, Accuracy, Validity, and Restricted Access (CAVR), such as ensuring completeness and accuracy

³⁷ Adopted from the *Standards for Internal Control in the Federal Government*, GAO Report # GAO/AIMD-00-21.3.1 (11/99),

³⁸ Ibid.

³⁹ Ibid.



of data processing. Table 54 includes certain control activities that are commonly performed by personnel at various levels in organizations, as indicated by the *Green Book*.

Table 54. Common Control Activities

Activity	Detail
Top Level Reviews of Actual Performance	Management should track major agency achievements and compare these to the plans, goals, and objectives established under the Government Performance and Results Act.
Reviews by Management at the Functional or Activity Level	Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.
Management of Human Capital	<p>Effective management of an organization's workforce, its human capital, is essential to achieving results and an important part of internal control. Management should view human capital as an asset rather than a cost. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible.</p> <p>Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved.</p> <p>Performance evaluation and feedback, supplemented by an effective reward system, should be designed to help employees understand the connection between their performance and the organization's success. As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.</p>
Controls Over Information Processing	A variety of controls are performed to check accuracy, completeness, and authorization of transactions. Data entered into computer applications is subject to edit checks or matching to approved control files. An obligation, for example, is accepted only upon an approved requisition and availability of funds. Numerical sequences of transactions are accounted for. File totals are compared and reconciled with prior balances and with control accounts. Exceptions are investigated and reported to supervisors as necessary. Development of new systems and changes to existing systems are controlled, and access is checked to ensure the user performing the update is authorized to do so.
Physical Control Over Vulnerable Assets	An agency should establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

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Activity	Detail
Establishment and Review of Performance Measures and Indicators	Activities need to be established to monitor performance measures and indicators. These controls could call for comparisons and assessments relating different sets of data to one another, so analyses of the relationships can be made and appropriate actions taken. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.
Segregation of Duties	Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. For example, a manager authorizing obligations would not be responsible for entering obligations into financial management systems or handling the payment of invoices.
Proper Execution of Transactions and Events	Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.
Accurate and Timely Recording of Transactions and Events	Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.
Access Restrictions to and Accountability for Resources and Records	Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.
Appropriate Documentation of Transactions and Internal Control	Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. These examples are meant only to illustrate the range and variety of control activities that may be useful to an agency's managers. They are not all inclusive and may not include particular control activities that an agency may need. Furthermore, an agency's internal control should be flexible to allow agencies to tailor control activities to fit their special needs. The specific control activities used by a given agency may be different from those used by others due to a number of factors. These could include specific threats they face and risks they incur; differences in objectives; managerial judgment; size and complexity of the organization; operational environment; sensitivity and value of data; and requirements for system reliability, availability, and performance.



These examples are just a very few among a myriad of control procedures performed every day throughout an organization that serve to enforce adherence to established protocols, and to keep entities on track toward achieving their objectives.

Information and Communication

For an organization to run and control its operations, it should have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the organization to achieve all of its objectives. The information and communication component includes the systems that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and enables financial reports to be generated accurately. Information and communication also spans all of the other components of internal control.

Program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. For example, operating information is required for development of financial reports. This covers a broad range of data from purchases, subsidies, and other transactions to data on fixed assets, inventories, and receivables. Operating information is also needed to determine whether the organization is achieving its compliance requirements under various laws and regulations. Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources.⁴⁰

Pertinent information should be identified, captured, and distributed in a form and timeframe that permits people to perform their duties efficiently. Effective communications should occur in a broad sense with information flowing down, across, and up the organization. In addition to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders who may have a significant impact on the organization achieving its goals. Moreover, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.⁴¹

Management should focus on understanding the systems and processes that are important in the accumulation of financial data, including the system of controls that safeguard information, the processes for authorizing transactions, and the system for maintaining records. When evaluating the information and communication component of

⁴⁰ Adopted from the *Standards for Internal Control in the Federal Government*, GAO Report # GAO/AIMD-00-21.3.1 (11/99).

⁴¹ *Ibid.*



internal control over financial reporting, management should consider the methods used to accumulate and disseminate information:

- Accounting systems
- Policy manuals (including financial reporting manuals)
- Management's reports
- Newsletters
- Accounting policy updates
- Technical updates
- Staff meetings
- Training

When evaluating information and communication, the assessment team should consider quality, for example, ascertaining whether the following conditions are true:

- Content is appropriate – Is the needed information available?
- Information is timely – Is it available when required?
- Information is current – Is it the latest available?
- Information is accurate – Is the data correct?
- Information is accessible – Can the data be obtained easily by appropriate parties?

All of these questions should be addressed by the system design. If not, it is probable that the system will not provide the information that management and other personnel require to ensure accurate financial reporting.

Monitoring

Monitoring is the continuous process management uses to assess the quality of internal control performance over time. The three sub-components to monitoring are described in

Table 55.



Table 55. Monitoring Sub-Components

Monitoring Sub-Components	
Ongoing Monitoring	Ongoing monitoring occurs in the ordinary course of operations. Ongoing monitoring includes regular management and supervisory activities and other actions personnel take in performing duties that assess the quality of the internal control system's performance.
Separate Evaluations/ Periodic Monitoring	Periodic monitoring involves less frequent (i.e., monthly or quarterly) activities by senior management. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector General.
Reporting Deficiencies	The monitoring component should also include a process for reporting deficiencies to the appropriate level of management and undertaking corrective action efforts in a timely manner.

According to the *Green Book*, monitoring of internal control should also include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to take the following actions:

- Promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations
- Determine proper actions in response to findings and recommendations from audits and reviews
- Complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management's attention

The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates that findings and recommendations do not warrant management action.

Examples of monitoring controls are listed below:

- Inspector General reviews



- Management reviews
- Self-assessments
- Reconciliations
- Fluctuation analytics
- Exception reports

Table 56 demonstrates the factors that should be documented for each component of internal control and examples of items that may be included as part of the documentation.



Table 56. Internal Control Component Factors

Internal Control Component	Factor	Example of Items to be included in Documentation
Control Environment	<ul style="list-style-type: none"> • Integrity and ethical values • Commitment to competence • Management's philosophy and operating style • Organizational structure • Assignment of authority and responsibility • Human Resource Policies and Practices • Oversight groups 	<ul style="list-style-type: none"> • Human Resource Policies and Procedures Manuals • Organization charts • Entity Standards for Ethical Conduct • Training Policies • Security Handbooks • Whistleblower Policies • Operational Handbooks • Job Descriptions including responsibilities • Relationships with oversight groups • Related communications at appropriate levels
Risk Assessment	<ul style="list-style-type: none"> • Establishment of entity-wide objectives • Establishment of activity-level objectives • Risk identification • Risk analysis • Managing risk change 	<ul style="list-style-type: none"> • Policies and procedures used to identify internal and external risks • Entity objectives and associated risks to achievement • Risk analyses and assessments • Related communications at appropriate levels
Control Activities	<ul style="list-style-type: none"> • Policies, procedures, techniques, and mechanisms in place to ensure activities are properly controlled. 	<ul style="list-style-type: none"> • Management objectives • Planning and reporting systems • Analytical review and analyses • Policies and procedures related to segregation of duties • Policies and procedures related to safeguarding of records • Physical and access controls • Related communications at appropriate levels • Entity-wide security management program • Application controls • Service continuity • Related communications at appropriate levels

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Internal Control Component	Factor	Example of Items to be included in Documentation
Information and Communication	<ul style="list-style-type: none"> • Process for obtaining and disseminating internal and incoming external information • Process for identifying, capturing, and distributing information • Process of ensuring effective internal and external communication occurs • Forms and means of communication • Disaster recovery 	<ul style="list-style-type: none"> • Financial Reporting Procedures Manual • Accounting Policies and Procedures • Organizational structures indicating lines of communication relevant to financial reporting • Entity Policies related to distribution of information • Disaster recovery procedures • Type and sufficiency of reports produced • Communication of control-related duties and responsibilities • Manner in which information system development is managed • Related communications at appropriate levels
Monitoring	<ul style="list-style-type: none"> • Ongoing monitoring • Separate evaluations • Reporting deficiencies 	<ul style="list-style-type: none"> • Self assessments • Process for identifying the need of self-assessments • Process for reviewing and evaluating self-assessments • Process for reviewing and evaluating OIG and GAO external audit reports • Process for identifying and completing and reporting corrective actions • Related communications at appropriate levels



Appendix E: Information Processing Objectives (CAVR)

The four information processing objectives (CAVR) are a standard means to assess the integrity of the data that flows through a process. The four components of CAVR are listed in Table 57.

Table 57. CAVR

Information Processing Objective	Definition
Completeness	<ul style="list-style-type: none"> All recorded transactions are accepted by the system (only once) Duplicate postings are rejected by the system Any transactions that are rejected are addressed and fixed
Accuracy	<ul style="list-style-type: none"> Key data elements for transactions (including standing data) that are recorded and input to the computer are correct Changes in standing data are accurately input
Validity	<ul style="list-style-type: none"> Transactions, including the alteration of standing data, are authorized Transactions, including standing data files, are not fictitious and they relate to the organization
Restricted Access	<ul style="list-style-type: none"> Unauthorized amendments of data are barred from the system The confidentiality of data is ensured Entity assets are physically protected from theft and misuse The segregation of duties is ensured

Although control activities that achieve the information processing objectives do not always provide direct comfort on financial statement assertions, Table 58 may be useful in linking controls work to the financial statement assertions, assuming that the MTC to which the controls relate is designed effectively.

Table 58. Links Between Information Processing Objectives and Financial Statement Assertions

Information Processing Objective	Financial Statement Assertion
Completeness	Completeness, Existence/Occurrence
Accuracy	Valuation/Allocation
Validity	Existence/Occurrence, Rights & Obligations
Restricted Access	Most, except for Rights & Obligations

Note that in Table 58, **Restricted Access** in the **Information Processing Objective** column links to most assertions. Restricted access to assets and records means that data is protected against unauthorized amendments, its confidentiality is ensured, and physical assets are protected. This is similar to the control environment or tone at the top in that it links to many assertions. If we know that the physical assets are protected, we have contributed to our "existence/occurrence" assertion. If we know that access to the system is restricted, we may have contributed to our "existence/occurrence", "completeness", and "valuation" assertions.



Appendix F: Flowchart Instruction

Flowcharts provide details of activities, tasks, responsibilities, and key decision points in a given MTC. The purpose of the flowcharts is to identify control points in the MTC and the control activities performed by the users.

Flowcharts are divided by "swim lanes" that contain descriptive shapes. Each shape represents a particular occurrence within the MTC. Specific MTC activity, decision point or reference is described within the shape. The movement of a MTC model travels from left to right in a timeline fashion.

Specific definitions of the various elements contained within the flowchart presentation:

- **Swim Lanes** – Indicate the specific entity or organizational unit responsible for handling a MTC or making a decision. Swim lanes are presented horizontally with titled position marked vertically on the left side of the flowchart.
- **Phases** – Specific phases are identified as a set of activities grouped together. Separate phases can be shown on the same flowchart, divided by a vertical line.
- **Shapes** – The specific shapes are symbols meant to identify actions or documents (see Table 59).

Table 59. Flowchart Legend

Symbols	Notes
	Terminator: Marks the beginning or end of a MTC. Usually contains the word "start" or "end".
	On-page connector: Indicates that the flow continues on the same page where a matching symbol containing the same number has been placed
	Off-page connector: Indicates that the MTC continues on another (different) page where a matching symbol containing the same number has been placed
	General process: Denotes a general task that should be done. It can represent a single step or an entire sub-process within a larger process.
	Manual process: Denotes a task that is performed using manual means
	Document: Denotes a printed document or report
	Prepare: Typically denotes a task that requires a user to complete a form or document or assemble a package
	Decision: Denotes a decision or branching point. This symbol will always have a "yes" and a "no" branch depending on the answer to the decision. The "yes" and "no" branches may lead to more decision blocks or to another process block.



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Symbols	Notes
	Input/Output: Represents material or information entering or leaving the system, such as a customer order (input) or a product (output)
	Manual Input: Denotes a step requiring manual entry of data (such as keying in values on a spreadsheet)
	Stored Data: Indicates a general step where data gets stored
	Direct Data: Another term for "random access" or hard disk storage (as opposed to "sequential data" which is stored in a structure)
	Sequential Data: Denotes data stored on tape
	Display: Indicates a step that displays data to the end user
	Flow-Line: Lines that indicate the sequence of steps and the direction of the flow
	Transfer of Control: Denotes that the control of the process has been transferred from one process owner or organization to another
	Control: Denotes that the step in the MTC contains a non-key internal control
	Key Control: Denotes that the step in the MTC contains a key internal control
	Annotation: Used at will for whatever reason – questions, additional details, etc. Annotations should not be present in the finished product – if they contain details or explanations, the content should be moved to the narrative.



Appendix G: Stakeholder Responsibility Matrix

Table 60 lists stakeholders, and their roles, cross referenced to phases of this manual and WBS number activities.

Table 60. Stakeholder Responsibilities

Group	Role	Phase of Internal Control Stakeholders Procedures Manual	TOC Number Activity
Secretary	Involved	1. Planning	1.1
		4. Concluding and Reporting	4.2.2
Strategic Management Council (SMC)	Involved	1. Planning	1.1, 1.13
Chief Financial Officer (CFO)	Involved	1. Planning	1.1
Senior Assessment Team (SAT)	Responsible	1. Planning	1.1, 1.2
		6. Corrective Action Monitoring, Verifying, and Validation	6.2.2
	Involved	1. Planning	1.4 - 1.7, 1.9.1 - 1.13
		2. Evaluating	2.1.4
		3. Testing	3.1.1 - 3.1.6, 3.2
		4. Concluding and Reporting	4.1.4, 4.2.1.2, 4.2.2
		5. Correcting	5.1.4
		6. Corrective Action Monitoring, Verifying, and Validation	6.1, 6.1.4, 6.1.7, 6.2, 6.2.4, 6.2.5
Office of Business Oversight (OBO)/Internal Controls Service (ICS)	Responsible	1. Planning	1.3 - 1.14.5
		2. Evaluating	2.1.1 - 2.3.2
		3. Testing	3.1.1 - 3.4.1
		4. Concluding and Reporting	4.1 - 4.2.2



Internal Controls Stakeholder Procedure Manual

Group	Role	Phase of Internal Control Stakeholders Procedures Manual	TOC Number Activity
		5. Correcting	5.1.4
		6. Corrective Action Monitoring, Verifying, and Validation	6.1 - 6.2.1, 6.2.3 - 6.2.5
	Involved	1. Planning	1.1 - 1.2
		5. Correcting	5.1, 5.1.2, 5.1.5
		6. Corrective Action Monitoring, Verifying, and Validation	6.2.2
VA Personnel	Involved	2. Evaluating	2.2.1.1 - 2.2.1.3, 2.2.4.1 - 2.2.4.2, 2.3.1 - 2.3.2
		3. Testing	3.3
		5. Correcting	5.1.2, 5.1.5
Process Owner Liaisons	Responsible	2. Evaluating	2.2.1.5
	Involved	2. Evaluating	2.2.1.1 - 2.2.1.3
		3. Testing	3.3
		5. Correcting	5.1.2, 5.1.5
		6. Corrective Action Monitoring, Verifying, and Validation	6.1
Process Owners	Responsible	2. Evaluating	2.2.1.5 - 2.2.1.6, 2.2.3
		5. Correcting	5.1 - 5.1.3, 5.1.5
	Involved	2. Evaluating	2.2.1.1 - 2.2.1.4, 2.2.2, 2.2.4.1 - 2.2.4.2, 2.3.1 - 2.3.2
		3. Testing	3.3
		6. Corrective Action Monitoring, Verifying, and Validation	6.1, 6.1.1, 6.1.5, 6.1.8, 6.1.8.2, 6.2



Appendix H: Alternative Procedures for Evaluating Controls of Cross-Servicing Providers

If an Annual Assurance Statement or Type II SAS 70 report cannot be obtained, or the report obtained does not adequately address the information processing objectives (CAVR) required by the assessment team, alternative procedures must be performed over the service organization's internal control. These procedures may include one or more of the following:

- Perform tests of controls at the service organization
- Obtain a report on the application of agreed-upon procedures that describes the tests of relevant controls
- Perform tests of the user controls over the activities of the service organization

Perform Tests of Controls at the Service Organization

If VA's contract with the service organization has a "right to audit" clause or the Department is otherwise permitted by the service organization to perform an audit, the assessment team may have its own personnel review and test the controls at the service organization. This review would be similar to the assessment that the assessment team would perform on its internal processes. The review would need to cover the control activities at the service organization, as well as any relevant controls covering the other four components of internal control (including general computer controls).

Obtain a Report on the Application of Agreed-Upon procedures that Describes the Tests of Relevant Controls

An agreed-upon procedures report may be used if it provides a level of evidence similar to a SAS 70 report. If an agreed-upon procedures report is to be relied upon, the assessment team should consider the following factors:

- The service organization's controls that (1) are relevant to VA's internal control over financial reporting and (2) cover all five components of internal control (including general computer controls)
- The time period covered and the nature and results of the tests that the service auditor applied to the service organization's controls to validate that they are operating effectively



Perform Tests of the User Controls Over the Activities of the Service Organization

The assessment team should assess whether its user controls would provide adequate assurance by considering whether (1) a breakdown of control at the service organization could lead to a misstatement that is more than inconsequential and (2) management's user controls would detect or prevent the misstatement in a timely manner.

For example, assume that an entity uses a service organization to process payroll. On one occasion, the service organization erroneously inputs the wrong payment amount for a new employee, causing the overall payroll amount to be incorrect. If management performs an independent review of the total amount that was paid at every pay period, the error would be detected, researched, and resolved before the error was recorded in the organization's financial records. In this case, the assessment team may be able to rely on its own user controls.

User controls may take the following forms:

- **Input/Output Controls.** In most outsourcing situations, the entity will have some access to the information processed by a service organization. In some cases, this information may enable the organization to fully reconcile the service organization's results with the results of an independent source. For example, an entity using a payroll service organization could compare the data submitted to the service organization with reports or information received from the service organization after the data has been processed. The entity also could re-compute a sample of the payroll amounts for clerical accuracy and review the total amount of the payroll for reasonableness.
- **Performance Monitoring.** Management may have a process for monitoring the service organization's performance in relation to various metrics, as typically defined in a service level agreement. Most of these metrics will be tailored to specific operations. In some situations, however, such monitoring may provide some indirect assurance that the service organization's controls are operating properly. For example, management may regularly review the security, availability, and processing integrity of service-level agreements and related contracts with third-party service organizations.

A designated individual would be responsible for regularly monitoring the third party's performance and reporting whether or not that performance meets certain criteria.

- **Process Controls.** In some outsourcing situations, the entity's user controls may be closely tied to the service organization's processes and provide direct assurance over their operation. For example, an entity that has outsourced its Information Technology (IT) development to a service organization may choose to



document, track, approve, and test all application changes internally, thus retaining significant control over the IT development process.

Typically, the assessment team's testing of its user controls that pertain to a service organization is not as effective as the assessment team's testing of controls that are in place at the service organization itself. Accordingly, the assessment team should determine whether an assessment of the organization's user controls alone is sufficient to establish the reliability of the relevant information processing objectives (CAVR). The assessment team may rely solely on testing its own user controls in situations where (1) such controls cover all relevant assertions over the accounts and disclosures affected by the outsourced processes and (2) the significance and risk of processing at the service organization to VA's financial statements is low.



Appendix I: Risk-Based Testing

During the initial years of A-123, Appendix A, VA should test all key controls in order to ensure that all controls are operating effectively. Once a baseline is established, ICS can consider implementing a risk-based approach which requires that stable controls with no known deficiencies can be tested every three years. The CFOC provides the following guidelines regarding risk-based testing:⁴²

In instances where more than one control is in place to accomplish a particular control objective, such complementary controls do not have to all be tested each year, provided that for those controls not currently tested, the following is true:

- There are no known weaknesses in the function of the control
- The control has been tested within the past three years
- There have been no changes in the design or operation since it was last tested (e.g., change in personnel responsible for implementing the control)

In instances where similar controls are employed across multiple systems (e.g., computer access controls), not all systems have to be tested each year, provided that for those systems not tested, the following is true:

- There are no known significant weaknesses of such control
- The control has been tested within the past three years
- There have been no changes in the design or operation of the control since it was last tested
- The system is not individually significant to the financial report

In instances where controls are fully automated (including automated general, application, and security controls), not all controls must be tested each year, provided that for those controls not tested, the following is true:

- The control is fully automated as opposed to a manual control or is a partially automated control that is dependent on some manual intervention to be effective
- Management has verified that adequate change controls exist over the automated control

⁴² CFOC Implementation Guide for A-123, Appendix A, page 35.



- No changes in the design or operation of the control have occurred since the control was last tested
- There are no known significant weaknesses of such control
- The control has been tested in the past three years

If VA opts for a risk-based approach, ICS would document its approach, as well as other testing procedures, in an overall Test Plan.



Appendix J: Testing Types

The nature of the tests to be performed is classified into four categories: inquiry, observation, inspection, and re-performance. These categories are described below.

Inquiry

Inquiry tests are conducted by making either oral or written inquiries of VA personnel involved in the application of specific control activities to determine what they do or how they perform a specific control activity. Such inquiries are typically open-ended. Generally, evidence obtained through inquiry is the least reliable audit evidence and will be corroborated through other types of control tests (observation or inspection). Inquiring about a control's effectiveness does not, by itself, provide sufficient audit evidence of whether a control is operating effectively. The reliability of evidence obtained from inquiry depends on the following factors:

- The competence, experience, knowledge, independence, and integrity of the person of whom the inquiry was made. The reliability of evidence is enhanced when the person possesses these attributes.
- Whether the evidence was general or specific. Evidence that is specific is usually more reliable than evidence that is general.
- The extent of corroborative evidence obtained. Evidence obtained from several entity personnel is usually more reliable than evidence obtained from only one.
- Whether the evidence was provided orally or in writing. Generally, evidence provided in writing is more reliable than evidence provided orally.⁴³

Observation

Observation tests are conducted by observing entity personnel actually performing control activities in the normal course of their duties. Observation generally provides highly reliable evidence that a control activity is properly applied; however, it provides no evidence that the control was in operation at any other time. Consequently, observation tests should be supplemented by corroborative evidence obtained from other tests (such as inquiry and inspection) about the operation of controls at other times. However, observation of the control provides a higher degree of assurance than inquiries, and may be an acceptable technique for assessing automated controls.⁴⁴

⁴³ Definition adapted from the GAO/PCIE *Financial Audit Manual*, section 350.

⁴⁴ Ibid.



Inspection

Inspection of evidence often is used to determine whether manual controls are being performed. Inspection tests are conducted by examining documents and records for evidence (such as the existence of initials or signatures) that a control activity was applied to those documents and records.

System documentation, such as operations manuals, flow charts, and job descriptions, may provide evidence of control design but does not provide evidence that controls are actually operating and being applied consistently. To use system documentation as part of the evidence of effective control activities, additional evidence on how the controls were applied is required.

Since documentary evidence generally does not provide evidence concerning how effectively the control was applied, supplemental inspection tests with observation and/or inquiry of persons applying the control are required. For example, the testing effort should supplement inspection of initials on documents with observation and/or inquiry of the individual(s) who initialed the documents to understand the procedures they followed before initialing the documents.

Re-Performance

It will normally be necessary to re-perform controls to obtain sufficient evidence of their operating effectiveness. For example, a signature on a voucher package by an approved signer does not necessarily mean that the person carefully reviewed the package before signing. The package may have been signed based on a cursory review (or without any review). As a result, the quality of the evidence regarding the effective operation of the control might not be sufficiently persuasive. If that is the case, the testing effort will include re-performing the control (e.g., checking prices, extensions, and additions) as part of the test of the control. In addition, it might involve inquiring of the person responsible for approving voucher packages what he or she looks for when approving packages and how many errors have been found within voucher packages. The testing effort might also inquire of supervisors as to whether they have any knowledge of errors that the person responsible for approving the voucher packages failed to detect. Because the control is being re-performed, it is not necessary to select high value items for testing or to select different types of transactions.



Appendix K: Organizational Structure

The reporting structure will consist of a combination of groups that work cohesively to conduct an efficient assessment. The CFO is accountable for establishing and maintaining effective internal control over financial reporting through the A-123, Appendix A, assessment, but vests this authority to the SAT. The Director of ICS, with guidance from OBO, will assume program management responsibilities for overseeing the execution of the assessment process. OBO will ensure that the assessment process is both integrated with other VA compliance activities and consistent with the approach provided in the CFOC Guide.

The Director of ICS will manage and oversee the activities performed and outputs developed by the process owner liaisons, process owners, and ICS staff. Under the ICS Director's oversight, process owners will document MTCs, maintain documentation, remediate deficiencies, as appropriate, and report progress to their process owner liaisons. ICS will conduct control testing. Process owner liaisons will report progress directly to the Director of ICS. OBO will report A-123, Appendix A, assessment status to the SAT (see Figure 24).

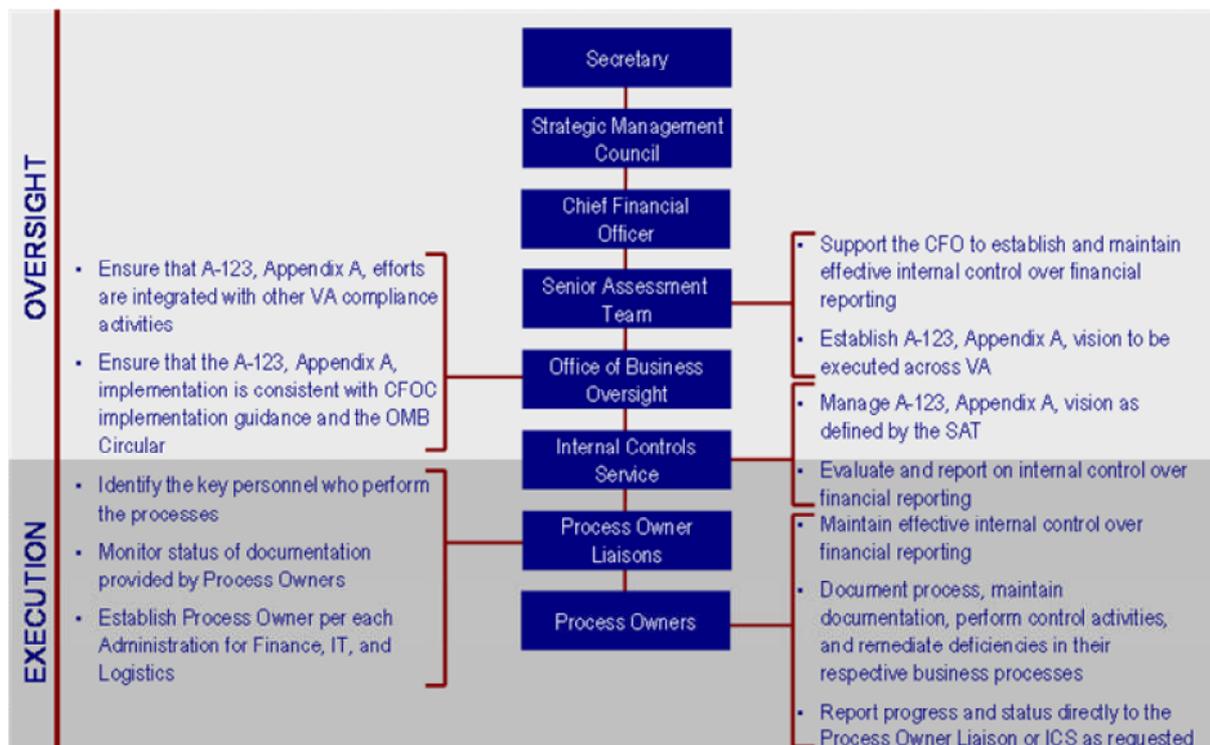


Figure 24. Organization

The overarching goal is to create an environment that supports the importance of creating and maintaining effective internal control over financial reporting. The roles and responsibilities of each group are reflected in Table 61.



Table 61. Group Roles and Responsibilities

Group	Role
Secretary	<ul style="list-style-type: none"> • Sign the statement of assurance on internal control over financial reporting
SMC	<ul style="list-style-type: none"> • Provide oversight and guidance to the SAT on final decisions and recommendations concerning the A-123, Appendix A, program • Serve as a collaborative and deliberative body
CFO	<ul style="list-style-type: none"> • Provide a quarterly update to the SMC regarding A-123, Appendix A, program progress • Accountable for the establishment of an effective internal control program over financial reporting • Serve as the Chairman for the SAT
SAT	<ul style="list-style-type: none"> • Assist CFO in his responsibility for establishing and maintaining effective internal control over financial reporting • Provide recommendations to the Secretary on the Department’s statement of assurance
OBO	<ul style="list-style-type: none"> • Manage the communication process with the SAT • Ensure that the A-123, Appendix A, efforts are integrated with other VA compliance activities • Ensure that the A-123, Appendix A, implementation is consistent with CFOC implementation guidance and the OMB Circular
ICS	<ul style="list-style-type: none"> • ICS Director: <ul style="list-style-type: none"> • Manage the implementation and execution of VA’s OMB A-123, Appendix A, internal controls activities as defined by the SAT • Provide program/project management for the A-123, Appendix A, implementation - direct, plan, oversee, and report on the status of the implementation of A-123, Appendix A, in accordance with defined standards and guidance • ICS Staff: <ul style="list-style-type: none"> • Serve as the assessment team • Evaluate and perform tests of controls and/or work with contractors to perform test of controls • Document procedures performed, evidence obtained, and conclusions reached
Process Owner Liaisons	<ul style="list-style-type: none"> • Identify the key personnel, i.e., process owners, who perform the MTCs to be documented and assessed • Manage the outputs of the process owners, review each output against VA standards, submit those outputs to ICS in a timely manner, and report progress as requested by ICS.
Process Owners	<ul style="list-style-type: none"> • Perform major transaction classes as part of their normal daily operations • Document their responsible MTCs, maintain current and relevant documentation, develop corrective action plans, complete activities associated with the plans, and report progress directly to the process owner liaison or ICS Director as requested



Appendix L: Detail Framework for Evaluating Control Exceptions and Deficiencies

The following detail framework should be used to specifically measure the magnitude and likelihood of various types of internal control deficiencies in order to determine their classification.

Note: The following guidance was adapted from *A Framework for Evaluating Control Exceptions and Deficiencies*, Version 3, 12/20/2004. The framework was created by the Big 4 and other Accounting Firms and accounting educators. The whitepaper was created based on guidance available in AS2. The framework is based on the authors' views and is not intended to be applied universally and mechanically, but rather, with professional judgment.

Note: This framework uses the deficiencies categorizations from A-123, Appendix A (control deficiency, reportable condition, or material weakness) rather than the categorizations from SAS 112 (deficiency, significant deficiency, or material weakness). However, the framework can be applied to the SAS 112 categorizations.

The evaluation of individual exceptions and deficiencies is an iterative process. Although this discussion depicts the evaluation process as a linear progression, it may be appropriate at any point in the process to return to and reconsider any previous step based on new information.

In applying the framework, the following should be considered in determining which chart(s) to use for evaluating individual exceptions and deficiencies:

- **Chart 1** is used to evaluate and determine whether an exception noted in performing tests of operating effectiveness represents a control deficiency.
- **Chart 2** is used to evaluate and classify control deficiencies in manual or automated controls that are directly related to achieving relevant financial statement assertions.
- **Chart 3** is used to evaluate and classify deficiencies in General Computer Controls (GCC) that are intended to support the continued effective operation of controls related to one or more relevant financial statement assertions. If an application control deficiency is related to or caused by a GCC deficiency, the application control deficiency is evaluated using Chart 2, and the GCC deficiency is evaluated using Chart 3.
- **Chart 4** is used to evaluate and classify control deficiencies in pervasive controls other than GCC. Such control deficiencies generally do not directly result in a misstatement. However, they may contribute to the likelihood of a misstatement at the process level.



After evaluating and classifying individual deficiencies, consideration should be given to the aggregation of the deficiencies using the guiding principles outlined in “Consider and Evaluate Deficiencies in the Aggregate” below.

Chart 1 – Evaluating Exceptions Found in the Testing of Operating Effectiveness

This decision tree is to be used for evaluating exceptions found in the testing of operating effectiveness (see Figure 25).

General

The testing of controls generally relates to significant processes and major classes of transactions for relevant financial statement assertions related to significant accounts and disclosures. Therefore, the underlying assumption is that all exceptions/deficiencies resulting from the testing should be evaluated because they relate to line items and related accounts and disclosures that are material to the financial statements taken as whole and other significant financial reports.

The purpose of tests of controls is to achieve a high level of assurance that the controls are operating effectively. Therefore, the sample sizes used to test controls should provide that level of comfort. The sampling tables provided in this guide are based on statistical principles and generally result in a high level of assurance where no exceptions are noted. In cases in which samples are selected using a statistically-based approach, sample sizes for frequently operating manual controls that result in less than a 90% level of confidence that the upper limit deviation rate does not exceed 10% typically would not provide a high level of assurance.⁴⁵

The magnitude of a control deficiency (i.e., deficiency, reportable condition, or material weakness) is evaluated based on the impact of known and/or potential misstatements on annual and interim financial statements.

While some of the concepts discussed here relate to statistical sampling, the framework does not require the use of statistical sampling. A statistical sample is:

- Selected on a random or other basis that is representative of the population
- Evaluated statistically

In tests of internal controls, it may be impractical to select samples randomly, but they should be selected in an unbiased manner.

⁴⁵ Refer to the AICPA *Audit and Accounting Guide*, Audit Sampling.

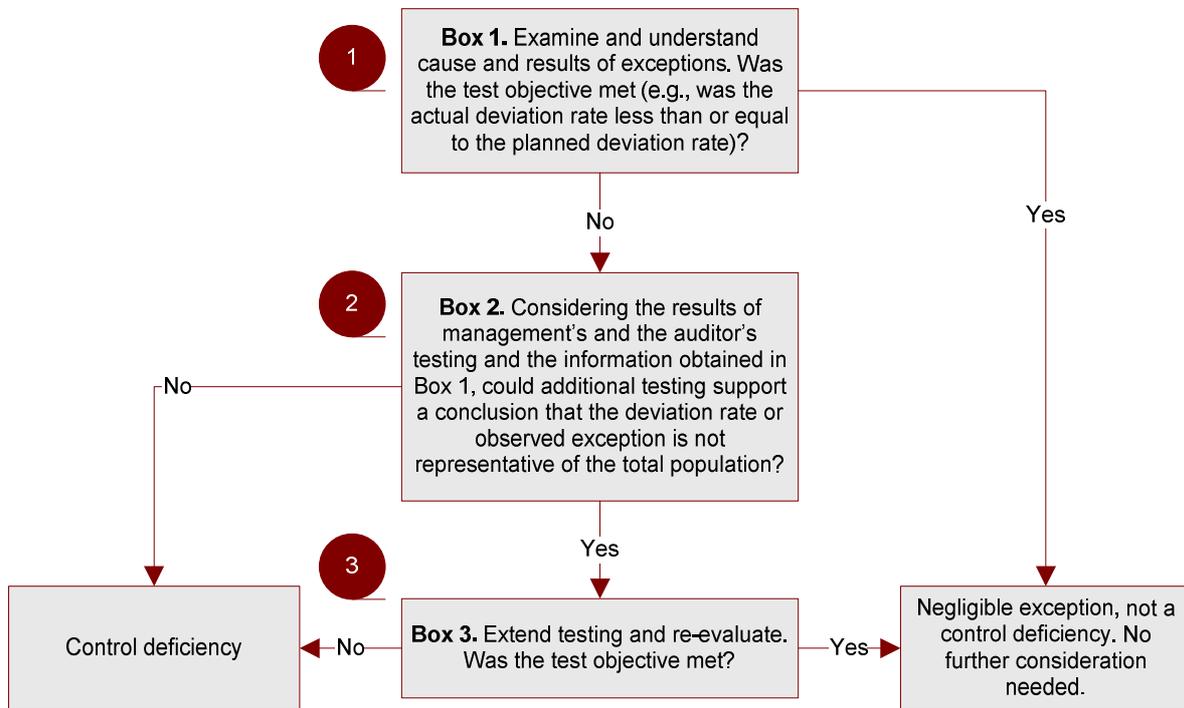


Figure 25. Evaluating Exceptions Found in the Testing of Operating Effectiveness

1 Box 1

All exceptions should be evaluated quantitatively and qualitatively. A thorough understanding of the cause of the exception is important in evaluating whether a test exception represents a control deficiency. This evaluation should consider the potential implications with regard to the effectiveness of other controls.

In concluding whether the test objective was met, considerations include:

- The deviation rate in relation to the frequency of performance of the control (e.g., absent extending the test, there is a presumption that an exception in a control that operates less frequently than daily is a control deficiency)
- Qualitative factors, including exceptions that are determined to be systematic and recurring
- Whether the exception is known to have resulted in a financial statement misstatement (e.g., there is a presumption that an exception that results in a financial statement misstatement in excess of the level of precision at which the control is designed to operate is a control deficiency)



A control objective may be achieved by a single control or a combination of controls. A test of controls may be designed to test a single control that alone achieves the control objective or a number of individual controls that together achieve the control objective.

2 Box 2

If the test objective is not met, consideration should be given to whether additional testing could support a conclusion that the deviation rate is not representative of the total population. For example, if observed exceptions result in a non-negligible deviation rate, then the test objective initially is not met. In a test designed to allow for finding one or more deviations, the test objective is not met if the actual number of deviations found exceeds the number of deviations allowed for in the plan.

3 Box 3

If the test objective initially is not met, there are two options:

- If the observed exceptions and resulting non-negligible deviation rate are not believed to be representative of the population, the test may be extended and re-evaluated
- If the observed exceptions and resulting non-negligible deviation rate are believed to be representative of the population, the exceptions are considered to be a control deficiency and its significance is assessed

Chart 2 – Evaluating Process/Transaction-Level Control Deficiencies

This decision tree is to be used for evaluating the classification of control deficiencies from the following sources (see Figure 26):

- Design effectiveness evaluation
- Operating effectiveness testing (from Figure 25)
- Deficiencies that resulted in a financial statement misstatement detected by management or the auditor in performing substantive test work.

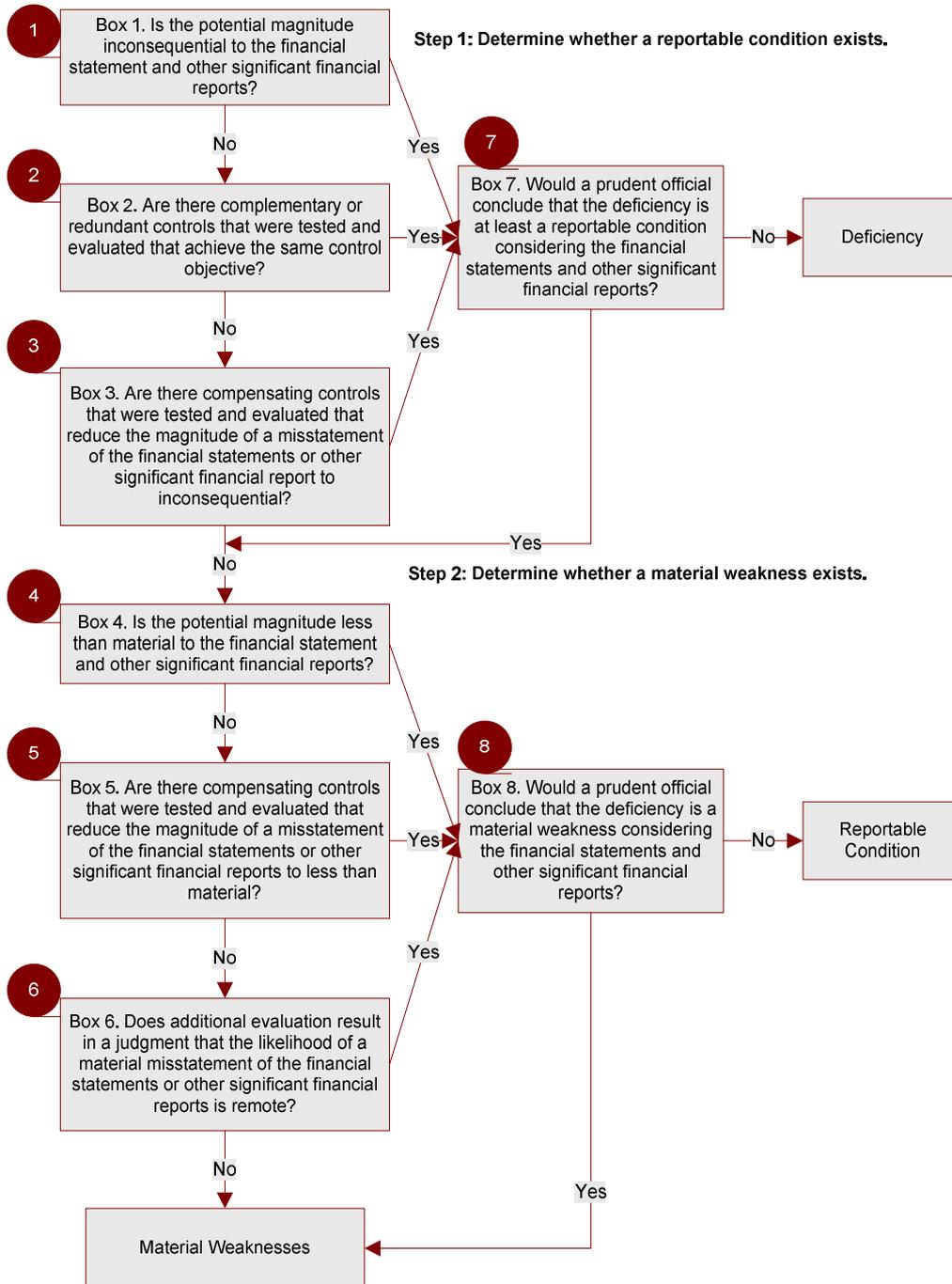


Figure 26. Evaluating the Classification of Control Deficiencies



Step 1. Determine Whether a Reportable Condition Exists:

1 Box 1

When evaluating deficiencies, potential magnitude (inconsequential, more than inconsequential, or material) is based on the potential effect on the financial statements or other significant financial reports. Potential magnitude of misstatement may be based on gross exposure, adjusted exposure, or other appropriate methods that consider the likelihood of misstatement.

2 | 3 Boxes 2 & 3

If there are controls that effectively mitigate a control deficiency, it is classified as only a deficiency, absent any qualitative factors. Such controls include:

- Complementary or redundant controls that achieve the same control objective
- Compensating controls that operate at a level of precision that would result in the prevention or detection of a more than inconsequential misstatement of the financial statements or other significant financial reports

Boxes 1, 2, and 3 should be considered separately. Adjusted exposure should not be reduced by the quantitative impact of the compensating and complementary or redundant controls.

3 Box 3

An unmitigated deficient control that results in a control objective not being met related to a significant account or disclosure generally results in a more-than-remote likelihood of a more than inconsequential misstatement of the financial statements or other significant financial reports and, therefore, is at least a reportable condition.

Step 2. Determine Whether a Material Weakness Exists:

4 Box 4

The potential magnitude of a misstatement of the financial statements or other significant financial report that is less than material, results in the deficient control being classified as only a reportable condition, absent any qualitative factors. Potential magnitude may be based on gross exposure, adjusted exposure, or other appropriate methods that consider the likelihood of misstatement.



5 Box 5

Compensating controls that operate at a level of precision that would result in the prevention or detection of a material misstatement may support a conclusion that the deficiency is not a material weakness.

6 Box 6

In evaluating likelihood and magnitude, related factors include but are not limited to the following:

- The nature of the financial statement accounts, disclosures, and assertions involved; for example, suspense accounts and intra-Departmental transactions involve greater risk
- The susceptibility of the related assets or liability to loss, waste, abuse or fraud; that is, greater susceptibility increases risk
- The subjectivity, complexity, or extent of judgment required to determine the amount involved; that is, greater subjectivity, complexity, or judgment, like that related to an accounting estimate, increases risk
- The cause and frequency of known or detected exceptions in the operating effectiveness of a control; for example, a control with an observed non-negligible deviation rate is a deficiency
- The interaction or relationship with other controls; that is, the interdependence or redundancy of controls
- The possible future consequences of the deficiency
- An indication of increased risk evidenced by a history of misstatements, including misstatements identified in the current year
- The adjusted exposure in relation to overall materiality

This framework recognizes that in evaluating deficiencies, the risk of misstatement might be different for the maximum possible misstatement than for lesser possible amounts.

As a result of this additional evaluation, determine whether the likelihood of a material misstatement is remote. In extremely rare circumstances, this additional evaluation could result in a judgment that the likelihood of a more than inconsequential misstatement is remote.



7 | 8 **Boxes 7 & 8**

When determining the classification of a deficiency, the Senior Assessment Team (SAT) should also consider the level of detail and degree of assurance that would satisfy prudent officials in the conduct of their own affairs, such that they have reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles.⁴⁶ If the SAT determines that the deficiency would prevent prudent officials in the conduct of their own affairs from concluding that they have reasonable assurance, the auditor should deem the deficiency to be at least a reportable condition. Having determined in this manner that a deficiency represents a reportable condition, the SAT should further evaluate the deficiency to determine whether individually, or in combination with other deficiencies, the deficiency is a material weakness.

Additional Considerations Related to Identified Misstatements

A greater than de minimis misstatement identified by the SAT or by the auditor during a test of controls or during a substantive test is ordinarily indicative of a deficiency in the design and/or operating effectiveness of a control, which is evaluated as follows:

- The design and/or operating deficiencies that did not prevent or detect the misstatement should be identified and evaluated based on Figure 26, applying the following:
 - A known or likely (including projected) misstatement that is inconsequential is at least a deficiency
 - A known or likely (including projected) misstatement that is more than inconsequential is a strong indicator of a reportable condition
 - A known or likely (including projected) misstatement that is material is at least a reportable condition and a strong indicator of a material weakness
- The implications on the effectiveness of other controls, particularly compensating controls, also should be considered

⁴⁶ AS 2.137.



Chart 3 – Evaluating General Computer Control (GCC) Deficiencies

This decision tree is to be used for evaluating the classification of GCC deficiencies from the following sources:

- GCC design effectiveness evaluation
- GCC operating effectiveness testing (see Figure 25)
- GCC design or operating deficiencies identified as a result of application control testing (from Figure 26)

General

Deficiencies in GCCs are evaluated in relation to their effect on application controls.

- GCC deficiencies do not directly result in misstatements
- Misstatements may result from ineffective application controls

There are three situations in which a GCC deficiency can rise to the level of a material weakness:

- An application control deficiency related to or caused by a GCC deficiency is classified as a material weakness
- The pervasiveness and significance of a GCC deficiency leads to a conclusion that there is a material weakness in the entity's control environment
- A GCC deficiency classified as a reportable condition remains uncorrected after some reasonable period of time

In evaluating whether a GCC deficiency affects the continued effective operation of application controls, it is not necessary to contemplate the likelihood that an effective application control could, in a subsequent year, become ineffective because of the deficient GCC.

Relationship Between GCCs and Application Controls

An understanding of the relationship among applications relevant to internal control over financial reporting, the related application controls, and GCCs is necessary to appropriately evaluate GCC deficiencies. GCCs may affect the continued effective operation of application controls. For example, an effective security administration function supports the continued effective functioning of application controls that restrict access. As another example, effective program change controls support the continued effective operation of programmed application controls, such as a three-way match. GCCs also may serve as controls at the application level. For example, GCCs may



directly achieve the control objective of restricting access and thereby prevent initiation of unauthorized transactions.

Similarly, GCC deficiencies may adversely affect the continued effective functioning of application controls; in the absence of application controls, GCC deficiencies also may represent control deficiencies for one or more relevant assertions.

Evaluating GCC Deficiencies

GCC deficiencies are evaluated using Figure 27.

Additionally, if a GCC deficiency also represents a deficiency at the application level because it directly relates to an assertion, the GCC deficiency is also evaluated using Figure 27. In all cases, a GCC deficiency is considered in combination with application controls to determine whether the combined effect of the GCC deficiency and any application control deficiencies is a deficiency, reportable condition, or material weakness.

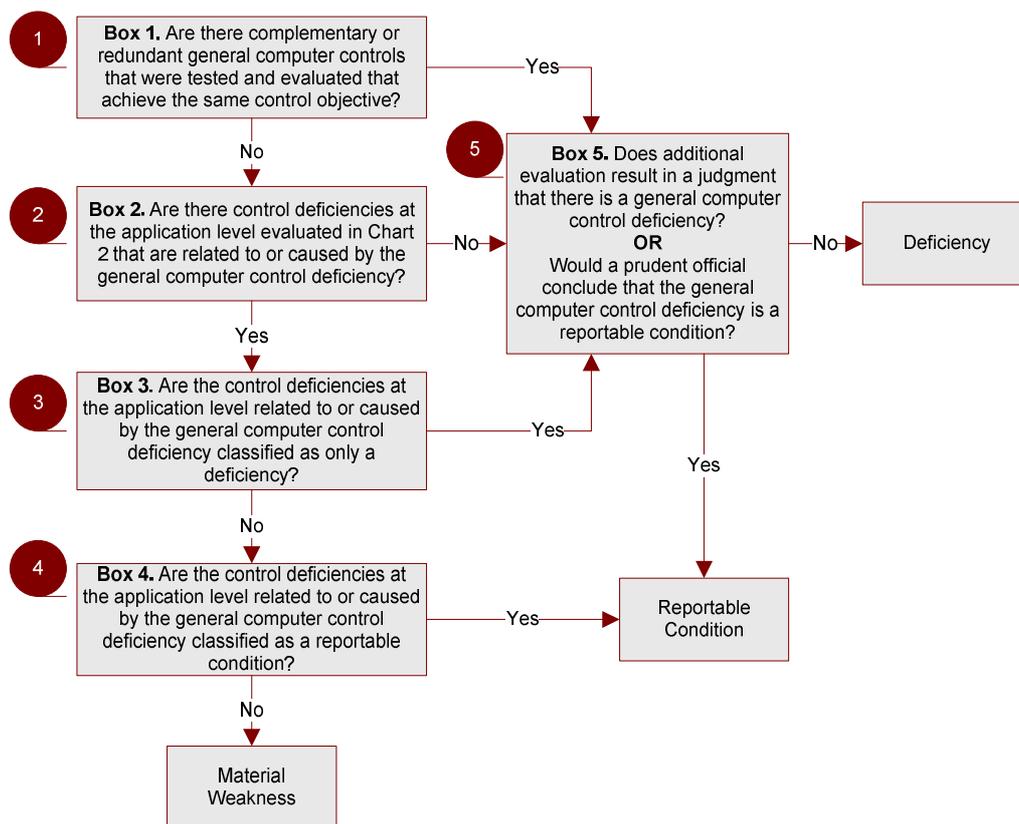


Figure 27. Evaluating GCC Deficiencies



1 Box 1

Controls that effectively mitigate a control deficiency result in the deficiency being classified as only a deficiency, absent any qualitative factors. Such controls include complementary or redundant controls that achieve the same control objective. A GCC deficiency identified as a result of an application control deficiency indicates that other GCCs could not have achieved the same control objective as the deficient GCC.

2 Box 2

If no deficiencies are identified at the application level (as evaluated in Chart 2), the GCC deficiency could be classified as only a deficiency. (Refer to Box 5.)

3 | 4 Boxes 3 & 4

If there is a control deficiency at the application level related to or caused by a GCC deficiency, the GCC deficiency is evaluated in combination with the deficiency in the underlying application control and generally is classified consistent with the application control deficiency. As a result:

- A material weakness in an application control related to or caused by a GCC deficiency indicates that the GCC deficiency also is a material weakness
- A reportable condition in an application control related to or caused by a GCC deficiency indicates that the GCC deficiency also is a reportable condition
- An application control deficiency (that is only a deficiency) related to or caused by a GCC deficiency generally indicates that the GCC deficiency is only a deficiency

5 Box 5

Notwithstanding the guiding principles relating to Boxes 1 through 4, the classification of a GCC deficiency should consider factors including, but not limited to, the following:

- The nature and significance of the deficiency, e.g., does the deficiency relate to a single area in the program development process or is the entire process deficient?
- The pervasiveness of the deficiency to applications and data, including:
 - The extent to which controls related to significant accounts and underlying processes are affected by the deficiency
 - The number of application controls that are related to the deficiency
 - The number of control deficiencies at the application level that are related to or caused by the deficiency



- The complexity of the entity’s systems environment and the likelihood that the deficiency could adversely affect application controls
- The relative proximity of the control to applications and data
- Whether a deficiency relates to applications or data for accounts or disclosures that are susceptible to loss or fraud
- The cause and frequency of known or detected exceptions in the operating effectiveness of a GCC; for example, (1) a control with an observed non-negligible deviation rate, (2) an observed exception that is inconsistent with the expected effective operation of the GCC, or (3) a deliberate failure to apply a control
- An indication of increased risk evidenced by a history of misstatements relating to applications affected by the deficiency, including misstatements in the current year

When determining the classification of a deficiency, the SAT should determine the level of detail and degree of assurance that would satisfy prudent officials⁴⁷ in the conduct of their own affairs. The SAT then can have reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles. If the SAT determines that the deficiency would prevent prudent officials in the conduct of their own affairs from concluding that they have reasonable assurance, the deficiency should be deemed to be at least a reportable condition.

Additional Consideration

GCCs support the proper and consistent operation of automated application controls. Therefore, consideration should be given to the nature, timing, and extent of the testing of related application controls affected by, or manual controls dependent upon, the deficient GCC.

Chart 4 – Evaluating Control Deficiencies in Pervasive Controls Other than GCC

This decision tree is to be used for evaluating the classification of control deficiencies in pervasive controls other than GCC from the following sources (see Figure 28):

- Design effectiveness evaluation
- Operating effectiveness testing (from Figure 25)

⁴⁷ The idea of “prudent official” and related discussion is based on AS 2.137.



General

Deficiencies in pervasive controls generally do not directly result in a misstatement. However, they may contribute to the likelihood of a misstatement at the process level. Accordingly, evaluation of a deficiency in a pervasive control other than GCC is based on the likelihood that such deficiency would contribute to circumstances that could result in a misstatement. Quantitative methods generally are not conducive to evaluating such deficiencies (see Figure 28).



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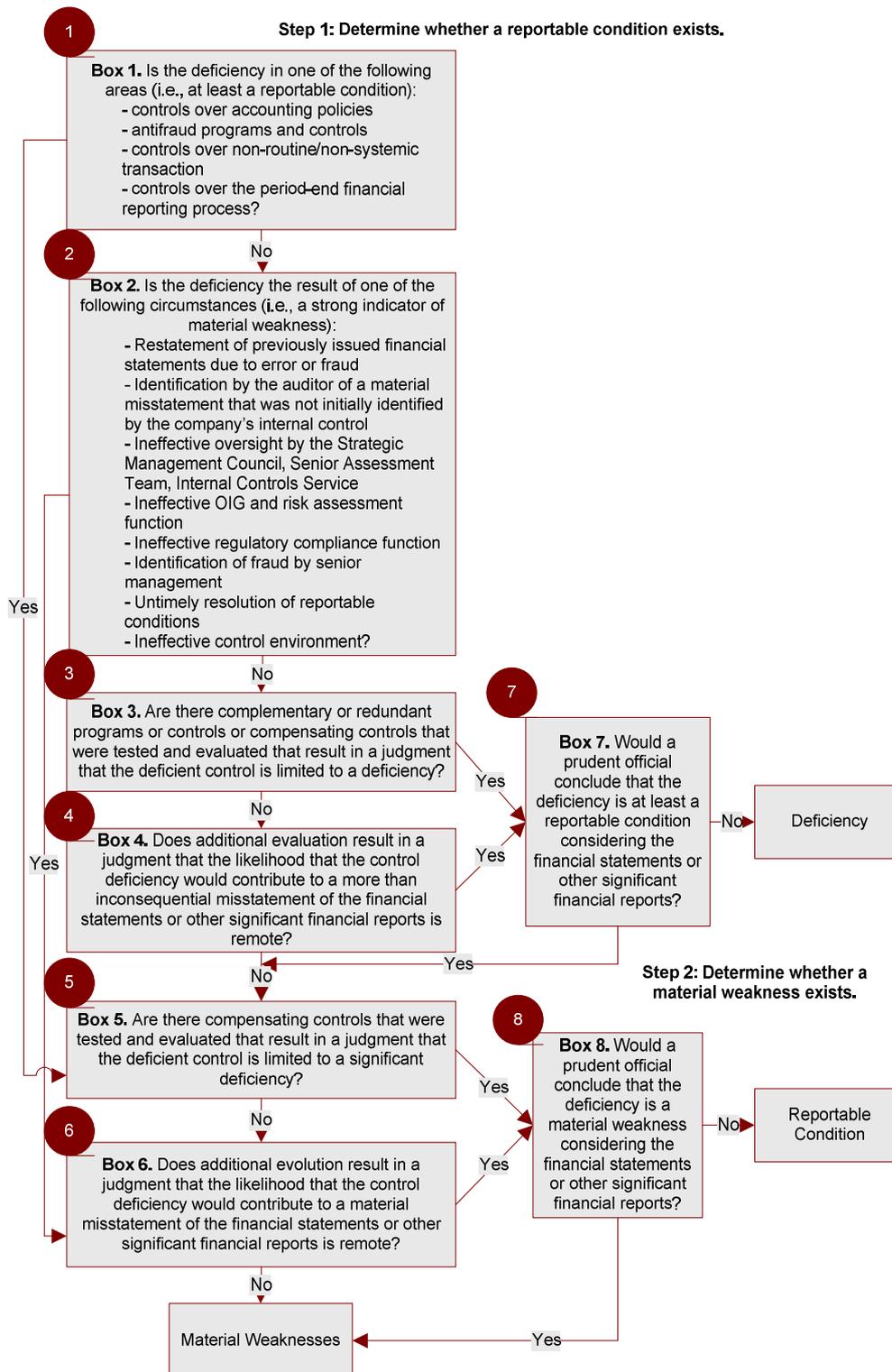


Figure 28. Evaluating Control Deficiencies in Pervasive Controls Other than GCC



Step 1. Determine Whether a Reportable Condition Exists:

1 | 2 Boxes 1 & 2

A deficiency in one of the following areas ordinarily results in deficiencies being at least a reportable condition.⁴⁸

- Controls over the selection and application of accounting policies that are in conformity with generally accepted accounting principles
- Anti-fraud programs and controls
- Controls over non-routine and non-systematic transactions
- Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record the recurring and nonrecurring adjustments to the financial statements

The circumstances in which an evaluation would lead to the deficiency not being classified as a reportable condition are rare. The following circumstances should be regarded as at least a reportable condition and as a strong indicator of a material weakness:⁴⁹

- Restatement of previously issued financial statements due to error or fraud to reflect the correction of a misstatement
- Identification by the auditor of a material misstatement in financial statements in the current period that was not initially identified by the entity's internal control over financial reporting. This is a strong indicator of a material weakness even if management subsequently corrects the misstatement.
- Oversight of the external financial reporting and internal control over financial reporting by the Strategic Management Council, SAT, or Internal Control Service is ineffective
- The OIG function or the risk assessment function is ineffective in the monitoring component or risk assessment component

⁴⁸ Based on guidance provided in AS 2.139.

⁴⁹ Based on guidance provided in AS 2.140.



- An ineffective regulatory compliance function that is solely related to those aspects of ineffective regulatory compliance in which associated violations of laws and regulations could have a material effect on the reliability of financial reporting
- Identification of fraud of any magnitude on the part of senior management
- Reportable conditions that have been communicated to the Strategic Management Council and SAT remain uncorrected after a reasonable period of time
- An ineffective control environment

3 Box 3

Certain controls could result in a judgment that the deficient control is limited to a deficiency and classified as only a deficiency, considering qualitative factors. Such controls include:

- Complementary or redundant programs or controls
- Compensating controls within the same or another component

4 Box 4

A deficiency with a more-than-remote likelihood that the deficiency would contribute to a more-than-inconsequential misstatement is a reportable condition. Such judgment considers an evaluation of factors such as:

- The pervasiveness of the deficiency across the entity
- The relative significance of the deficient control to the location
- An indication of increased risks of error (evidenced by a history of misstatement)
- An increased susceptibility to fraud (including the risk of management override)
- The cause and frequency of known or detected exceptions for the operating effectiveness of a control
- The possible future consequences of the deficiency



Step 2. Determine Whether a Material Weakness Exists:

5 Box 5

The evaluation of certain controls could result in a judgment that the deficient control is limited to a reportable condition and classified as such, considering qualitative factors. Such controls include compensating controls within the same or another component.

6 Box 6

A deficiency with a more-than-remote likelihood that the deficiency would contribute to a material misstatement is a material weakness. Such judgment considers an evaluation of factors such as:

- The pervasiveness of the deficiency across the entity
- The relative significance of the deficient control to the location
- An indication of increased risks of error (evidenced by a history of misstatement)
- An increased susceptibility to fraud (including the risk of management override)
- The cause and frequency of known or detected exceptions for the operating effectiveness of a control
- The possible future consequences of the deficiency

A deficiency of the type described in Box 2 is generally a material weakness; in limited circumstances, it may be appropriate to conclude the deficiency is only a reportable condition. The only circumstance that would likely occur is:⁵⁰

- The auditor initially identified a material misstatement in the financial statements but, given the circumstances, determined that management ultimately would have found the misstatement. The auditor could determine that the circumstance was a reportable condition, but not a material weakness.

In this case, the deficiency would be a reportable condition.

7 | 8 Boxes 7 & 8

When determining the classification of a deficiency in internal control over financial reporting, the SAT should also consider the level of detail and degree of assurance that would satisfy prudent officials in the conduct of their own affairs, such that they have reasonable assurance that transactions are recorded as necessary to permit the

⁵⁰ Based on guidance provided in AS2 Appendix E99.



preparation of financial statements in conformity with generally accepted accounting principles.⁵¹ If the SAT determines that the deficiency would prevent prudent officials in the conduct of their own affairs from concluding that they have reasonable assurance, the SAT should deem the deficiency to be at least a reportable condition. Having determined in this manner that a deficiency represents a reportable condition, the SAT must further evaluate the deficiency to determine whether individually, or in combination with other deficiencies, the deficiency is a material weakness.

Consider and Evaluate Deficiencies in the Aggregate

Deficiencies are considered in the aggregate by significant account balance, disclosure, and internal control standards component to determine whether they collectively result in reportable conditions or material weaknesses. Aggregation of control activities deficiencies by significant account balance and disclosure is necessary since the existence of multiple control deficiencies related to a specific account balance or disclosure increases the likelihood of misstatement. Aggregation by the control environment, risk assessment, information and communication, and monitoring components of internal control standards is more difficult and judgmental. For example, unrelated control deficiencies relating to design ineffectiveness in other internal control standards components could lead to the conclusion that a reportable condition or material weakness in the risk assessment component exists. Similarly, unrelated control deficiencies in other internal control standards components could lead to a conclusion that a reportable condition or material weakness in the control environment or monitoring component exists.

⁵¹ AS 2.137.



Appendix M: Sample Narrative and Flowchart

This sample narrative (see Table 62) and flowchart (see Figure 29) are based on the *Property, Plant, and Equipment Management Process Narrative*, Section 6, dated February 1, 2007. For more information on these examples, refer to the Documentation Package Template and Process Flow Template.

Table 62. Sample Process Narrative

Process Narrative	
6 Property, Plant and Equipment Management 6.1 Personal Property 6.1.1 Disposal	
Process Verification	
Verified By: _____ Title: _____	Signature: _____ Date: _____
Signature confirms that this process and its controls have been accurately documented.	

Major Transaction Class Activity	Process Owner	Control Matrix Reference
<p>Background: The disposal sub-process encompasses activities used by VA to timely remove fixed assets from the property, plant and equipment accounts, as well as from service. It encompasses the activities used to initiate, authorize, record, process and report on the retirement, sale, donation, or transfer of fixed assets. VA directives and handbooks 7125 and 7127 establish materiel management policies and procedures for VA. The MTC for fixed asset accounting is documented in X.Y.Z (formerly 11.3.4).</p>		
<p><u>6.1.1.1 Identify equipment that needs to be turned in and generate Turn-in Request</u> The property owner (with the assistance of the facility engineer or the biomedical technician) identifies the specific equipment that needs to be turned in. The VA employee uses the VISTA system to generate an online Turn-in Request (VA form 2237). The VA employee enters the following data onto the Turn-in Request: serial number, make, model, year purchased, purchase order number, the reason for the turn-in (i.e. asset damaged and needs replacement; biomedical technician determines that the asset is not serviceable, report of survey for missing assets; retirement, etc). The employee submits the Turn-in Request to the custodial officer.</p>	Property owner	



Major Transaction Class Activity	Process Owner	Control Matrix Reference
<p><u>6.1.1.2 Review and approve Turn-in request</u> The designated custodial officer reviews the Turn-in Request for completeness and accuracy of the request. If the custodial officer approves the Turn-in Request, the custodial officer sends the approved Turn-in Request to the property management specialist. If the custodial officer rejects the request, the custodial officer sends the Turn-in Request back to the assigned VA employee.</p>	Custodial officer	C - 6.1.1.2
<p><u>6.1.1.3 Validate Turn-in request against repair record in AEMS/MERS</u> The property management specialist reviews the Turn-In Request and compares the information on the Turn-In Request to the equipment preventive maintenance and repair record in AEMS/MERS to ensure the information is accurate and complete, and that the facility owns the item.</p>	Property management specialist	C - 6.1.1.3
<p><u>6.1.1.4 Enter equipment information in Turn-in Log</u> The property management specialist enters the equipment information in the Turn-in Log and notifies the warehouse personnel that the equipment is ready for pickup.</p>	Property management specialist	
<p><u>6.1.1.5 Pickup equipment and sign Turn-in Request</u> The warehouse personnel picks up the equipment from the custodial officer, signs the Turn-in Request for receipt of equipment, gives a copy of the Turn-in Request to the custodial officer, brings the equipment to the holding area, and notifies the property management specialist.</p>	Warehouse personnel	C - 6.1.1.5
<p><u>6.1.1.6 Determine if equipment is excess, replacement, or scrap</u> The property management specialist inspects the equipment and determines the state of the equipment as either excess, replacement (trade-in) or scrap.</p>	Property management specialist	
<p><u>6.1.1.7 Reassign equipment within the facility</u> If the equipment is designated as excess, the property management specialist notifies other departments via email within that facility that the equipment is available. If the equipment is claimed within the facility it is reassigned to a new EIL in the AEMS/MERS system and will continue in service.</p>	Property management specialist	



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Major Transaction Class Activity	Process Owner	Control Matrix Reference
<p><u>6.1.1.8 Transfer equipment within the Veterans Integrated Service Network (VISN)</u> If the excess equipment is not claimed by the facility, the property management specialist offers the equipment as excess within the VISN (group of medical centers within a certain geographic area)]. If the equipment is claimed by a VISN it is taken off the books at that facility and transferred to the new VISN facility.</p>	Property management specialist	
<p><u>6.1.1.9 Transfer equipment to the national level</u> If the excess equipment is not claimed by the VISN, the property management specialist offers the equipment as excess at the national level; meaning the equipment is available agency wide. The property management specialist notifies other VA facilities via email regarding the availability of the equipment and the offer remains open for 10 days. If another VA facility requests the equipment, it is transferred to the facility.</p>	Property management specialist	
<p><u>6.1.1.10 Dispose of excess equipment through GSA</u> If no VA facility requests the excess equipment within the allotted time frame, the property management specialist reports the item to General Service Administration (GSA). GSA conducts an external screening on the GSA website to identify other federal agencies that may be interested in the equipment. GSA makes the equipment available for 21 days to other Federal Agencies. If another federal agency is interested in the equipment, it is transferred to the agency without reimbursement and the transfer is coordinated by GSA. The warehouse personnel and the GSA official sign the 2237 acknowledging the transfer as well other as other appropriate GSA forms. If no other federal agency is interested in the equipment, the property management specialist instructs GSA to sell the equipment to external interested parties.</p>	Property management specialist	
<p><u>6.1.1.11 Transfer replacement equipment to GSA</u> If the equipment is designated as replacement, the property management specialist determines if the equipment is a trade-in as part of the replacement. If not the property management specialist converts the Turn-in Request to a Request for Sale (Exchange Sale, GSA-126) and sends the approved Request for Sale to GSA. The warehouse personnel coordinate the removal and the transfer of the equipment to GSA.</p>	Property management specialist	



Major Transaction Class Activity	Process Owner	Control Matrix Reference
<p><u>6.1.1.12 Report equipment as scrap to GSA</u> If the equipment is designated as scrap by the biomedical technician, the property management specialist reports to GSA using the GSA FED system to sell the equipment. If GSA cannot sell the equipment within 45 days, then GSA considers the equipment as scrap.</p>	<p>Property management specialist</p>	
<p><u>6.1.1.13 Dispose of scrap equipment</u> The property management specialist then disposes of the equipment at the local recycle center or by using an outside company to scrap the equipment. The property management specialist logs the time to dispose of the equipment, prepares a bill for the scrap dealer and sends the bill to the account technician.</p>	<p>Property management specialist</p>	

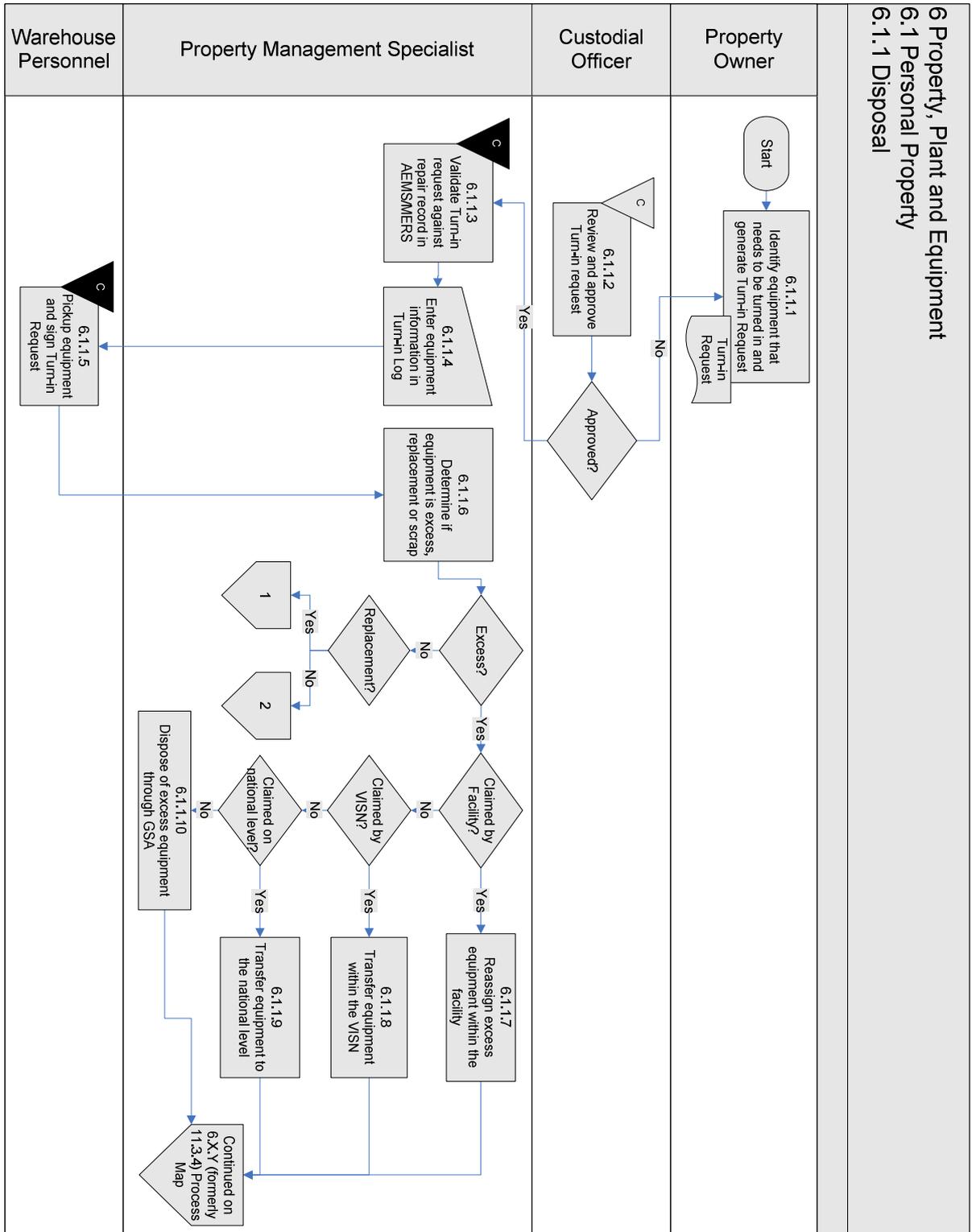


Figure 29. Sample Flow Chart

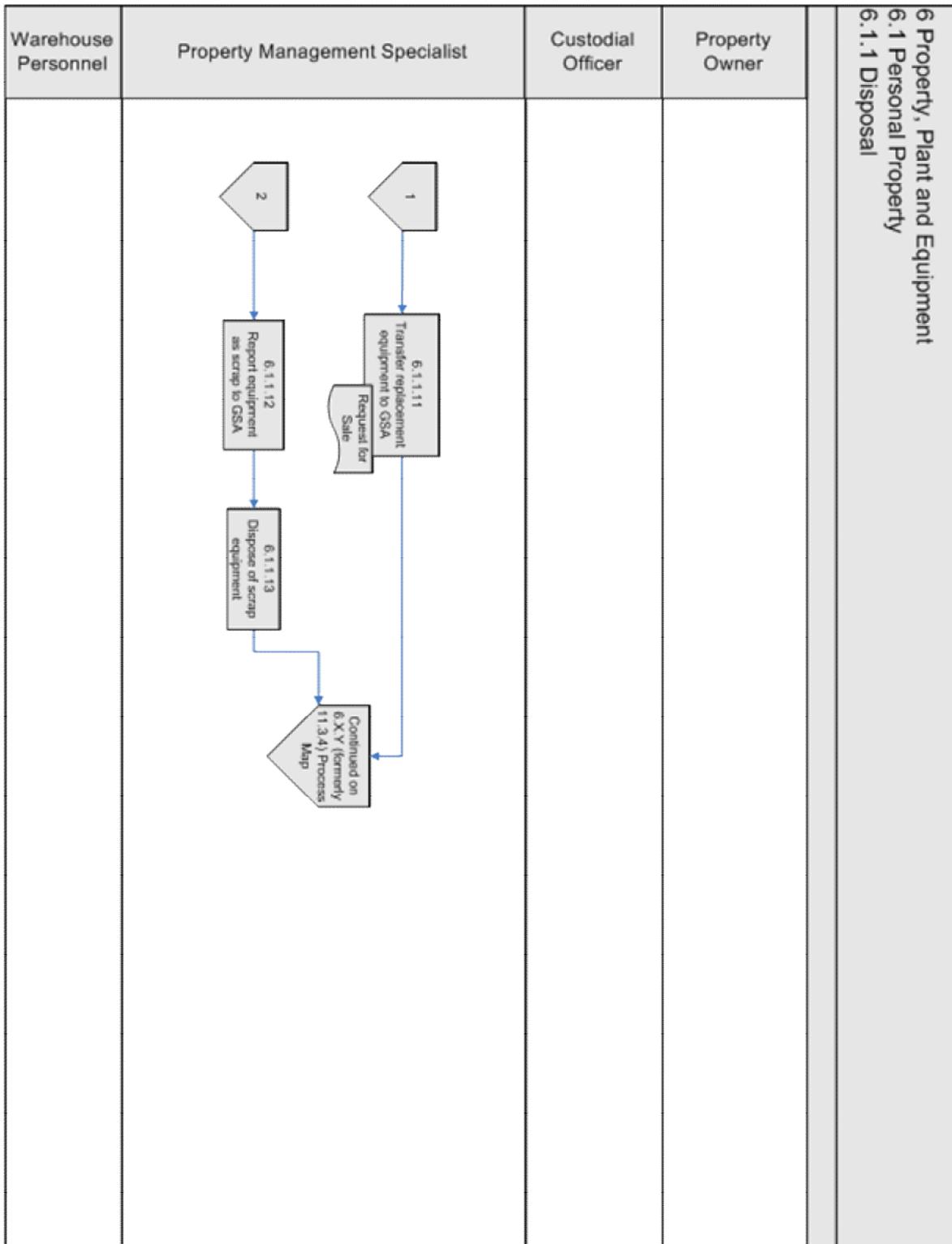


Figure 29. Sample Flow Chart (Continued)



Appendix N: Risks and Control Objectives

During the Evaluating Phase, Internal Controls Service (ICS) will identify risks and control objectives for each in-scope MTC (see Table 63). These risks/objectives will then be put in the Risk Control Matrices (RCMs) and matched with controls to determine if the MTC has any gaps. Table 63 lists suggested risks and control objectives for selected MTCs. It is not an all-inclusive list; ICS will modify this list based on information gathered during interviews with process owners.

Table 63. Risk and Control Objectives

Risk	Control Objectives
Financial Reporting	
Inaccurate changes to the chart of accounts result in financial reporting errors	<ul style="list-style-type: none"> The chart of accounts is complete and accurate Ability to modify chart of accounts is restricted to appropriate users
Incorrect postings result in inaccuracies in subsidiary ledgers and the general ledger.	<ul style="list-style-type: none"> Postings from sub-ledger to the General Ledger (GL) are made completely, accurately and in the proper period Suspense, invalid or other rejected or improper automated posting are analyzed and resolved on a timely basis Resolution of suspense postings is approved Ability to make direct postings to the GL is restricted
Budgetary and proprietary accounts do not balance causing an inaccuracy in the Statement of Budgetary Resources	<ul style="list-style-type: none"> Budgetary and proprietary accounts balance
Adjustments are inaccurate, incomplete, and not made in the correct accounting period	<ul style="list-style-type: none"> Period-end closing adjustments are recorded completely and accurately Quarterly reporting procedures are consistent across all business units and departments Quarterly adjustments are approved All journal entries balance Ability to record closing adjustments is restricted to appropriate users
Financial statements do not accurately report the accounting activities	<ul style="list-style-type: none"> Account balances, details, and supporting notes are presented in the financial statements completely and accurately Financial statement data is restricted to appropriate users prior to submission Financial statements are submitted accurately and completely
Financial statements may not comply with applicable laws or regulations.	<ul style="list-style-type: none"> Policies and procedures that drive the financial activities appropriately address applicable laws, regulations, and requirements

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Human Capital Management	
Inaccurate data may be entered into the personnel files which may result in inaccurate payroll distribution	<ul style="list-style-type: none"> • Personnel actions are authorized • Input of personnel records are complete, accurate, and made in a timely manner • Personnel actions are processed completely and accurately
Personnel actions may be noncompliant with applicable laws and regulations	<ul style="list-style-type: none"> • Employee benefit transactions and reporting are in compliance with laws and regulations
Hours worked may be inadvertently recorded	<ul style="list-style-type: none"> • Only legitimate and approved time and attendance information can be entered into the system
Financial records may be inaccurate due to inaccurate payroll information	<ul style="list-style-type: none"> • Payroll payments are processed completely and accurately • Adjustments are approved by the appropriate personnel and made to the correct accounts and in the proper period
Budgetary Resources	
Transactions are not executed in accordance with laws governing the use of budget authority resulting in non-compliance with laws and regulations (e.g., Anti-Deficiency Act, Appropriations Law)	<ul style="list-style-type: none"> • The recorded appropriation amount agrees with the amount made available in the appropriation or other appropriate legislation, including restrictions on amount, purpose and timing • The recorded apportionments agree with the OMB apportionments and the total amount apportioned does not exceed the amount appropriated • The total amount allotted does not exceed the total amount apportioned • Budget transactions are authorized • Budget transaction are recorded completely and accurately • Fixed appropriation accounts are identified by fiscal year after the end of the period in which they are available for obligation until they are closed • Fixed appropriation accounts are closed on the 5th fiscal year after the end of the period that they are available for obligation • The ability to record and authorize budgetary transactions are limited



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Procurement Management	
Unauthorized and/or inappropriate goods or services may be procured resulting in non-compliance with VA policy and inappropriate use of funds	<ul style="list-style-type: none"> • Procurement of goods and services are authorized validating the need of the goods or service • Purchase tracking logs and procurement of goods and supplies are complete, accurate and in compliance with purchasing policy • Purchase orders are entered into the system accurately and completely • Long outstanding open purchase orders are investigated and resolved • Procurement is bid fairly to all eligible vendors • Contracting officers, cardholders, and approving officials have appropriate training and knowledge to make informed procurement decisions • The Department is compliant with applicable laws and regulations • Ability to enter purchase orders is restricted to appropriate users
VA may be non-compliant with the Prompt Payment Act	<ul style="list-style-type: none"> • Invoices are paid in accordance with the Prompt Payment Act
Improper payments may be made	<ul style="list-style-type: none"> • Payment is only made for the goods and services ordered and received • Payment is made only for the agreed upon amount per the terms of the contract • Invoices are only paid once • Electronic funds transfers are controlled
Inaccurate or incomplete payments may be processed	<ul style="list-style-type: none"> • Invoices are input for processing completely and accurately • Disbursements are input for processing completely and accurately • Total disbursements input equal to amounts updated to cash accounts and accounts payable
Payments may be recorded incompletely and inaccurately	<ul style="list-style-type: none"> • Periodic updates for batch processing are complete and accurate • Invoices are only recorded once • Input to payables sub-ledgers are restricted to appropriate users

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Property, Plant & Equipment (PP&E) Management	
Inappropriate use of capital funds may result in improper selection of capital projects and misuse of funds	<ul style="list-style-type: none"> • Specific guidelines are available and utilized when selecting capital projects • Construction projects are authorized by appropriate personnel • Funding for new capital projects are verified before they are authorized
Acquired capital assets are not captured in the Department's financial and asset tracking records resulting in an understatement of assets.	<ul style="list-style-type: none"> • PP&E acquisitions are recorded accurately and timely • Software work in process is captured and properly accounted for in the financial records.
Acquisition and management of capital lease projects may be inappropriately handled resulting in the misuse of appropriated funding	<ul style="list-style-type: none"> • Capital lease project submissions are complete and contain the necessary information including technical specifications and market surveys to ensure prospective vendors are qualified. • All Capital lease needs are addressed and captured in the original planning of the project. • Contractor work is reviewed to verify completeness before payments are granted. • Invoices are authorized by appropriate personnel before payments are distributed. • Technical specifications and contract requirements were adhered to by the vendor.
Selected contractors may not have adequate ability and technical expertise to meet project demands resulting in cost overruns and loss of time	<ul style="list-style-type: none"> • Solicitation of prospective vendors meet FAR guidelines • Project submissions of prospective contractors are reviewed to ensure technical competence before a selection is made • Potential vendors are financially capable of finishing the project
Lack of contractor oversight may lead to cost overruns and project delays	<ul style="list-style-type: none"> • Capital projects are monitored by appropriate personnel to verify that tasks are being performed by contractors in a timely manner
Fraudulent submission and/or improper processing of contractor payments may lead to financial losses.	<ul style="list-style-type: none"> • Invoices are reviewed and approved by the Contracting Officer (CO) and CO technical representative before disbursements are issued • Funding is verified before invoice payments are submitted
Inadequate tracking of inventory of assets results in the inability to detect fraud, theft, and/or misappropriation of assets	<ul style="list-style-type: none"> • PP&E is tracked periodically by appropriate personnel • Lost/Stolen property is reported periodically and reviewed by appropriate personnel • Lost/stolen laptops are reported to appropriate authorities • Transfers of assets to other federal agencies are reviewed and approved by appropriate personnel.
Disposal of capital assets may not be accurately and completely input into the Agency's financial management system.	<ul style="list-style-type: none"> • Disposal of PP&E are accurately and completely input into the Agency's financial management system • Disposal of assets are recorded timely • Appropriate personnel approve of the disposal of assets.
Depreciation data of capital assets are not captured resulting in misstated financial statements.	<ul style="list-style-type: none"> • Accurate and complete depreciation data of PP&E is input into the property system • All capital assets that are capitalized have a depreciation rate assigned to it.



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Data manipulation within the property system may occur, causing unreliable data.	<ul style="list-style-type: none"> Capital asset financial data within property system can be relied upon
Funds Management	
Fund Balance with Treasury (FBwT) is over/under stated	<ul style="list-style-type: none"> FBwT is accurate and complete
VA is non-compliant with Treasury's reporting requirements	<ul style="list-style-type: none"> SF-224 is submitted timely and accurately Differences are investigated and resolved timely Adjustments to prior month SF-224 is reviewed and approved Cash reconciliations are performed accurately and completely Cash reconciliations are performed on a timely basis
Data is manipulated and external reporting is incorrect	<ul style="list-style-type: none"> External reports are submitted accurately
Fraud and error is undetected	<ul style="list-style-type: none"> Adequate segregation of duties exist
Revenue Management	
Financial records may inaccurately reflect the payment terms and conditions as agreed on the Reimbursable Agreements (RAs) resulting in overstatement of unfilled customer orders	<ul style="list-style-type: none"> RAs are accurately and completely entered into the financial system
Financial records may inaccurately reflect the payment terms and conditions as agreed on the RA resulting in overstatement of unfilled customer orders	<ul style="list-style-type: none"> Adjustments to the RAs are made to the appropriate vendor, completely, and in the correct accounting period
Data is manipulated, lost, or diverted resulting in inaccurate financial records	<ul style="list-style-type: none"> Access to the financial systems are restricted RAs are accurately and completely entered into the financial system Changes to the system are restricted and monitored Periodic batch processing is made completely and accurately
Services are not provided but recorded resulting in over statement of accounts receivable	<ul style="list-style-type: none"> Billings are recorded accurately and completely Accounts receivable is recorded accurately and completely
Data may be manipulated, lost or diverted resulting in inaccurate financial records	<ul style="list-style-type: none"> Access to financial system is restricted



Appendix O: Corrective Action Plan (CAP) Report

Table 64 shows a corrective action summary listed by issue.

Table 64. Corrective Action Summary

Corrective Actions Summary
By Issue
June 5, 2009

	Significant									Total
	Completed	In Progress	Late	Total	Verified	Validated				
Financial Reporting	7		0	7						
Funds Management	3		1	4						
IT	1			1						
FY 06 Totals	11	0	1	12						
Revenue Management	5			5						
PP&E	8		0	8						
Procurement	2		0	2						
Purchase Card Management	5		0	5						
Environ. Liabilities	1			1						
Vocational Rehabilitation and Employment	0	1	1	2						
Budget Execution	0			0						
Education	0			0						
LGY				0						
FY 07 Totals	21	1	1	23						
Insurance	1			1						
Compensation & Pension	0	0	2	2						
Financial Reporting (Close)	0	0	1	1						
Grants Management	2	0	0	2						
Medical Research	1	0		1						
Medical Care (FEE)	1	0	3	4						
Human Capital				0						
FY 08 Totals	5	0	6	11						
Grand Totals	37	1	8	46	0	0	0	0	0	46



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Completed:	37	37
2006	1	
2007	1	
2008	2	
In Progress:	1	1
2006	0	
2007	1	
2008	0	
Late:	8	8
2006	1	
2007	1	
2008	6	



Appendix P: Consolidated CAP Status Report

Table 65 shows a Corrective Action Status report.

Table 65. Corrective Action Status Report

CONSOLIDATED CORRECTIVE ACTION STATUS REPORT June 30, 2009						
Finding/ Action Item	Description of Finding and Action Item	Target Date	Expected Completion Date	Organization	Point of Contact (POC)	Comments
SIGNIFICANT DEFICIENCIES FOUND IN OMB A-123/A-127 REVIEWS						
<i>FM 01-2006 Funds Management - Integrated policies and procedures</i>						
FM 01-5	Identify and issue appropriate bulletins, desk guides etc. as identified in the gap analysis.	10/31/2009	10/31/2009	OM OFP	Katherine Palmer	The Financial Policies Improvement Initiative, which is a 3-year project, will address the issue as previously reported to the SAT. The Office of Financial Policy awarded a contract to Grant Thornton (GT) and formed a Financial Policies Steering Committee who meet on a regular basis to review the policies and procedures prepared by GT. This issue is currently on schedule. In total, there will be 81 chapters (5 volumes) completed during the initial contract year.



Appendix Q: Templates and Checklists

Table 66 lists the templates referenced in this manual, their purpose, and the users of the templates.

Table 66. List of Templates

Number	Template/Checklist Name	Purpose	User
1.	Financial Statement Assertions Template	Documents the financial statement assertions for each line item	ICS
2.	Risk/Control Matrix Template	Lists all controls (both key and non-key) and captures risks, control objectives, frequency and design assessment	<ul style="list-style-type: none"> • Process owners • ICS
3.	Location Selection Recommendations Template	Documents the rationale for in-scope sites	<ul style="list-style-type: none"> • ICS • Senior Assessment Team (SAT)
4.	SAS 70 Assessment Checklist Template	Assists ICS in reviewing and documenting SAS 70 assessments for cross-servicing organizations	ICS
5.	General Computer Controls (GCCs) Assessment Template	Facilitates documentation of GCCs, which are categorized by FISCAM area	ICS
6.	Documentation Quality Review Checklist	Helps ICS check for accuracy and consistency across outputs (narratives, flowcharts and RCMs)	<ul style="list-style-type: none"> • Process owners • Process owner liaisons • ICS
7.	Major Transaction Class (MTC)-Level Test Plan Template	Documents the elements of the test including sample size, test steps and key attributes	ICS
8.	Evidence Request list Template	<ul style="list-style-type: none"> • Lists the evidence that process owners must prepare for the testing of internal controls • Includes forms and reports referenced in the documentation and MTC-level test plans 	<ul style="list-style-type: none"> • ICS • Process owners
9.	Test Sheet Template	Assists ICS in conducting the tests specified in the MTC-level test plans and documenting test results	ICS

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Number	Template/Checklist Name	Purpose	User
10.	Exception Log Template	Assists ICS and the SAT in assessing and classifying internal control deficiencies during the Concluding, Internal Reporting, and Correcting Phase of the A-123, Appendix A, effort	<ul style="list-style-type: none"> • ICS • OBO • SAT
11.	Testing Quality Review Checklist Template	Provides a framework for the Supervisor to review the test procedures and results	<ul style="list-style-type: none"> • ICS
12.	Finding Outline and Evaluation Worksheet	Documents the five elements of the finding, the finding classification, and management/SAT review of the finding	<ul style="list-style-type: none"> • Process owners • ICS • SAT
13.	CAP Template	Provides a format for process owners to document corrective action status	<ul style="list-style-type: none"> • Process owners • ICS
14.	CAP Checklist – Identify and Report Finding	Identify findings resulting from field testing and report those findings to the SAT and process owners.	ICS
15.	CAP Checklist – Evaluate Findings	Evaluate the finding and any relevant information to determine the facts and root causes in order to develop the corrective actions that will effectively resolve the finding and prevent recurrence. It also involves a determination of whether to accept the risks present with the finding or whether to allocate resources to resolve the finding and prevent recurrence.	ICS
16.	CAP Checklist – Develop and Approve CAP	Develop and approve corrective action plans for identified findings. The site/administration responsible for the function/activity where the finding was identified must have a clear understanding and description of the finding supported by the facts and factors in order to develop the most appropriate, timely corrective actions to resolve the finding and prevent recurrence. These corrective actions are then incorporated into the CAP.	ICS
17.	CAP Checklist – Implement Corrective Actions	Complete all corrective actions for the findings listed in the CAP. It is important that the implementation and closure of the CAP receive continuous management attention, progress is monitored and updated, and status is periodically reported.	ICS



Number	Template/Checklist Name	Purpose	User
18.	CAP Checklist – Corrective Action Effectiveness Reviews	Use for an independent follow-up assessment by the responsible site/Administration or ICS to verify closure and review the effectiveness of the corrective actions in resolving each finding and preventing a recurrence.	<ul style="list-style-type: none"> • ICS • Process owners
19.	CAP Checklist – Corrective action Follow-Up Procedures/Processes	VA senior management makes a determination on appropriate next steps if corrective actions were found to be partially effective or ineffective.	ICS
20.	CAP Checklist – Corrective Action Acceptance Once a Problem is Resolved	VA senior management accepts the corrective action once the problem is resolved.	ICS



Appendix Q.1: Financial Statement Assertions Template

Department of Veterans Affairs
 Financial Statement Assertions
 Department of Veterans Affairs
 (In
 Financial Statement Assertions

(In Millions)

Legend

- | | | | |
|------------|-------------------------------------|---------------|-------------------------------------|
| B | Balance Sheet | P | Presentation & Disclosure |
| SB | Statement of Budgetary Resources | E | Existence/Occurrence |
| SN | Statement of Net Cost | R | Rights/Obligations |
| SCN | Statement of Change in Net Position | C | Completeness/Accuracy |
| | | V | Valuation/Allocation |
| | | L& | Compliance with Laws & Regulations |
| | | F | Safeguarded against fraud and abuse |
| | | D | Documentation |

Us abbreviation above	List each line item as it appears on financial statement	Mark an X in the column for each assertion	Enter dollar amount from financial statement in thousands	Enter the primary process that feeds the line item.	Enter the sub- process or sub- processes that relate to the line item	List any critical applications that impact the primary process and line item.
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Appendix Q.2: RCM Template



Appendix Q.3: Location Selection Recommendations Template

**Department of Veterans Affairs
Location Selection Recommendations**

	VHA	VBA	NCA	Dept			
List In-Scope MTC	Mark each applicable administration/organization with an X				Indicate all program(s) each MTC impacts (i.e., Medical Research, Insurance, etc.)	List Recommended Location 1	Rationale for Location 1
						List Recommended Location 2	Rationale for Location 2
						List Recommended Location 3	Rationale for Location 3
Funds Management	x	x	x	x	Med care	VACO	Provides 28% coverage
					Med care	Dallas VISN	Known Issues at this location
					Med care	Chicago VA Regional Office	Program has undergone significant personnel changes



Appendix Q.4: SAS 70 Assessment Checklist

Department of Veterans Affairs A-123, Appendix A, Assessment	
SAS 70 Assessment Checklist	
Cross Servicing Organization	
Report Title	
Report Data	
Date Provided	
Questions:	Y/N Notes:
Are controls in place to provide reasonable assurance that physical and logical access to VA mainframe and client-server resources, using computer terminals at client locations, is restricted to authorized individuals?	
Are controls in place to provide reasonable assurance that designated individuals at client locations, comply with VA security policies, standards, and procedures?	
Are controls in place to provide reasonable assurance that audit reports of system use made available by VA are reviewed?	
Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes for individuals who are authorized to add, change, and delete user access to VA application production regions?	
Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes for individuals who are authorized to add, change, and delete user access to VA application production regions?	
Are controls in place to provide reasonable assurance that comprehensive user acceptance testing for any fixes and enhancements are performed and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that the record- retention (e.g., off-line storage) requirements for financial statements is documented and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that on-line retention and archiving of VA data has been established and communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that Computer Incident Response procedures have been developed in coordination with the responsible individual(s)?	
Are controls in place to provide reasonable assurance that the production cycles are properly maintained and changes to them are timely communicated to the responsible individual(s)?	
Are controls in place to provide reasonable assurance that obligations are not incurred in excess of the available budgetary amounts?	
Are controls in place to provide reasonable assurance that appropriate users review output reports for completeness and accuracy?	
Are controls in place to provide reasonable assurance that the processed transactions processed are complete, accurate, and appropriately authorized and approved?	
Are controls in place to provide reasonable assurance that erroneous data is corrected and resubmitted?	
Are controls in place to provide reasonable assurance that incompatible job functions surrounding the processing of VA transactions are identified and pertinent policies and procedures are enforced to segregate these job functions?	
Conclusions:	
Completed by:	Date:
Reviewed by:	Date:



Appendix Q.4: SAS 70 Assessment Checklist (Continued)

- Are controls in place to provide reasonable assurance that physical and logical access to VA mainframe and client-server resources, using computer terminals at client locations, is restricted to authorized individuals?
- Are controls in place to provide reasonable assurance that designated individuals, at client locations, comply with VA security policies, standards, and procedures?
- Are controls in place to provide reasonable assurance that audit reports of system use made available by VA are reviewed?
- Are controls in place to provide reasonable assurance that VA receives prompt written notification of changes for individuals who are authorized to add, change, and delete user access to VA application production regions?
- Are controls in place to provide reasonable assurance that client custom programming changes are appropriately documented, reviewed, tested, and implemented?
- Are controls in place to provide reasonable assurance that comprehensive user acceptance testing for any fixes and enhancements are performed and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that the record-retention (e.g., off-line storage) requirements for financial statements is documented and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that on-line retention and archiving of VA data has been established and communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that Computer Incident Response procedures have been developed in coordination with the responsible individual(s)?
- Are controls in place to provide reasonable assurance that the production cycles are properly maintained and changes to them are timely communicated to the responsible individual(s)?
- Are controls in place to provide reasonable assurance that obligations are not incurred in excess of the available budgetary amounts?
- Are controls in place to provide reasonable assurance that appropriate users review output reports for completeness and accuracy?
- Are controls in place to provide reasonable assurance that the transactions processed are complete, accurate, and appropriately authorized and approved?
- Are controls in place to provide reasonable assurance that erroneous data is corrected and resubmitted?
- Are controls in place to provide reasonable assurance that incompatible job functions surrounding the processing of VA transactions are identified and pertinent policies and procedures are enforced to searegate these job functions?



Appendix Q.5: General Computer Controls Assessment Template

Department of Veterans Affairs General Computer Controls Assessment

Environment (Host Site):
VACO

FISCAM Reference	Critical Element (Control)	Description and Frequency of Control Activity	Control Techniques	P or D (1)	A or M (2)	Control Effective (Y/N)?
Five domains within FISCAM include: Security Management (SM), FISCAM Section 3.1; Access Control (AC), FISCAM Section 3.2; Configuration Management (CM), FISCAM Section 3.3; Segregation of Duties (SD), FISCAM Section 3.4; Contingency Planning (CP), FISCAM Section 3.5.	Describe the purpose of the control activity	Explain the actual activity being performed and how often the activity is performed, e.g., daily, weekly, monthly, annually	Describe the requirements associated with an effective control for this control activity	Indicate the control approach as either preventive or detective	Identify the control activity as automated (performed using a system or application) or manual (requires human intervention or judgment)	Indicate the control design as effective (Y) or not effective (N)
AC-2.1	Resource owners have identified authorized users and their access is authorized.	Access authorizations are (a) documented on standard forms and maintained on file, and (b) evidence of management approval is retained. Daily activity.	1. Appropriate business owners periodically review current access levels and determine whether users and their associated access rights remain appropriate. Documentation of management review and corrective actions taken are retained. 2. Inactive users' accounts are monitored and removed after a predetermined period of inactivity (i.e., 120 days)	P	M	Y



Appendix Q.6: Documentation Quality Review Checklist

Department of Veterans Affairs A-123, Appendix A, Assessment						
Documentation Quality Review Checklist						
Document Name						
Originator(s)						
Deliverable Due Date						
Date Provided						
Reviewers: Place check marks in each of the boxes to indicate review of the attribute. Initial and date the bottom of the column as evidence of your review.						
Narrative	Process Owner	Process Owner Liaison	ICS	Other: _____	Other: _____	
Describes the complete process as defined by VA						
Is formatted in accordance with template						
Contains clear descriptions of activities and controls						
Specifies process owners for each step						
Contains clear activity/step headings (Verb+object)						
Addresses all various scenarios (i.e. - What if the supervisor does <i>not</i> approve the JV?)						
Contains correct spelling, grammar, formatting						
Flowchart						
Displays consistent step names and numbers with narrative and RCM						
Uses correct shapes for each step						
Displays start and end points						
Includes yes/no options for all decision boxes						
Contains correct spelling, grammar, formatting						
Risk Control Matrix						
Is consistent with narrative and flowchart						
Contains all required fields						
Includes correct identification of objectives and risks						
Identifies key controls						
Identifies application name for all automated controls						
Contains correct spelling, grammar, formatting						
Initials						
Date						



Appendix Q.7: Major Transaction Class (MTC)-Level Test Plan Template

Department of Veterans Affairs Test Plan

Major Transaction Class:

Reference Number	Location	Risk	Control Objective	Actual Control Activity	Process Owner	Frequency	Sample Size	Test Steps	Workpaper Reference Number	Test Result	Summary of Results
C - 6.1.1.2	VACO	Unauthorized disposal transactions	Disposals of fixed assets and removals from service are properly authorized	The designated custodial officer reviews the Turn-in Request for completeness and accuracy of the request. If the custodial officer approves the Turn-in Request, the custodial officer sends the approved Turn-in Request to property management specialist. If the custodial officer rejects the request, the custodial officer sends the Turn-in Request back to the assigned VA employee.	Custodial Officer	Continuous	45	A. Obtain a list of all equipment disposals between 10/1/07 to 5/31/08. B. For the sample selected obtain Turn-In Request (Form 2237) and print out the equipment preventative maintenance repair record from AEMS/MERS C. Verify that the Turn-In Request is approved (signed and dated) by the custodial officer D. Compare info on Turn-In Request to AEMS/MERS to verify accuracy.	X.Y.Z	Failed	Three of 45 Turn-In Requests were not signed by the custodial officer.
C - 6.1.1.3	VACO	Disposal of personal property is unauthorized or inaccurately input for processing resulting in an error on the financial statements	Disposals of fixed assets and removals from service are properly authorized	The property management specialist reviews the Turn-in Request and compares the information on the Turn-in Request to the equipment preventative maintenance and repair record in AEMS/MERS to ensure the information is accurate and complete, and that the facility owns the item.	Property Management Specialist	Continuous	45	A. Obtain a list of all equipment disposals between 10/1/07 to 5/31/08. B. For the sample selected obtain Turn-In Request (Form 2237) and print out the equipment preventative maintenance repair record from AEMS/MERS (signed and dated) C. Verify that the Turn-In Request is approved (signed and dated) by the Warehouse Personnel D. Compare info on Turn-In Request to AEMS/MERS to verify accuracy.	X.Y.Z	Passed	This control appears to be designed effectively and operating as intended.



Appendix Q.8: Evidence Request List Template

Department of Veterans Affairs Evidence Request List

Date

Key Financial Process
Sub-Process

As part of the A-123, Appendix A assessment, the Internal Control Service is beginning the testing phase of the assessment. We have identified below evidence that will be needed to allow us to test the operating effectiveness of controls identified during documentation. Upon compilation of the evidence, please group all appropriate Item Numbers together (in folders, binder clips, etc). Thank you for your continued help with our assessment.

Note: Please be prepared with copies of all requested evidence. The assessment team will not be able to return original copies back to process owners.

Note: If you are not the responsible party for the specific item, please forward this list onto the appropriate personnel/department.

Sample Item Number	Location	Key Financial Process	Sub-process	Control Reference Number	Process Owner	Document Description	Evidence Requested	Date Due	Note
A unique ID number beginning with 1	Name of the site	Relevant key financial process	Relevant sub-process	Control reference number from the RCM	Name and Title of the Process Owner	Requested test sample/documentation including a description of all supporting documentation	Identifying information (dates, invoice numbers, etc) for selected sample	Date due to testing team	
1	VACO	Funds Management	Accounts Payable	C - 1.3.5.6	Joe Smith, Accountant	Approved invoices and all supporting documentation	Invoice numbers: 2533563 6786366 5678260	05/15/08	



Appendix Q.9: Test Sheet

**Department of Veterans Affairs
Test Sheet Example**
Major Transaction Class

Reference Number	C - 6.1.12						
Actual Control Activity	The designated custodial officer reviews the Turn-In Request for completeness and accuracy of the request. If the custodial officer approves the Turn-In Request, the custodial officer sends the approved						
Location	Palo Alto, CA						
Control Frequency	Continuous						
Sampling Unit	Turn-In Request Forms						
Sample Size	45						
Test Results	Failed						
Number of Deviations	3						
Exception(s) - if any	Three of 45 Turn-In Requests were not signed by the						
Cause of Exception(s) - if known							
Sampling Procedure Performed	Explanation of how the sample was selected (i.e. Randomly selected a sample of 3 monthly						
Control Attribute Description:	<p>A. Obtain a list of all equipment B. For the sample selected C. Verify that the Turn-In Request is approved (signed and D. Compare info on Turn-In</p>						
Sample Number	Sample Identification Title	Date	Control Attribute A	Control Attribute B	Control Attribute C #,1	Control Attribute D	Work Paper Reference
1	HP Ultrasound	4/31/06	X	X	#,1	X	X,Y,Z
2							
3							
Testing Trickmark Explanation:							
X - Attribute Present; No Exception Noted							
# - Attribute Not Present; Exception Noted							
Notes:							
1. Turn-In Request was not signed by the custodial officer.							
2.							
3.							
Testing:							
Performed By:							
Completed On:							
Reviewed By:							
Reviewed On:							



Appendix Q.10: Exception Log Template

Department of Veterans Affairs

Exception Log

Date:

ID Number	Major Transaction Class	Sub-Process	Location	Key Control Number	Potential Risk	Control Activity	Frequency	Exception/Finding	Cause (if known)	Suggested Corrective Action	Management Response	Exception/Finding Type (Design Deficiency, Design Gap, Operating Deficiency)	Notes
Unique identifier	Relevant process	Relevant Sub-process	Location	Key control number from the RCM	Risk for the key control, as stated in the RCM	Control Activity, as stated in the RCM	As stated in the RCM	If a design gap, copy from the RCM under "design gap." If an operating deficiency, copy from the Test Plan under "summary		What should be done to solve the problem.		Select appropriate finding type	
1	Property Management	Personal Property	VACO	C - 8.4.1.1.22	PP&E acquisitions were not authorized resulting in misappropriation of Capital funds.	The Branch Head reviewed the JV and reconciled the JV with the supporting documentation. If any discrepancies existed, he/she would return the JV to the Property Accountant to resolve the error. If no discrepancies exist, he/she would sign and date the JV and return to the Property Accountant. He/she printed and attached screenshots of the PO information (acquisition document control number) and costs.	Continuous	Four exceptions noted. One exception was due to posting prior to JV approval. One exception due to lack of JV approval date. One exception due to lack of supporting documentation. One exception due to inability to reconcile with supporting documentation.	Cause unknown.	Sign and date JV's prior to posting.	Agreed with corrective action	Operating Deficiency	



Appendix Q.11: Testing Quality Review Checklist Template

**Department of Veterans Affairs
A-123, Appendix A, Assessment**

Testing Quality Review Checklist

Document Name				
Originator(s)				
Deliverable Due Date				
Date Provided				
<p>Reviewers: Place check marks in each of the boxes to indicate review of the attribute. Initial and date the bottom of the column as evidence of your review.</p>				
	Associate director	ICS Director	ICS	Other: _____
MTC-Level Test Plan				
Control reference number, control objective, risk, risk level, control activity, process owner, and frequency correspond to data on RCM.				
Sample size is correct, based on frequency.				
Test steps achieve test objective.				
Workpaper reference number is correct.				
Test results and summary match data in test sheet.				
Test Sheet				
Reference number matches MTC-level test plan and RCM.				
Control activity matches MTC-level test plan and RCM.				
Sample size is correct, based on frequency.				
Test results match exception.				
Number of deviations matches test detail.				
Exception description is clear and matches test results.				
Test attributes achieve test objective and match MTC-level test plan.				
All attributes are complete for each sample.				
All exceptions are clearly documented.				
Supporting documentation is provided for all exceptions.				
	Initials			
	Date			



Appendix Q.12: Finding Outline and Evaluation Worksheet

Department of Veterans Affairs

A-123 Appendix A Assessment

Finding Outline Worksheet

Identification Information	
Finding Reference:	
Source of Finding:	
Fiscal Year:	
Key Financial Process:	
Control Objective:	
Control Activity:	
Locations(s):	
Related Internal Control Numbers: (optional)	

		Comments/ WP Reference
Condition		
Criteria		
Cause		
Effect		
Recommendation		

Severity Rating		
-----------------	--	--

Review		
Title	Signature	Date
ICS Supervisor		
ICS Director		
SAT (SD and MW only)		

Process Owner(s) Consulted:	Dates:

Option #	Recommendation	Time Frame	Resulting Risk	Est. Cost.

Type of ICS Review	Time Frame	Documents or Test Steps
Verification		
Validation		



Appendix Q.13: CAP Template

Department of Veterans Affairs Corrective Action Plan (CAP)

Date:				
Summary Information				
Finding Reference		Finding		
Source of Finding				
Finding Category				
Fiscal Year/Frequency				
Major Transaction Class		Validation Plan/Methods (ICS use only)		
Sub-Process				
Owner				
Total Resources				
Phase Number	Phase Description	Estimated Completion Date		
1				
Task Number	Task Description	Estimated Completion Date	Resources (\$)	Owner(Office, POC)
1.1				
Phase Number	Phase Description	Estimated Completion Date		
2				
Task Number	Task Description	Estimated Completion Date	Resources (\$)	Owner(Office, POC)
2.1				
Phase Number	Phase Description	Estimated Completion Date		
3				
Task Number	Task Description	Estimated Completion Date	Resources (\$)	Owner(Office, POC)
3.1				



Appendix Q.14: CAP Checklist – Identify and Report Finding

Corrective Action Lifecycle Step 1 ICS Checklist			
<p>Step 1: This step involves identifying findings resulting from field testing and reporting those findings to the VA Senior Assessment Team (SAT) and process owners. To prepare for reporting of findings the following checklist must be completed by an ICS reviewer in accordance with step 1 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
Test Site	{Enter site}		
Date issue log provided to reviewer	{Enter date}		
Issue log identifier and key process	{Enter identifier and key process}		
<p>Validate the following for each completed issue log. Follow up with control tester when inconsistencies or inaccuracies are noted. Once inconsistencies or inaccuracies are resolved, use a ✓ check to indicate completion of attribute (see example below).</p>	ICS reviewer	Other reviewer	Comments
ID Number – is identified.	✓, NB 11/5/08		None
Process, sub-process, location, key control number, control activity and frequency – are identified and correspond to data on the test sheet.	☐		Missing control frequency
Potential risk – is identified as stated in the RCM.			
Exception/finding type (design deficiency, design gap, operating deficiency) – is indicated.			
Exception/finding – is indicated based on summary test results from the test sheet.			
Compensating controls – are identified if they exist.			
Suggested corrective actions – are identified.			
Management response – site response to finding is indicated.			
Conclusion (simple deficiency, significant deficiency, material weakness) – N/A completed in Step 2.			



Appendix Q.15: CAP Checklist – Evaluate Findings

Corrective Action Lifecycle Step 2 ICS Checklist			
<p>Step 2: Evaluate Findings – This step involves evaluating the finding and any relevant information to determine the facts and root causes in order to develop the corrective actions that will effectively resolve the finding and prevent recurrence. It also involves a determination of whether to accept the risks present with the finding or whether to allocate resources to resolve the finding and prevent recurrence. To assist the SAT in the evaluation of findings the following checklist must be completed by an ICS reviewer in accordance with step 2 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
Date evaluation information provided to reviewer	{Enter date}		
Issue identifier and key process	{Enter key process and identifier}		
Obtain the documentation to support the evaluation of findings and validate the following. Follow up with control tester or ICS Point Of Contact (POC), process owner and/or program for missing evaluation information. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute. (See example below).	ICS reviewer	Other reviewer	Comments
Documentation evidences that all facts concerning each finding are identified.	✓, NB 11/5/08		None
Documentation evidences a validation an analysis of facts.	☐		No documentation provided to support analysis of facts
Root causes of finding are identified.			
Finding priority is identified.			
Evaluation conclusions are clearly identified and supported by the analysis of facts.			
Evaluation documentation indicates whether finding is a repeat occurrence.			
Evaluation of finding includes a determination of cost and resources needed to resolve finding.			
Severity rating is identified after analysis of facts and root causes.			
SAT action is identified on evaluation documentation.			
All documentation to support evaluation of finding is present.			



Appendix Q.16: CAP Checklist – Develop and Approve CAP

Corrective Action Lifecycle Step 3 ICS Checklist			
<p>Step 3: Develop and Approve CAP – This step involves developing and approving corrective action plans for findings identified. The site/Administration responsible for the function/activity where the finding was identified should have a clear understanding and description of the finding supported by the facts and factors in order to develop the most appropriate, timely corrective actions to resolve the finding and prevent recurrence. These corrective actions are then incorporated into the CAP. To validate the completion and accuracy of CAPs before presentation to the SAT the following checklist must be completed by an ICS reviewer in accordance with step 3 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
Date CAP provided to reviewer	{Enter date}		
CAP identifier and key process	{Enter key process and identifier}		
Obtain the corrective action plan for individual findings and verify/validate the following. Follow up with process owner and/or program for missing evaluation information. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute (see example below).	ICS reviewer	Other reviewer	Comments
Issue Reference Number – is identified and consistent with issue log numbering.	✓, NB 11/5/08		None
Source of Deficiency – is identified (i.e. A-123, Appendix A or A-127 review finding).			
Fiscal Year – is identified.			
Owner – is identified and consistent with Owner identified by SAT for identified CAP.			
Submission Date – date of first submission to SAT is identified.			
Key Process and Sub-Process – are identified.			
Process owner – for where deficiency was found is identified.			
Deficiency Category – is identified and consistent with category identified in step 2 (evaluation of finding).			



Internal Control Stakeholder Procedures Manual

Corrective Action Lifecycle Step 3 ICS Checklist			
Control ID Numbers – are identified and consistent with the RCM, Test Plans, and Issue Logs.	<input type="checkbox"/>		Control ID numbers are missing
Description of Deficiency – is identified and consistent with issue log.			
Milestone Data			
Milestone ID – is identified and consists of an identification code including the Issue Reference Number plus a letter beginning with the letter "a".			
Milestone Description – includes a sufficient number of action activities to establish a critical path to resolve the deficiency. Milestone descriptions should effectively communicate the major steps that will be performed to mitigate a control deficiency. The number of milestones should reflect the number of steps or corrective actions needed to address the deficiency.			
Points of Contact (Primary and Secondary) – are identified including the name, phone number, and email address must be provided.			
Office Responsible – is identified.			
Estimated Completion Date – is identified and dates of the milestones are based on realistic estimates of the amount of time it will take to plan, allocated the needed resources, and complete the action.			
Actual Completion Date.	N/A for step 3		
% Complete.	N/A for step 3		
ICS Director or Associate Director review of CAP occurred.			



Appendix Q.17: CAP Checklist – Implement Corrective Actions

Corrective Action Lifecycle Step 4 ICS Checklist			
<p>Step 4: Implement Corrective Actions – This step involves the completion of all corrective actions for the findings listed in the CAP. It is important that the implementation and closure of the CAP receive continuous management attention, progress monitored and updated, and status periodically reported. To track the completion of corrective actions, the following checklist must be completed by an ICS reviewer in accordance with step 4 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
CAP Owner	{Enter name}		
Office	{Enter office}		
Date status update provided to reviewer	{Enter date}		
CAP identifier and key process	{Enter key process and identifier}		
Obtain information surrounding the progress of implementing corrective actions and verify/validate the following. Follow up with process owner and/or program as necessary. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute.	ICS reviewer	Other reviewer	Comments
Status update was received timely from the CAP Owner (every two weeks).	✗		Status update due 11/5/08 was not received until 11/15/08
All appropriate fields in the CAP were updated to reflect current status (i.e. percentage complete of individual corrective action).	✗		Missing percentage complete
Potential schedule slippages are clearly identified.			
Corrective action update was entered into A-123, Appendix A Executive Dashboard.	✓, NB 11/5/08		None
ICS Director and SAT action is identified for schedule slippage.			
Actual completion date is identified when corrective is complete.			
All documentation to support the completion of the corrective action was submitted to ICS.			



Appendix Q.18: CAP Checklist – Corrective Action Effectiveness Reviews

Corrective Action Lifecycle Step 5 ICS Checklist			
<p>Step 5: Corrective Action Effectiveness Reviews – This step involves an independent follow-up assessment by the responsible site/Administration or ICS to verify closure and review the effectiveness of the corrective actions in resolving each finding and preventing recurrence. To assist in the validation of the effectiveness of corrective actions, the following checklist must be completed by an ICS reviewer in accordance with step 5 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
CAP identifier and key process	{Enter key process and identifier}		
Office responsible for completion corrective action	{Enter Office}		
Obtain the work papers and/or deliverables to support the completion of corrective action effectiveness reviews and verify/validate the following. Follow up with independent control tester for inconsistencies or inaccuracies. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute (see example below).	ICS reviewer	Other reviewer	Comments
Date of effectiveness review and reviewer – is identified in supporting work paper documentation and deliverable.	✓, NB 11/5/08		
Issue Reference Number – is identified and consistent with issue log numbering.			
Source of Deficiency – is identified (i.e. A-123, Appendix A or A-127 review finding).			
Fiscal Year– is identified.			
Owner – is identified and consistent with Owner identified by SAT for identified CAP.			
Control ID Numbers – are identified and consistent with the RCM, Test Plans, and Issue Logs.			
Test location and key process – are identified.			
Sample size and sampling methodology used – is identified.			
Source – used to obtain documentation for effectiveness review is identified in supporting work papers.			



Corrective Action Lifecycle Step 5 ICS Checklist			
Purpose of effectiveness review is identified in supporting work papers and deliverable.			
Description of effectiveness review activity performed – is identified in the supporting work paper documentation and deliverable.			
Explanation of effectiveness review activity performed – is clear.			
Supporting work paper documentation and deliverable – evidences that a conclusion as to whether the corrective action resolved the finding was reached.			
Test results/exceptions support the conclusion reached.	x		Several exceptions noted but corrective actions were determined to be effective per supporting work paper provided
Supporting work paper documentation and deliverable – identifies and explains specific corrective actions not effectively implemented or determined to be ineffective in resolving the problem.			
Effectiveness review rating is identified and supported by the test results/exceptions.			
Supporting work paper documentation evidences that – the results of the effectiveness review underwent a QA review by the reviewer's team lead or supervisor.			
All work paper documentation and documentation to support exceptions if any were submitted to ICS.			
Documentation evidences ICS' Director or Associate Director review of corrective action effectiveness review results.			



Appendix Q.19: CAP Checklist – Corrective Action Follow-Up Procedures/Processes

Corrective Action Lifecycle Step 6 ICS Checklist			
<p>Step 6: Corrective action follow-up procedures/processes – This step involves VA management making a determination on appropriate next steps if corrective actions were found to be partially effective or ineffective. To assist with the tracking and follow-up of corrective actions deemed to be partially effective or ineffective; the following checklist must be completed by an ICS reviewer in accordance with step 6 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
CAP identifier and key process	{Enter key process and identifier}		
<p>Obtain the work papers, deliverable or other documentation to support the plan of action for findings that were not resolved as a result of corrective actions put in place and verify/validate the following. Follow up with process owner and/or Program Manager or ICS POC for inconsistencies are inaccuracies. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute (see example below).</p>	ICS reviewer	Other reviewer	Comments
Date of effectiveness review and reviewer – is identified in supporting work paper documentation and deliverable.	✓, NB 11/5/08		
Issue Reference Number – is identified and consistent with issue log numbering.			
Source of Deficiency – is identified (i.e. A-123, Appendix A or A-127 review finding).			
Fiscal Year – is identified.			
Owner – is identified and consistent with Owner identified by SAT for identified CAP.			
Control ID Numbers – are identified and consistent with the RCM, Test Plans, and Issue Logs.			
Description of deficiency – is identified.	✗		Description of deficiency was not included in the follow-up procedures documentation provided



Corrective Action Lifecycle Step 6 ICS Checklist			
A summary of initial corrective actions taken – is identified.			
Description of effectiveness review activity performed and results – is identified in the supporting documentation.			
Documentation evidences that the risk assessment for the control activity in which the finding originated was re-evaluated to determine whether the finding is still high risk or whether the risks have been reduced.			
Next steps are clearly identified in the supporting documentation.			
The next steps have been assigned an "owner".			
Clear and attainable timeframes are indicated for next steps.			
Documentation evidences ICS Director or Associate Director review of next steps.			
SAT action regarding next steps is identified in supporting documentation.			



Appendix Q.20: CAP Checklist – Corrective Action Acceptance Once a Problem is Resolved

Corrective Action Lifecycle Step 7 ICS Checklist			
<p>Step 7: Corrective action acceptance once a problem is resolved – This step involves management acceptance of the corrective action once the problem is resolved. To complete corrective action closeout activities, the following checklist must be completed by an ICS reviewer in accordance with Step 7 activities.</p>			
<p>Reviewers: Place a ✓ check mark or ✗ in each of the boxes to indicate review of attribute. Also initial and date each box as evidence of your review. ✓ indicates that requirements were met and ✗ indicates missing, inconsistent or inaccurate information.</p>			
CAP identifier and key process	{Enter key process and identifier}		
<p>Obtain the work papers, deliverables and other supporting documentation necessary to closeout a corrective action once accepted by the SAT and verify/validate the following. Follow up with process owner and/or program manager or ICS POC for inconsistencies or inaccuracies. Once inconsistencies or inaccuracies are resolved use a ✓ check to indicate completion of attribute (see example below).</p>	ICS reviewer	Other reviewer	Comments
Process owner and/or program manager have submitted all identified work paper documentation to support completion of the corrective action.	✓, NB 11/5/08		
Corrective action effectiveness reviewer has submitted all identified work papers to support conclusions reached.			
All work paper or deliverable discrepancies identified in prior steps in the lifecycle process have been corrected by the process owner and/or program manager.			
All work paper or deliverable discrepancies identified in prior steps in the lifecycle process have been corrected by the corrective action effectiveness reviewer.			
All necessary signatures and assertions have been made on documents in prior lifecycle steps.			
All portions of the CAP have been completed and updated accordingly to reflect any necessary changes.	☐		Actual completion date on CAP provided was incorrect
Final SAT approval of the corrective action is indicated on the CAP.			



Appendix R: Self Assessment

Introductory Medical Center and Regional Office E-mail

The following language should be included in an introductory email to each medical center and regional office director. Send the e-mail with the self assessment attached.

“As you know, Grant Thornton has been contracted by VA to assist with the implementation of OMB Circular A-123, Appendix A throughout the Department. They have been and will continue visiting various sites to test key controls during the months of May, June, and July, 2XXX. In addition to this onsite testing, a self assessment survey has been prepared which identifies additional low and moderate risk controls for testing. This survey is to be completed by members of your staff and submitted back to Grant Thornton no later than COB XXXX, XXXX.

Please make appropriate personnel aware of this survey. Grant Thornton is requesting that a POC be identified at each site to coordinate the logistics around completing the survey. Please provide this POC’s email and telephone number to Chris Hare at Christopher.Hare@gt.com.

The survey is broken out into table format based on which financial statement line item the relevant questions apply to. Each table has four columns. The first column is titled **Subprocess** and provides information regarding which area the question should be directed to. The second column is titled **Control Number** and is used for tracking purposes. The third column is titled **Control/Questions** and states the question that should be answered by a member of your staff. In some instances we have included background in this section to provide context for more general questions. The fourth column is titled **Response** and is to be completed by members of your staff. In the event that the response requires additional explanation, add comments to this column to provide more detail.

Upon completing the survey, we are asking the POC and the facility director to sign and date the bottom of the survey, affirming that they have reviewed the responses and concur.

Validation testing will be performed during the month of July at certain medical centers and regional offices to verify that the documentation exists to support the associated response of this survey. These visits will be conducted the same week that Grant Thornton is scheduled to visit your facility. If you have any questions do not hesitate to contact us.

The following survey represents the moderate and low risk controls which have been identified for testing at the facility, certifying that the self assessment was in fact performed and reviewed. A selection of Regional Office and VA Medical Center sites has been identified for testing during the months of June and July.”

Sample E-mail

This is another example of an introductory e-mail.



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“VA efforts to comply with OMB Circular A-123, Appendix A require testing of internal controls over financial reporting. VA’s Internal Control Service (ICS) and its contractor are currently performing tests of high and moderate risk internal controls. VA is also required to perform limited testing of low risk internal controls. VA senior management, acting through the Senior Assessment Team, has mandated that process owners will be responsible for testing a selected number of low risk internal controls.

ICS designed the self assessment survey and guidance to allow process owners to determine if moderate or low risk internal controls are operating as intended. Please review the guidance section and complete the survey for your area of responsibility. The surveys must be completed and returned, via e-mail, to Christopher Hare of GT at Christopher.Hare@gt.com no later than close of business Friday, June 19, 2009. Please note that as part of the comprehensive testing approach, ICS will validate the results of the self assessment surveys at randomly selected sites.

Your cooperation in this effort is appreciated. If you have questions or require additional information, please contact Mr. Hare at the above e-mail address.

Thank you”



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VA Medical Centers Self assessment Survey

The following surveys represent low risk controls which have been identified for testing at VA Medical Centers.

Table 67. VHA Accounts Receivable Survey

Sub-Process	Control Number	Control/Question	Response
Bill Generation – First and Third Party	C.2.2.1.1.1.9	Does the billing supervisor create a “bill me” list daily which is generated electronically and is directed to billing personnel?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Accounts Receivable – First Party	C.2.2.1.1.2.3	When the veteran pays the amount owed, are they issued a numbered field receipt, with the funds credited to their account in VistA thereby reducing the veteran’s accounts receivable?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Collection of Outstanding Receivables – First Party	C.2.2.1.1.2.9	Treasury Offset Program collections on Veterans Health Administration (VHA) receivables are uploaded by the Debt Management Center to VHA’s SharePoint site. Do authorized medical center personnel access the SharePoint site on a weekly basis to retrieve their station list in order to post collections to the veterans account and reduce the receivable balance?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Bill Generation – Third Party	C.2.2.1.1.1.12	Does the billing office ensure that the QuadraMed claims scrubber is turned on daily? Does the billing office make the appropriate changes to the third party bill based on errors identified by the claims scrubber software and consult with the coding department if it needs assistance resolving a coding issue?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments



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Table 68. VHA Operating Expenses Survey

Sub-Process	Control number	Control/Question	Response
Prosthetics – Reconciling and Reviewing Purchase Card Transactions	C.6.1.1.3.4.3	Does the cardholder in the prosthetics office reconcile the payment to the purchase card order that he/she placed using the IFCAP cardholder menu (for prosthetic stock orders placed in IFCAP)?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Prosthetics – Reconciling and Reviewing Purchase Card Transactions	C.6.1.1.3.4.4	Does the approving official approve the transaction once satisfied that the prosthetics purchase card transaction met all mandatory requirements?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Purchased Care (Fee) – Inpatient Care Authorization Setup	C.6.1.1.3.5.7	Upon receiving an approved consult through Local Fee for non-VA inpatient care, does the claims processor verify the required information and create and mail a preauthorization letter stating the parameters for which the vendor is authorized to provide the veteran with inpatient care (e.g. type of care, requirement for care to stabilization, "authorization from" date etc.)?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Purchased Care (Fee) – Payment Initiation	C.6.1.1.3.6.6 IT	Does Local Fee have an automated vendor verification control in place to prevent payment to an unauthorized vendor?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Purchased Care (Fee) – Payment Initiation	C.6.1.1.3.6.8	Background Once all payment information is entered, the claims processor performs a final, cursory review of the batch against the invoice(s) and corrects any identified discrepancies. If no discrepancies are identified, the batch is closed out in Local Fee. A cover sheet identifying the batch control number is created and attached to the batch and forwarded to the claims processing supervisor for	Y N <input type="checkbox"/> <input type="checkbox"/> Comments



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Sub-Process	Control number	Control/Question	Response
		further review. Question Does the reviewing supervisor review the batch to ensure that the right FCPs are used and that the dollar amounts are correct?	
Purchased Care (Fee) – Batch Authorization and Transmission	C.6.1.1.3.6.14	Background After a Purchased Care (Fee) batch is submitted to FMS for payment, the following day Fiscal receives a confirmation message (“Accepted/Rejected” report) from FMS via DMI indicating whether the batch was accepted for payment and the reason for any rejected payment items. Question Does the fiscal technician retransmit all non-rejected batch payment items to FMS for payment?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments

Table 69. Intragovernmental Accounts Payable

Sub-Process	Control number	Control/Question	Response
Processing Requests for Ratifications	C.3.1.1.1.3	Background In the event that an unauthorized commitment is made with a VA trading partner (other government agency) and the senior CO of a supporting contracting activity learns of it, the official should advise the person furnishing the unauthorized supplies or services that the supplies or services are being provided at the person’s own risk and should advise the person to stop work. Upon receipt of a request for ratification from a VA employee who made the unauthorized commitment, or from the employee’s supervisor, the contracting officer shall ensure that all information required has been provided. If so, the contracting officer shall evaluate the request and prepare a memorandum to the appropriate ratification authorizing official recommending approval or disapproval of the request. Question When a situation as described above occurs does the approving official review the file and make a determination whether	Y N <input type="checkbox"/> <input type="checkbox"/> Comments



VA Regional Office Sample Survey

Table 71. Veterans Benefits Administration Accounts Receivable

Sub-Process	Control number	Control/Question	Response
Collections	C.2.2.2.1.1.1	If a collection on a VBA accounts receivable is made by the VA agent cashier at a VA facility and the collection is not forwarded to the DMC, does the financial accounting group at the VA facility receiving the collection apply the amount of funds paid to the veteran's associated receivable in either BDN or Veterans Services Network (VETSNET)?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Offsets Against Retroactive Awards	C.2.2.2.1.1.6	When the offset against a retroactive award is approved in the system by the Senior Veterans Service Representative (SVSR), does BDN and/or VETSNET automatically offset the veteran's benefit payment and reduce the veteran's account receivable balance?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Offsets Against Running Awards	C.2.2.2.1.1.7	When an offset against a running award occurs, does BDN and/or VETSNET automatically offset the veteran's benefit payment and reduce the veteran's account receivable balance?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments



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Table 72. VBA Benefit Overpayment Expense

Sub-Process	Control number	Control/Question	Response
Rating Errors Identified by Quality Assurance Service (QAS)	C.6.4.2.2.1.1	After the results of the monthly System Technical Accuracy Reviews (STARs) are sent to the RO by QAS through "error calls", does the RO provide notice that corrective action has been taken for any rating or authorization STAR benefit-entitlement and decision documentation error calls that the station receives?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Award Termination by Death	C.6.4.2.2.2.3	Does the Veterans Services Representative (VSR) terminate the veteran's running C&P award upon receipt of a FNOD?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments

Table 73. Benefit Payment Expense

Sub-Process	Control number	Control/Question	Response
Award Termination by Death	C.6.4.2.1.1.11	When an award is terminated upon received an FNOD and the VSR enters a "stop payment" into BDN, does the SVSR authorize the stop payment?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Award Termination by Death	C.6.4.2.1.1.12	When an award is terminated upon receipt of an FNOD and the VSR suspends the payment and then issues a revised award in VETSNET, does the SVSR authorize the stop payment?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments

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Sub-Process	Control number	Control/Question	Response
Award Ratings & Decisions	C.6.4.2.1.1.1	After determining the award ratings and entering it into the system, does the RVSR generate a rating decision sheet and sign off on it evidencing their review?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Review of Rating and Non-Rating Decisions	C.6.4.2.1.1.3	Are at least five claim decisions reviewed for each VSR by designated individuals in the Veterans Service Center and Pension Management Center at least monthly?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
Action on Discrepancies Identified by RO Audits	C.6.4.2.1.2.11	When a VA Form 4-6698 is received at the RO, the audit has been performed, and any errors have been identified, does the Office of the Director review and approve the form to ensure that the audit was preformed properly?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments



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Table 74. Loan Guarantee Liabilities / Accounts Receivable

Sub-Process	Control number	Control/Question	Response
Eligibility and Loan Processing	C.4.2.2.1.1.2	At each RO, does a VA representative randomly select VA Form 26-1880 and Certificates of Eligibility (COEs) each month and perform a quality review?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
GI Loan Default, Loss Mitigation, and Foreclosure	C.4.2.2.1.2.9 (Same as C.2.3.1.1.1.9)	Can a refund claim be certified without the approval from the Regional Counsel?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments
GI Loan Default, Loss Mitigation, and Foreclosure	C.4.2.2.1.2.11 (Same as C.2.3.1.1.1.11)	Once the cases are selected by the VA Loan Electronic Reporting Interface, the servicer provides the documentation for the post-audit. Does the loan technician conduct a post review and validate the documentation supporting the amount reported?	Y N <input type="checkbox"/> <input type="checkbox"/> Comments

Regional Office Self Assessment Survey Coordinator Signature

Date

Regional Office Director Signature

Date



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Revision List

Version	Date	Comment
1.0	October 2, 2009	Edited initial release with changes to Phases 1, 4, 5, and 6.
2.0	December 14, 2009	Added an Executive Summary and edited new version. Changed logo.