

VA Financial Policies and Procedures  
Management Accountability and Responsibility for Internal Controls

CHAPTER 5

0501 OVERVIEW .....	2
0502 POLICIES .....	2
0503 AUTHORITY AND REFERENCES .....	5
0504 ROLES AND RESPONSIBILITIES .....	5
0505 PROCEDURES .....	8
0506 DEFINITIONS.....	15
0507 RESCISSIONS.....	17
0508 QUESTIONS .....	17
APPENDIX A: OTHER STATUTORY REQUIREMENTS .....	18
APPENDIX B: OFFICE OF BUSINESS OVERSIGHT GUIDANCE.....	20
APPENDIX C: OFFICE OF FINANCE GUIDANCE .....	21
APPENDIX D: PROCEDURES FOR THE STATEMENT OF ASSURANCE....	22

## **0501 OVERVIEW**

This chapter establishes the Department of Veterans Affairs (VA) guidance on management's responsibility for internal controls. VA management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. This chapter reflects updates or changes in VA's internal controls program resulting from the Office of Management and Budget's (OMB) updated guidance on internal controls requirements to ensure that internal controls for Executive-branch agencies mirror (as appropriate) the requirements for publicly-traded companies listed in the Sarbanes-Oxley Act of 2002. OMB Circular A-123, *Management's Responsibility for Internal Control*, and the statute it implements, the Federal Managers' Financial Integrity Act of 1982 (FMFIA), are at the center of the existing Federal requirements to improve internal controls. This chapter provides guidance on using the range of tools available to VA management to achieve desired program results and meet the requirements of FMFIA.

The chapter also incorporates updated internal control guidance and requirements for conducting management's assessment of the effectiveness of internal controls over financial reporting, outlined in OMB Circular A-123 Appendix A, *Internal Control over Financial Reporting*. Additional appendices and guidance pertaining to management's responsibility for internal control are included or referenced in this and other VA Office of Financial Policy (OFP) policy chapters. They include: A-123 Appendix B, *Improving the Management of Government Charge Card Program* (see also OFP Policy Volume XVI, Chapter 1, *Government Purchase Card*); A-123 Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (see also OFP Policy Volume VII, Chapter 9, *Erroneous and Improper Payment Reporting under OMB Circular A-123, Appendix C*); and OMB Circular A-127, *Financial Management Systems*. Additional information is in Section 050202, which includes a synopsis of each OMB Circular A-123 appendix and identifies the primary VA office responsible for monitoring.

Other statutory requirements which should be considered when assessing internal controls are the Chief Financial Officers Act of 1990 (CFO Act), the Inspector General Act of 1978, the Federal Financial Management Improvement Act of 1996 (FFMIA), the Federal Information Security Management Act of 2002 (FISMA), the Improper Payments Information Act of 2002 (IPIA), the Government Performance and Results Act of 1993 (GPRA), the Clinger-Cohen Act of 1996 and the E-Government Act of 2002. Refer to Appendix A of this chapter for a synopsis of these and the FMFIA.

## **0502 POLICIES**

050201 VA management is responsible for developing and maintaining effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal control, that could adversely affect VA's ability to meet its objectives, would be prevented or detected in a timely manner.

Refer to Section 0504, Roles and Responsibilities, for detailed information related to management levels.

A. VA management is responsible for establishing and maintaining internal controls to achieve three objectives: (1) effective and efficient operations; (2) reliable financial reporting; and (3) compliance with applicable laws and regulations. Management will consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness.

B. To meet internal control objectives, VA management will take the following systematic and proactive measures:

- Develop and implement appropriate, cost-effective internal control for results-oriented management;
- Assess the adequacy of internal control in VA programs and operations;
- Identify needed improvements;
- Take corresponding corrective action; and
- Report annually on management controls, as required, by providing annual assurances on internal control in the annual Performance and Accountability Report.

050202 OMB Circular A-123 Appendix A, *Internal Control over Financial Reporting*. This appendix provides a methodology for agency management to assess, document and report on the internal controls over financial reporting. This document also encourages an integrated approach to assess the internal controls over financial reporting and to consider the current legislative and regulatory environment in which Federal entities operate. Effective internal control over financial reporting provides reasonable assurance that misstatements, losses or noncompliance with applicable laws and regulations, material in relation to financial reports, would be prevented or detected. This appendix also includes sections on implementation plans, implementation guidance and frequently asked questions.

A. In addition to the systemic and proactive measures in Section 050201B above, VA management will separately assess and document and provide an annual statement of assurance of the internal controls over financial reporting.

B. The Office of Business Oversight (OBO), Internal Controls Service (ICS), is responsible for assessing internal controls over financial reporting. Refer to Appendix C of this chapter for additional information and Web site information.

050203 OMB Circular A-127, *Financial Management Systems*. This circular prescribes policies and standards for Executive branch departments and agencies to follow when managing their financial management systems. The policies in this circular apply to the financial management systems of all agencies in the Executive branch of the Government, to include any executive department, military department, independent agency, government corporation, government controlled corporation or other establishment.

A. VA management will ensure the policies, as prescribed in OMB Circular A-127 for financial management systems, are followed. Policies and procedures include, but are not limited to, implementation, management and review of financial management systems.

B. The ICS is primarily responsible for assessing internal controls for this requirement in conjunction with the requirements in OMB Circular A-123, Appendix A.

050204 Other OMB Circular A-123 Appendices Guidance.

A. OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Program*. The purpose of this appendix is to:

- Consolidate and update current Governmentwide charge card program requirements and guidance issued by OMB, General Services Administration (GSA), Department of the Treasury (Treasury) and other Federal agencies, as well as provide a single source document to incorporate updates, new guidance or amendments to existing guidance; and
- Establish standard minimum requirements and suggest best practices for Government charge card programs that may be supplemented by individual agency policy and procedures.

1. VA management will ensure the prescribed policies and procedures are followed to maintain internal controls in the Government charge card programs and to reduce the risk of fraud, waste and error.

2. The VA Charge Card Oversight Office has primary responsibility for monitoring these requirements. Refer to OFP Policy Volume XVI, Chapter 1, *Government Purchase Card*, for additional information.

B. OMB Circular A-123 Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. This appendix implements the requirements of the Improper Payments Information Act of 2002 (IPIA) (Pub. L. No. 107-300). OMB Memorandum M-03-13, Improper Payments Information Act of 2002 (Public Law No: 107-300), issued May 21, 2003, was modified and incorporated as Appendix C, Part I, to OMB Circular A-123, *Management's Responsibility for Internal Controls*.

1. VA management will ensure the prescribed policies and procedures to identify, report and perform recovery audit of improper payments are followed.
2. The OFP Cost and Debt Management Service has primary responsible for monitoring these requirements. Refer to OFP Policy Volume VII, Chapter 9, *Erroneous & Improper Payment Reporting under OMB Circular A-123, Appendix C*, for additional information.

### **0503 AUTHORITY AND REFERENCES**

- 050301 [Public Law 97-255, Federal Managers' Financial Integrity Act \(FMFIA\) of 1982](#)
- 050302 [Chief Financial Officers Act of 1990, January 23, 1990](#)
- 050303 [Federal Financial Management Improvement Act \(FFMIA\) of 1996](#)
- 050304 [Federal Information Security Management Act of 2002 \(FISMA\)](#)
- 050305 [Improper Payments Information Act of 2002 \(IPIA\)](#)
- 050306 [Inspector General Act of 1978](#)
- 050307 [OMB Circular No. A-123 \(Revised\), Management's Responsibility for Internal Control](#)
- 050308 [OMB Circular No. A-127 \(Revised\), Financial Management Systems](#)
- 050309 [OMB Circular No. A-130 \(Revised\), Management of Federal Information Resources](#)
- 050310 [GAO-01-1008G, General Accounting Office \(GAO\) Internal Control Standards, Internal Control Management and Evaluation Tool, August 2001](#)

### **0504 ROLES AND RESPONSIBILITIES**

050401 The Secretary of VA, through the Deputy Secretary, will ensure that an effective Departmentwide internal controls program is established and maintained by the Assistant Secretary for Management/Chief Financial Officer who is responsible for overseeing the policies and processes and reporting relative to the internal controls program and providing reasonable assurance to the President, Congress and OMB on the status of compliance. Compliance is based on evaluations of VA's programs, financial operations, and financial management systems compared with the requirements of FMFIA.

050402 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management. The CFO will:

- Develop policy and procedures for VA's Internal Controls Program to include development of standards and guidelines for establishing, assessing, correcting and reporting on internal controls.
- Provide oversight and guidance to VA organizations;
- Provide training and technical support;
- Monitor and track program progress;
- Manage, direct and evaluate FMFIA annual reporting; and
- Establish and provide staff support for a Senior Assessment Team responsible for advising the CFO on issues of enterprise-wide importance, including internal controls.

050403 The Senior Assessment Team (SAT) advises the CFO on issues of enterprise-wide importance. The 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 ongoing throughout the year to meet assessment responsibilities; and
- Providing recommendations regarding the Statement of Assurance.

050404 Under Secretaries, Assistant Secretaries, Other Key Officials, Chief Financial Officers, Fiscal Officers, Chiefs of finance activities, Chief Accountants, and Program Managers are responsible for ensuring compliance with the policies and procedures and

for implementing the financial policies and procedures established by the CFO, including those set forth in this chapter. Specifically, they will:

- Ensure the necessary internal controls exist and are followed in their organization;
- Provide a yearly statement of written assurance to the Secretary (through the Assistant Secretary for Management) on the degree to which they believe that the objectives of internal control efforts are achieving their intended objectives, and an assurance statement on whether the organization's financial management systems conform with Governmentwide requirements;
- Ensure that their managers are cognizant of the importance of internal controls;
- Perform the necessary reviews and/or evaluations of programs and financial management systems in accordance with OMB guidelines;
- Designate an Internal Control Officer/Liaison to coordinate the organization's overall internal control program efforts; and
- Incorporate internal control responsibilities into the performance plans of subordinate managers and ensure accomplishments in this area are reflected in their performance appraisals.

050405 The Office of the Inspector General (OIG), in conjunction with independent reviews and audits, will conduct limited reviews of internal control documentation and systems for compliance with policies and standards established by OMB Circulars A-123 and A-127 and this policy, and provide technical assistance to concerned internal control officials.

050406 The OFP Management and Financial Reports Service is responsible for monitoring and providing a summary of the corrective action plans for VA's material weaknesses. This summary, which includes a description of the material weaknesses, status of corrective action plans and timeline for resolution, is reported in VA's Performance and Accountability Report and OMB's Financial Information Progress System (FIPS).

050407 The Office of Financial Process Improvement and Audit Readiness (OFPIAR) was established to support VA's Administrations and staff offices in defining a strategy for identifying root causes of audit deficiencies, developing and maintaining standardized corrective action plans (CAPs) related to financial statement audit findings and improving financial management, including control deficiencies in response to repeat conditions identified in the auditor's report. OFPIAR takes the lead in overseeing the execution of CAPs developed by VA's Administrations and staff offices and coordinating a standardized, Departmentwide corrective action plan effort, known as the

Financial Statement Corrective Action Plan (FSCAP). FSCAP's ultimate goal is to reduce the risk of material weaknesses on subsequent financial statement audits.

050408 The ICS is responsible for managing the implementation and execution of the Department's OMB Circular A-123, Appendix A, internal control activities across VA, identifying components of VA that have a program, process or system affected by this appendix and coordinating the planning and scheduling of OMB Circular A-123, Appendix A reviews with other VA internal control review activities, such as the OIG. The ICS has authority to design and maintain an internal controls monitoring program consistent with the requirements of OMB Circular A-123, Appendix A. This includes advising the SAT of significant issues along with executing tasks necessary to maintain a comprehensive view of assessment efforts conducted under this and other directives.

050409 VA management will comply with the policies and procedures set forth in this chapter. Specifically they will:

- Ensure the necessary internal controls exist and are followed at their level of the organization;
- Provide a yearly statement of written assurance to their administration or staff office management on the degree to which they believe that the objectives of internal control efforts are achieving their intended objectives, and provide a statement of written assurance on whether the organization's financial management systems conform with Governmentwide requirements;
- Ensure that their employees are cognizant of the importance of internal controls; and
- Perform the necessary reviews and evaluations of programs in accordance with OMB guidance.

## 0505 PROCEDURES

050501 Internal control is a means of managing the risk associated with VA programs and operations. It **does not** guarantee the success of VA programs or the absence of waste, fraud or mismanagement of VA programs or the operation of such programs.

A. Management should develop and maintain internal control activities that will ensure: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations. The internal control activities should comply with the following standards in an effort to meet these three objectives.

- Control Environment: Define the control environment, e.g., programs, operations or financial reporting. Define the areas of authority and responsibility, appropriately delegate the authority, establish a hierarchy for reporting, support human resources policies and maintain proper knowledge and skills.

- **Risk Assessment:** Perform risk assessments to identify the most significant internal control improvements. Once the control environment has been defined, management should perform risk assessments to identify the most significant areas within the environment in which to place or enhance internal control. Risk assessments are a critical step in the process to determine the extent of controls.
- **Control Activities:** Implement control activities based on risk. Control activities include policies, procedures and mechanisms that should be in place to help ensure that internal control objectives are met.
- **Information and Communications:** Communicate the objectives of internal control through management. VA management is responsible for communicating relative, reliable and timely information to all levels of personnel at all levels within and outside of an organization.
- **Monitoring:** Continually monitor and test for identification of poorly designed or ineffective controls. Monitoring the effectiveness of internal control should occur in the normal course of business. Continuous monitoring and testing help to identify poorly designed or ineffective controls and should be reported upon periodically. VA management is then responsible for redesigning or improving upon those controls.

B. Management at all levels is responsible for communicating the objectives of internal control and ensuring the organization is committed to sustaining an effective internal control environment by taking systematic and proactive measures as follows:

**1. Develop and Implement Appropriate, Cost-Effective Internal Control for Results-Oriented Management.** As VA management develops and executes strategies for implementing or reengineering their programs and operations, they should design management structures to help ensure accountability for results.

a. As part of this process, management will take systematic and proactive measures to develop and implement appropriate, cost-effective internal control. The degree to which studies and analyses are performed will vary depending on the complexity and risk associated with a given program or operation.

b. The expertise of the Department and/or Administration Chief Financial Officer(s) is valuable in developing appropriate control. The Inspector General (IG) may also be valuable in providing advice or consultation.

c. Decisions made during this process will be documented and readily available for review.

**2. Assess the Adequacy of Internal Control in VA Programs and Operations.** VA management will continuously monitor and improve the effectiveness of internal control

associated with their programs. Continuous monitoring and other periodic assessments provide the basis for VA's annual assessment of and report on internal control, as required by FMFIA. VA management will determine the appropriate level of documentation needed to support the assessment. Documentation will be appropriately detailed and organized, and contain sufficient information to support management's assertion. Documentation will also include appropriate representations from personnel responsible for monitoring, improving and assessing internal controls.

a. Management's assessment of internal controls may be performed using a variety of information sources such as the following:

- Management's knowledge gained from the daily operation of VA programs and systems;
- Management reviews conducted specifically for assessing internal controls or for other purposes with an assessment of internal controls as a by-product of the review;
- IG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products;
- Annual reviews and reports pursuant to IPIA;
- Program evaluations; and
- Other reviews or reports relating to VA operations, e.g. quality control reviews of the Veterans Benefits Administration's Compensation and Pension programs.

b. VA management will take into consideration whether the process included an evaluation of internal controls when applying the use of information sources.

c. To avoid duplicating reviews that assess internal controls, management will coordinate their efforts with other evaluations, to the extent practicable. If a manager determines there is insufficient information available on which to base an assessment of internal controls, then appropriate reviews should be conducted to provide such a basis.

d. Any assessment tool used should be appropriately documented, maintained by the organization, and made available upon request.

**3. Identify Needed Improvements.** VA management and employees will identify deficiencies in internal controls from the sources of information described in section B above, as well as the results of their assessment process. Employees and management will report control deficiencies to the next supervisory level, allowing the chain of command to determine the relative importance of each deficiency. VA management and staff should be encouraged to identify control deficiencies; this reflects positively on the agency's commitment to recognizing and addressing

management problems. Failing to report a known significant deficiency would reflect adversely on the Department and continue to place VA's operations at risk. VA will carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines. VA will classify deficiencies based on the following definitions:

a. Deficiency – An insufficient program or operational area identified by management that adversely affects the organization's ability to effectively and efficiently perform the intent of the program or operation is an internal control **deficiency**. The remediation of this deficiency will be completed as soon as possible to prevent the start of additional related or systemic deficiencies within the program or operational area.

b. Significant Deficiency – A combination of related deficiencies that, in management's judgment, represents control deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives is a **significant deficiency**. The significant deficiency is internally tracked and monitored within the organization or the Department. Corrective action plans should be developed as soon as possible to prevent the likelihood of raising the materiality level to a material weakness.

c. Material Weakness – A significant deficiency determined by senior management or the Secretary to be important enough to be reported outside of the Department will be identified as a **material weakness** and will be included in the annual FMFIA assurance statement and reported in VA's Performance and Accountability Report (PAR). This designation requires judgment by VA management as to the relative risk and impact of significant deficiencies. In identifying and assessing the relative importance of significant deficiencies, consideration should be given to the views of VA's IG.

**4. Take Corresponding Corrective Action.** VA management is responsible for implementing timely and effective action to correct identified deficiencies based on assessments conducted using a variety of sources, such as knowledge gained from the daily operation of using purchase cards within an organization, or results of an IG audit. Correcting deficiencies is an integral part of management accountability and must be considered a priority by VA management.

a. Corrective action plans will be developed for all material weaknesses and progress against plans should be periodically assessed and reported to the next level of management. Management should track progress to ensure timely and effective results. For deficiencies not reported in the PAR, corrective action plans should be developed and tracked internally at the appropriate level.

b. The extent to which corrective action plans are tracked is based on the severity of the deficiency. The monitoring of the corrective action plans is determined based on the organizational entity that identified the weakness. The responsible office for monitoring weaknesses is as follows:

(1) Corrective action plans for material weaknesses identified by management and internal and external auditors (excluding financial statements) are monitored by OFP, Management and Financial Reports Service.

(2) Corrective action plans for material weaknesses identified by the OIG or independent auditors in the financial statements audit are monitored by Office of Financial Process Improvement and Audit Readiness (OFPIAR). Refer to Appendix C, OFPIAR, for Web site links to applicable guidance and procedures.

(3) Corrective action plans for material weaknesses identified based on internal control over financial reporting, as prescribed in OMB Circular A-123, Appendix A, are monitored by OBO ICS. Refer to Appendix B, OBO ICS Guidance, for Web site links to applicable guidance and procedures.

c. A summary of the corrective action plans for all material weaknesses will be included in the PAR. The summary discussion will include a description of the material weakness, status of corrective actions and timeline for resolution.

d. VA management will maintain detailed corrective action plans which will be made available for review upon request. Management will use the following process for resolution and corrective action of identified internal control material weaknesses:

- Identify an internal control program liaison as the point of contact for the organization. The liaison will oversee the organization's internal control program as well as monitor and report to senior management on the status of corrective action implementation.
- Implement prompt resolution and corrective actions.
- Maintain accurate records of the status of each identified material weakness through the entire process of resolution and corrective action.
- Ensure corrective action plans are consistent with laws, regulations, and VA policy.
- Ensure performance appraisals of appropriate managers reflect effectiveness in resolving or implementing corrective action for identified material weaknesses.

e. A determination that a material weakness has been corrected will be made only when corrective actions have been taken and the desired results are validated by the respective VA management. This determination will be in writing, along with other appropriate documentation supporting the determination, and made available by appropriate officials upon request.

f. Management has a responsibility to complete actions on audit recommendations agreed upon with the IG in a timely manner. Management will make a decision regarding IG audit recommendations within a 6-month period after issuance of the audit report and implement management's decision within one year to the extent possible.

#### **5. Report Annually on Internal Control through Management Assurance**

**Statements.** VA management will provide annual assurance statements and other information relative to their assessment of effective internal control over operations, conformance with financial management systems requirements, and effective internal control over financial reporting. Subsequently, an assurance statement representing the Secretary's informed judgment as to the overall adequacy and effectiveness of internal control within the Department is included in VA's PAR in the section labeled "Management's Discussion and Analysis." This section of the PAR includes the annual assurance statements signed by the Secretary, a summary of material weaknesses and non-conformances, and a summary of corrective action plans.

a. **Statement of Assurance.** The assurance statement represents management's informed judgment as to the overall adequacy and effectiveness of internal control within VA. There are three types of assurance statements:

- Unqualified statement of assurance (no material weaknesses are reported);
- Qualified statement of assurance, considering the exceptions explicitly noted (one or more material weaknesses are reported); or
- Statement of no assurance (no processes are in place or pervasive material weaknesses exist).

b. **Assurance Statement Process.** Management will develop their assurance statement summarizing the posture of their organization as it relates to their internal control program. The assurance statements are reviewed and consolidated by the Management and Financial Reports Service, Management Controls Division. Based on the overall results of management's assurance statements, the Secretary's statement of assurance is developed and submitted to the Secretary for review and signature. The Secretary's statement and related information are reported in the PAR. Printed copies of the PAR are transmitted to the President, Congress and OMB. VA's PAR is located on VA's Web site [www.va.gov/om/budget](http://www.va.gov/om/budget). The process for developing and submitting assurance statements is as follows:

(1) The OFP Management and Financial Reports Service will develop and issue a call memorandum to VA management requesting their annual assurance statement based on the posture of their organization during the fiscal year as a result of conducted risk assessments. The statement of assurance will reflect information as of September 30.

(2) The assurance statement prepared by the management in each organization is based on the results of risk assessments of their programs or operations performed during the fiscal year. Management will prepare an assurance statement reflecting whether there is reasonable assurance that the organization's controls are achieving the intended objectives, and report on material weaknesses the manager is responsible for correcting. An assurance statement is also required on whether the organization's financial management systems conform to Governmentwide requirements.

(a) Each Management Assurance Statement will be signed by the head of the organization.

(b) Administration, staff office and other office heads will consolidate the assurance statements to represent their responsible organization's assurance statement. The signed statements will be submitted to the Management Controls Division (047GB2) no later than 10 calendar days following the end of the fiscal year or as directed.

(3) The Management and Financial Reports Service will evaluate and assess the reasonableness of each signed statement to develop the Secretary's overall statement. A recommendation will be made to the Secretary through the Assistant Secretary for Management (Chief Financial Officer) pertaining to the type of letter the Secretary should sign.

c. Statement of Assurance for Internal Controls over Financial Reporting. VA management is required to provide a separate assurance statement regarding the effectiveness of internal controls over financial reporting. This statement is developed by OBO and is a subset of the overall Secretary's Statement of Assurance. The assessment is conducted in accordance with OMB Circular A-123 Appendix A. Refer to Section 050502, below and Appendix B, OBO ICS Guidance, for additional information.

d. Annual Statement on the Financial Management System. VA management is required to provide an annual statement on whether the Department's financial management system(s) conform to the Governmentwide requirements as mandated by FMFIA and OMB Circular A-127, *Financial Management Systems*, section 7. Financial management systems include both financial and financially-related (mixed) systems. OBO ICS is primarily responsible for assessing internal controls for this requirement in conjunction with the requirements in OMB Circular A-123, Appendix A. Refer to Appendix B, OBO ICS Guidance, for Web site links to applicable guidance and procedures.

050502 OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*.

A. VA will use a separate materiality level when assessing internal control over financial reporting. Materiality for financial reporting is the risk of error or misstatement that could occur in a financial report that would impact management's or the users' decisions or conclusions based on information within the report.

B. OBO ICS is responsible for assessing the implementation of internal controls as they relate to financial reporting activities within the Department. ICS is also responsible for bringing assessment results, as well as related financial reporting issues, to the attention of the Senior Assessment Team, chaired by the Chief Financial Officer.

1. The Secretary's annual assurance statement on the effectiveness of internal controls over financial reporting required by OMB Circular A-123, Appendix A is a subset of the assurance statement required under FMFIA on the overall internal control for the Department.

2. Refer to Appendix B, OBO ICS Guidance, for Web site links to applicable guidance and procedures.

## **0506 DEFINITIONS**

050601 Assurance Statements. Annual statement certifying that management's operational activities have been appropriately assessed. The statement is also management's objective decision that a program and/or financial management systems are or are not operating in compliance with the FMFIA. The statement is based on the results of internal controls assessments, evaluations and/or reviews.

050602 Evaluation. Annual review or assessment of internal controls to determine compliance with principles, standards and related requirements from the Government Accountability Office, OMB, or Chief Financial Officers Council. This evaluation may be conducted as a separate review or may use the results of existing organizational review processes, such as OMB Circular A-130 for computer security reviews, OMB Circular A-127 for financial system reviews, Inspector General audits and other management and consulting reviews.

050603 Internal Controls. The organizational policies and procedures used to reasonably ensure:

- Programs achieve their intended results;
- Resources are used consistent with the organization/Department mission;
- Programs and resources are protected from waste, fraud, and mismanagement;

- Laws and regulations are followed; and
- Reliable and timely information is obtained, maintained, reported and used for decision making.

050604 Management. The act of getting people together to accomplish desired goals and objectives. Management comprises the planning, organizing, staffing, leading or directing, and controlling an organization (usually, a group of two or more people or entities) or effort for the purpose of accomplishing a goal. Management may happen at any level of the organization.

050605 Management Accountability. Management is responsible and will be held accountable for the quality and timeliness of program performance, increasing productivity, controlling costs and alleviating adverse aspects of organizational operations, and assuring that programs are managed with integrity and in compliance with applicable laws.

050606 Material Weakness/Material Non-Conformance. Material impediments that significantly impair the fulfillment of the Department or organization's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets; or result in a conflict of interest. However, managerial judgment must be exercised in determining a material weakness. In general, a material weakness meets one or more of the following criteria:

- Merits the attention of the Secretary, the President, and the Congress;
- Significantly impairs the fulfillment of VA's mission;
- Deprives the public of needed services;
- Violates statutory or regulatory requirements;
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets;
- Results in a conflict of interest;
- Prevents VA's primary accounting systems from achieving central control over financial transactions and resource balances;
- Prevents compliance of the primary accounting system, subsidiary system or program system with OMB Circular A-127, *Financial Management Systems*, the Standard General Ledger, and the Core Financial Systems Requirements; and

- Results in a significant and recurring misstatement in reports required by OMB, Treasury or the Congress.

050607 Reasonable Assurance. A satisfactory level of confidence in achieving program, administrative and financial management objectives, effectively and efficiently, and safeguarding government resources under given considerations of costs, benefits and risks. The emphasis is on the term “reasonable” since “absolute” assurance can never be given for any process.

050608 Risk Assessment. Tool used to evaluate consequences associated with the internal and external impediments that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations. Management should also consider previous findings; e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations.

050609 Significant Deficiency. A control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements is more than inconsequential and will not be prevented or detected by the entity’s internal control.

## **0507 RESCISSIONS**

050701 Volume I, Chapter 5, *Management Responsibility for Internal Control*, August 2009

050702 VA Directive 0070, *Management Accountability and Control Program*, August 2, 1996

050703 MP 1, Part II, Chapter 15, *Internal Control Systems*, 1988

## **0508 QUESTIONS**

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)]

## APPENDIX A: OTHER STATUTORY REQUIREMENTS

A. [Federal Managers' Financial Integrity Act of 1982 \(FMFIA\)](#). This act requires agencies to establish and maintain internal control. The agency head must annually evaluate and report on the control and financial systems that protect the integrity of Federal programs (Section 2 and Section 4, respectively). The requirements of FMFIA serve as an umbrella under which other reviews, evaluations and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting and compliance with laws and regulations.

B. [Chief Financial Officers Act of 1990 \(CFO Act\)](#). This act requires agencies to establish and assess internal control related to financial reporting. The act requires the preparation and audit of financial statements. In this process, auditors (VA or independent) report on internal control and compliance with laws and regulations related to financial reporting.

C. [Inspector General Act of 1978](#). This act requires independent reviews of agency programs and operations. Inspectors General are required to submit semiannual reports to Congress on significant abuses and deficiencies identified during the reviews and the recommended corrective actions. IGs and/or external auditors are required by Government Auditing Standards and OMB Bulletin No. 01-02, Audit Requirements of Federal Financial Statements, as amended, to report material weaknesses in internal control related to financial reporting and noncompliance with laws and regulations as part of the financial statement audit. Auditors also provide recommendations for correcting the material weaknesses. Agencies are required to follow up on audit recommendations and should use these reviews to identify and correct problems resulting from inadequate or poorly designed controls and to build appropriate controls into new programs.

D. [Federal Financial Management Improvement Act of 1996 \(FFMIA\)](#). This Act requires agencies to have financial management systems that substantially comply with Federal financial management systems requirements, as well as standards set forth by the Federal Accounting Standards Advisory Board and the U.S. Standard General Ledger at the transaction level. Financial management systems must have general and application controls in place in order to support management decisions by providing timely and reliable data. The agency head must make a determination annually about whether the agency's financial management systems substantially comply with the FFMIA. If the systems are not compliant, management must develop a remediation plan to bring the systems into substantial compliance. Management determines whether non-compliances with FFMIA should also be reported as non-conformances with Section 4 of FMFIA.

E. [Sarbanes-Oxley Act of 2002](#). This act requires that management of publicly-traded companies strengthen their processes for assessing and reporting on the internal

controls over financial reporting. The passage of the Sarbanes-Oxley Act served as an impetus for the Federal Government to reevaluate its current policies relating to internal control over financial reporting and management's related responsibilities. As a result, OMB Circular A-123 was updated to further define and strengthen Federal agency management's responsibility for internal control over financial reporting.

F. **Federal Information Security Management Act of 2002 (FISMA)**. This act provides "... a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets...."

Agencies are required to provide information security controls proportionate to the risk and potential harm of not having those controls in place. The agency head is required to annually report on the effectiveness of information security programs. Significant deficiencies found under FISMA must also be reported as material weaknesses under FMFIA.

G. **Improper Payments Information Act of 2002 (IPIA)**. This act requires agencies to review and "... identify programs and activities that may be susceptible to significant improper payments." Agencies must annually submit estimates of improper payments, corrective actions to reduce the improper payments, and statements as to whether its current information systems and framework can support the effort to reduce improper payments. The nature and incidence of improper payments must be considered when assessing the effectiveness of internal control.

H. **Government Performance and Results Act of 1993 (GPRA)**. This act requires agencies to develop strategic plans, set performance goals and report annually on actual program performance achieved compared with the performance goals to support results-oriented management. With the implementation of this legislation, these plans and goals are integrated into (1) the budget process, (2) the operational management of agency organizations and its programs and (3) the accountability reporting to the public on performance results and on the integrity, efficiency and effectiveness with which they are achieved.

I. **Clinger-Cohen Act of 1996**. This act, formerly known as the Information Technology Management Reform Act, requires agencies to use a disciplined Capital Planning and Investment Control process to maximize the value of information technology acquisitions and to assess and manage the risks associated with these acquisitions.

J. **E-Government Act of 2002**. This act promotes: (1) improved capital planning and investment control for information technology; (2) development of enterprise architectures; (3) information security; (4) privacy; (5) access to, dissemination and preservation of Government information; (6) accessibility of information technology for persons with disabilities; and (7) other areas of electronic Government. The act enhances the management and promotion of electronic Government services and processes and establishes a broad framework of measures that require using Internet-based information technology to enhance citizen access to Government information and services.

## APPENDIX B: OFFICE OF BUSINESS OVERSIGHT GUIDANCE

The Office of Business Oversight (OBO), Internal Controls Service (ICS) is responsible for assessing internal controls over financial reporting as prescribed in OMB Circular A-123, Appendix A, and assessing internal controls over financial systems as prescribed in OMB Circular A-127.

OBO ICS developed the *Internal Control Stakeholder Procedures Manual (implementation of OMB Circular A-123, Appendix A (as updated))* to assist in meeting these two requirements stated in the paragraph above. The procedures manual describes the roles and responsibilities of the various VA stakeholders for implementing the requirements of the revised circulars and defines the Department's design for managing the application of these financial reporting internal control requirements. The manual is located in the ICS SharePoint Guides folder, <http://omb123.wss.va.gov/Guides%20%20templates/Forms/AllItems.aspx>

An overview of responsibilities, to include the CFO, SAT, Process Owners Liaisons, Process Owners and Technical Advisors are located in the SAT Charter on the ICS SharePoint Governance folder, <http://omb123.wss.va.gov/Reporting%20Structure/Forms/AllItems.aspx>

Additional ICS information may be accessed via the Web site: <http://omb123.wss.va.gov/>.

## APPENDIX C: OFFICE OF FINANCE GUIDANCE

The Office of Financial Process Improvement and Audit Readiness (OFPIAR) takes the lead in overseeing the execution of corrective action plans developed by VA administrations and staff offices to address deficiencies identified in the annual Consolidated Financial Statements Audit. OFPIAR coordinates a standardized, Department-wide corrective action planning effort, known as the Financial Statement Corrective Action Plan (FSCAP). The objective of the FSCAP is to support VA administrations and staff offices in developing remediation plans and to implement definitive measures toward improving VA's internal controls in response to findings identified during the annual financial statement audit. The ultimate goal is to reduce the risk of material weaknesses on subsequent financial statement audits.

Additional information on the OFPIAR and the FSCAP may be found in the OFPIAR *Business Process and Procedures: Financial Statement Corrective Action Plan Process Documentation* manual and accessed on the Web site:

<http://vaww.vaco.portal.va.gov/sites/MgmtFin/FPIAR/Polcies%20and%20Procedures/Shared%20Documents/Forms/AllItems.aspx>.

**APPENDIX D: PROCEDURES FOR THE STATEMENT OF ASSURANCE**

These procedures outline the Office of Financial Policy (OFP) procedures for reporting the annual Statement of Assurance.

**A. Roles and Responsibilities**

1. The responsibilities of the Management Controls (MC) and the Financial Process Improvement and Audit Readiness (FPIAR) are indicated in the following tables:

<b>FMFIA (Section 2 and 4)</b>	<b>MC</b>	<b>FPIAR</b>
FMFIA Guidance (Sections 2 and 4)	✓	
Statement of Assurance	✓	
Corrective Action Plans (CAPs) Depository		✓
Consolidated Financial Statement (CFS) Audit Related Material Weaknesses and Significant Deficiencies		✓
Management Identified Material Weaknesses		✓
Office of Inspector (OIG) Tasks		✓
Internal and External Reporting	✓	✓
Monthly Performance Review (MPR)	✓	✓
Security Management and Reporting Tool (SMART)		
Financial Improvement Progress System (FIPS)		
Performance and Accountability Report (PAR)		

<b>Statement of Assurance (SOA)</b>	<b>MC</b>	<b>FPIAR</b>
Develop and Issue the Call SOA Memorandum	✓	
Ensure All SOAs are Received and Signed by VA's Under Secretaries, Assistance Secretaries and Other Key Officials	✓	
Obtain Appendix A (Financial Reporting) SOA from the Office of Business Oversight for Inclusion in Secretary's Overall Statement	✓	
Review and Assess the Reasonableness of SOA's from Each Organization to Determine Overall Assertion in Secretary's Statement	✓	

Statement of Assurance (SOA)	MC	FPIAR
Based on the Analysis of the SOAs Make Recommendation to Secretary Through the CFO	✓	
Submit Secretary’s Signed SOA for Inclusion in VA’s PAR	✓	

2. The Office of Financial Policy (OFP) is responsible for preparing the consolidated Management’s Statement of Assurance for the Assistant Secretary for Management and Chief Financial Officer’s approval and signature.

**B. Procedures**

The process for developing and submitting assurance statements is as follows:

1. The OFP Management and Financial Reports Service (MFRS) will develop and issue a call memorandum to VA management requesting their annual assurance statements based on the posture of their organization during the fiscal year as a result of conducted risk assessments. The statement of assurance will reflect information as of September 30.

During this step of the process, the following items are developed and prepared:

- Call Memo ([Exhibit 1](#)), which includes the due date for the submission of the signed Statement of Assurance from the organizations;
- Attachment 1: Guidance and Instructions ([Exhibit 2](#));
- Attachment 2: Internal Control Evaluation Checklist – Management Evaluation Tool ([Exhibit 3](#));
- Attachment 3: Unqualified Statement of Assurance (*template*) ([Exhibit 4](#))
- Attachment 4: Qualified Statement of Assurance (*template*) ([Exhibit 5](#));
- Attachment 5: Statement of No Assurance (*template*) ([Exhibit 6](#));
- Attachment 6: Management Internals Control Corrective Action Plan (*format*) ([Exhibit 7](#)).

2. The package is assembled for review/concurrence internally.

The Call memo package is uploaded to VA Intranet Quorum (VAIQ) (see VAIQ Screenshots in [Exhibit 8](#)) and hard copy furnished to Team Leader, Director for MFRS and Deputy Director / Associate Deputy Assistant Secretary (ADAS) for Financial Policy for approval.

3. Internal approval of package is delivered to Office of Finance correspondence staff.

The Correspondence Staff reviews/edits or comments prior to the Office of Management's final review.

4. The package is hand delivered to the Office of Management.
  - a. Correspondence staff conducts final review; obtains signature; and signed memo is scanned into VAIQ parent workflow.
  - b. The hard copy package is returned to the initiating office, MFRS.
5. The MFRS receives hard copy package and makes assignments to VA organizations via VAIQ workflow.
6. The MFRS monitors assignments to make sure organizations are meeting requested due dates by tracking on the Status Master worksheet ([Exhibit 9](#)); also granting extension of due date when applicable.

As indicated in the Call Memo ([Exhibit 1](#)) and Attachment 1 ([Exhibit 2](#)), if the due date to submit the signed Statement of Assurance to the MFRS is September 15, any changes to the statement between September 15 and September 30 (e.g., identification of a new significant deficiency, or Corrective Action Plan (CAP) revision), should be modified accordingly and resubmitted to the MFRS immediately, but no later than October 7.

7. Organizations' signed statements are uploaded into VAIQ's parent workflow

The assurance statement prepared by the management of each organization is based on the results of risk assessments of their programs or operations performed during the fiscal year. Management will prepare an assurance statement reflecting whether there is reasonable assurance that the organization's controls are achieving the intended objectives, and report on material weaknesses the manager is responsible for correcting. An assurance statement is also required on whether the organization's financial management systems conform to Governmentwide requirements.

- a. Each Management Assurance Statement will be signed by the head of the organization.
  - b. Administration, staff office and other office heads will consolidate the assurance statements to represent their responsible organization's assurance statement. The signed statements will be submitted to the Management Controls Division (047GB2) no later than 10 calendar days following the end of the fiscal year or as directed.
8. Signed statements are downloaded from VAIQ parent workflow to prepare supporting documentation package to the Assistant Secretary for Management and Chief Financial Officer; which will support the Secretary's overall assurance statement.

9. The final supporting documentation package is prepared. It includes the Call Memo ([Exhibit 1](#)), and organizational signed statements.

Based on the MFRS' analysis of the organizations signed statements, this memo will take on one of the following statements:

- Qualified;
- Unqualified; or
- No Assurance.

10. The hard copy of the supporting documentation package relative to the Secretary's overall assurance statement goes through the review/approval process same as Step 2 through Step 4 above.

11. The Assistant Secretary for Management and Chief Financial Officer signs his statement of assurance ([Exhibit 10](#)).

12. The MFRS will evaluate and assess the reasonableness of each signed statement to develop the Secretary's overall statement. A recommendation will be made to the Secretary through Assistant Secretary for Management and Chief Financial Officer regarding whether the letter the Secretary should be:

- Qualified
- Unqualified
- No Assurance

The final package includes Undersecretaries', Assistant Secretaries' and Other Key Officials' statements as well the applicable Statement of Assurance for the Secretary's signature.

13. The Office of Management prepares the Department of Veterans Affairs (VA) Statement of Assurance for the Secretary's signature.

14. The Secretary's signed assurance statement ([Exhibit 11](#)) is incorporated in VA's PAR in the section titled "*Management Controls, Systems, and Compliance with Laws and Regulations*". The final documentation is loaded in VAIQ.

**C. Exhibits**

**Exhibit 1: Call Memo**

**Department of  
Veterans Affairs**

**Memorandum**

Date:

From: Executive in Charge (004)

Subj: FY 2011 Assessment on Internal Control and Management's Assurance Statement  
(VAIQ 7133800)

To: Under Secretaries, Assistant Secretaries, and Other Key Officials

1. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 and OMB Circular A-123, Management's Responsibility for Internal Control, require VA managers to take systematic and proactive measures to develop and implement appropriate and cost effective internal control results-oriented management; assess the adequacy of internal controls within their programs and operations; identify and implement needed improvements; and report annually through a management assurance statement the adequacy and effectiveness of internal control within their organization. Attached are VA instructions for assessing and evaluating internal control and for preparing your FY 2011 assurance statement.

2. Your signed Statement of Assurance must be submitted to the Management and Financial Reports Service (047GB2) by September 15, reflecting FY 2011 results. Subsequent program or operational changes that will impact the content of your signed Statement of Assurance or FMFIA corrective action plans will require the resubmission of your statement by October 7 to ensure accurate fiscal year-end reporting.

3. If you have any questions, please call me or have a member of your staff contact Audrey Beasley at (202) 461-6383 or John Poole at (202) 461-6485.

W. Todd Grams

Attachments: 6

Exhibit 2: Attachment 1 Guidance and Instructions

<p>Attachment 1 Page 1 of 3 Guidance and Instructions FY 2011 Assessment on Internal Control and Management's Statement of Assurance (VAIQ 7133800) – Year End Reporting</p>	
Background	<p>The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires federal managers to assess their internal controls and provide reasonable assurance that:</p> <ul style="list-style-type: none"><li>(i) obligations and costs are in compliance with applicable laws;</li><li>(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and</li><li>(iii) revenue and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.</li></ul> <hr/>
Top-Level Management Action	<p>VA managers are required to review internal controls within their organization and assess the effectiveness of internal controls. The results of this assessment should be reflected in their signed statement of assurance applicable to their organization. Attachment 2, the Internal Control Checklist, is a management tool to assist management in evaluating their program and or operational internal control environment.</p> <hr/>
Statement of Assurance on Internal Controls	<p>The Management Assurance Statement represents management's informed judgment as to the overall adequacy and effectiveness of internal controls within an organization. Subsequently, the manager's statement must be one of the following:</p> <ul style="list-style-type: none"><li>• Unqualified Statement of Assurance (no material weaknesses identified or significant deficiency reported) (see Attachment 3);</li><li>• Qualified Statement of Assurance, considering the exceptions explicitly noted in Attachment 6 (one or more material weaknesses identified or significant deficiency reported) (see Attachment 4); or</li><li>• Statement of No Assurance (no processes in place or pervasive material weaknesses identified or significant deficiency reported) (see Attachment 5).</li></ul> <p>Any changes to the signed statement of assurance between Thursday, September 15, and Friday, September 30 (e.g., identification of a new significant deficiency, or Corrective Action Plan (CAP) revision), should be modified accordingly and resubmitted to the Management and Financial Reports Service (047GB2) immediately, but no later than Friday, October 7, 2011.</p> <p>Management Internal Control Corrective Action Plans when appropriate should be developed and reported using Attachment 6 the Corrective Action Plan format provided.</p> <hr/>

Attachment 1  
Page 2 of 3

VA Guidance and Instructions  
FY 2011 Assessment on Internal Control and Management's  
Statement of Assurance (VAIQ 7133800) – Year End Reporting

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OMB Circular A-123 Reporting Pursuant to Section 2 of FMFIA	<p>The assurance statement represents management's informed judgment regarding the overall adequacy and effectiveness of internal controls within their organization.</p> <p>Each organization's assurance statement serves as the basis for fulfilling Section 2 of FMFIA, which requires the Secretary to submit to the President and to the Members of Congress:</p> <ul style="list-style-type: none"><li>(i) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and</li><li>(ii) a statement on identified deficiencies and material weaknesses in the Department's internal controls.</li></ul>
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OMB Circular A-123 Reporting Pursuant to Section 4 of FMFIA	<p>In addition, an annual statement of assurance must be submitted on whether the Department's financial management systems conform to governmentwide requirements. These requirements are mandated by the Federal Financial Management Improvement Act and revised OMB Circular No. A-127, Financial Management Systems <a href="http://www.whitehouse.gov/omb/circulars_a127/">http://www.whitehouse.gov/omb/circulars_a127/</a>.</p> <p>The Office of Finance (047) in collaboration with the Office of Information and Technology (005) will develop and prepare the Section 4 Management Assurance Statement.</p>
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Reporting Pursuant to Appendix A of OMB Circular A-123 Internal Control Over Financial Reporting	<p>The Office of Business Oversight (043) will develop a statement related to the assessment performed under Appendix A following the guidance of VA's Senior Assessment Team.</p>
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Attachment 1  
Page 3 of 3

Guidance and Instructions  
FY 2011 Assessment on Internal Control and Management's  
Statement of Assurance (VAIQ 7133800) – Year End Reporting

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VA  
Consolidated  
Financial  
Statement  
Audit-Related  
Material  
Weaknesses

Clifton Gunderson LLP, Inspector General's Independent auditors identified the following material weakness during their FY 2010 audit of VA's consolidated financial statements:

- Information Technology Security Controls (005) (Repeated Condition)

The Office of Financial Process Improvement and Audit Readiness (FPIAR) is responsible for oversight of the corrective action plans for the material weakness. Organizational management will address the status of corrective action relative to this material weakness in their management assurance statement and will also be reflected in the Secretary's statement.

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**Exhibit 3: Attachment 2 Internal Control Evaluation Checklist – Management Evaluation Tool**

Attachment 2  
Page 1 of 13

FY 2011 Assessment on Internal Control and Management's  
Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

This checklist is organized into five sections corresponding to the five standards for internal control:

- control environment,
- risk assessment,
- control activities,
- information and communications, and
- monitoring.

Each section contains a list of major factors to be considered when reviewing internal control as it relates to the particular standard. These factors represent some of the more important issues addressed by the standard. Managers should continually assess and evaluate their internal control structure to assure that it is well designed and operated, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the VA are being achieved. Specifically, managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.

It should be understood that this tool is not an authoritative part of the standards for internal control. Rather, it is intended as a supplemental guide that VA managers and evaluators may use in assessing the effectiveness of internal control and identifying important aspects of control in need of improvement.

Users should keep in mind that this tool is a starting point and that it can and should be modified to fit the circumstances, conditions, and risks relevant to the situation of each organizational office. Users should consider the relevant factors and delete or add others as appropriate to their particular circumstances. In addition, users should note that this document follows the format of the standards for internal control.

Attachment 2

Page 2 of 13

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

<b>CONTROL ENVIRONMENT</b>			
<b>Integrity and Ethical Values Comments/Descriptions</b>			
1. The agency has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest.	Yes	No	NA
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. An ethical tone has been established at the top of the organization and has been communicated throughout the agency.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Management appropriately addresses intervention or overriding internal control.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Commitment to Competence Comments/Descriptions</b>			
1. Management has identified and defined the tasks required to accomplish particular jobs and fill the various positions.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The agency provides training and counseling in order to help employees maintain and improve their competence for their jobs.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

Internal Control Evaluation Checklist - Management Evaluation Tool

<b>Management's Philosophy and Operating Style Comments/Descriptions</b>			
1. Management has a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Valuable assets and information are safeguarded from unauthorized access or use.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Management has an appropriate attitude toward financial, budgetary, and operational/programmatic reporting.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Organizational Structure Comments/Descriptions</b>			
1. Key areas of authority and responsibility are defined and communicated throughout the organization.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Appropriate and clear internal reporting relationships have been established.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Management periodically evaluates the organizational structure and makes changes as necessary in response to changing conditions.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Assignment of Authority and Responsibility Comments/Descriptions</b>			
1. The agency appropriately assigns authority and delegates responsibility to the proper personnel to deal with organizational goals and objectives.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

2. Each employee knows (1) how his or her actions interrelate to others considering the way in which authority and responsibilities are assigned, and (2) is aware of the related duties concerning internal control.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The delegation of authority is appropriate in relation to the assignment of responsibility.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Human Resource Policies and Practices Comments/Descriptions</b>			
1. Policies and procedures are in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating employees.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Employees are provided a proper amount of supervision.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Oversight Groups Comments/Descriptions</b>			
1. Within the agency, there are mechanisms in place to monitor and review operations and programs.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>RISK ASSESSMENT</b>			
<b>Establishment of Entity-wide Objectives Comments/Descriptions</b>			
1. The agency has established entity-wide objectives that provide sufficiently broad statements and guidance about what the agency is supposed to achieve, yet are specific enough to relate directly to the agency.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Entity-wide objectives are clearly communicated to all employees, and management obtains feedback signifying that the communication has been effective.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency has an integrated management strategy and risk assessment plan that considers the entity-wide objectives and relevant sources of risk from internal management factors and external sources and establishes a control structure to address those risks.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

Internal Control Evaluation Checklist - Management Evaluation Tool

<b>Establishment of Activity-Level Objectives Comments/Descriptions</b>			
1. Activity-level (program or mission-level) objectives flow from and are linked with the agency's entity-wide objectives and strategic plans.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The activity-level objectives are relevant to all significant agency processes.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Activity-level objectives include measurement criteria.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Management has identified those activity-level objectives that are critical to the success of the overall entity-wide objectives.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Risk Identification Comments/Descriptions</b>			
1. Management comprehensively identifies risk using various methodologies as appropriate.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Adequate mechanisms exist to identify risks to the agency arising from external factors.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Adequate mechanisms exist to identify risks to the agency arising from internal factors.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. In identifying risk, management assesses other factors that may contribute to or increase the risk to which the agency is exposed.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

5. Management identifies risks both entity-wide and for each significant activity-level of the agency.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Risk Analysis Comments/Descriptions</b>			
1. After the risks to the agency have been identified, management undertakes a thorough and complete analysis of their possible effect.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management has developed an approach for risk management and control based on how much risk can be prudently accepted.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Managing Risk During Change Comments/Descriptions</b>			
1. The agency has mechanisms in place to anticipate, identify, and react to risks presented by changes in governmental, economic, industry, regulatory, operating, or other conditions that can affect the achievement of entity-wide or activity-level goals and objectives.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>CONTROL ACTIVITIES</b>			
<b>General Application Comments/Descriptions</b>			
1. Appropriate policies, procedures, techniques, and mechanisms exist with respect to each of the agency's activities.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The control activities identified as necessary are in place and being applied.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Control activities are regularly evaluated to ensure that they are still appropriate and working as intended. (This point is closely related to the functions, and points included in the "Monitoring" section. See that section for more specific information on monitoring and periodic evaluation of control activities)	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

Internal Control Evaluation Checklist - Management Evaluation Tool

Common Categories of Control Activities Comments/Descriptions	Yes	No	N/A
1. Top-Level Reviews. Management tracks major agency achievements in relation to its plans.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management Reviews at the Functional or Activity Level. Agency managers review actual performance against targets.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Information Processing. The agency employs a variety of control activities suited to information processing systems to ensure accuracy and completeness. (Further guidance on control activities for information processing is provided in the following section under "Control Activities Specific for Information Systems." In addition, see GAO's Federal Information System Controls Audit Manual (FISCAM) and OMB Circular A-130, Management of Federal Information Resources)	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Physical Control Over Vulnerable Assets. The agency employs physical control to secure and safeguard vulnerable assets.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Performance Measures and Indicators. The agency has established and monitors performance measures and indicators.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Segregation of Duties. Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Execution of Transactions and Events. Transactions and other significant events are authorized and performed by the appropriate personnel.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Recording of Transactions and Events. Transactions and other significant events are properly classified and promptly recorded.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Access Restrictions to and Accountability for Resources and Records. Access to resources and records is limited and accountability for their custody is assigned.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

10. Documentation. Internal Control and all transactions and other significant events are clearly documented.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Control Activities Specific for Information Systems General Control</b>			
<b>Entity-wide Security Management Program Comments/Descriptions</b>			
1. The agency periodically performs a comprehensive, high-level assessment of risks to its information systems.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Senior management has established a structure to implement and manage the security program throughout the agency and security responsibilities are clearly defined.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency monitors the security program's effectiveness and makes changes as needed.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Access Control Comments/Descriptions</b>			
1. Resource owners have identified authorized users, and their access to the information has been formally authorized.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The agency has established physical and logical controls to prevent or detect unauthorized access.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Attachment 2  
 Page 9 of 13

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

Internal Control Evaluation Checklist - Management Evaluation Tool

Application Software Development and Change Control Comments/Descriptions			
1. Information system processing features and program modifications are properly authorized.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. All new or revised software is thoroughly tested and approved.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
System Software Control Comments/Descriptions			
1. The agency limits access to system software based on job responsibilities, and access authorization is documented.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Access to and use of system software is controlled and monitored.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The agency controls changes made to the system software.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Segregation of Duties Comments/Descriptions			
1. Incompatible duties have been identified and policies implemented to segregate those duties.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Access controls have been established to enforce segregation of duties.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

3. The agency exercises control over personnel activities through the use of formal operating procedures, supervision, and review.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Service Continuity Comments/Descriptions</b>			
1. The agency has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures including off-site storage of backup data as well as environmental controls, staff training, and hardware maintenance and management.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Control Activities Specific for Information Systems Application Control</b>			
<b>Authorization Control Comments/Descriptions</b>			
1. Source documents are controlled and require authorization.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Data entry terminals have restricted access.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Master files and exception reporting are used to ensure that all data processed are authorized.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Completeness Control Comments/Descriptions</b>			
1. All authorized transactions are entered into and processed by the computer.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Reconciliations are performed to verify data completeness.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Attachment 2  
 Page 11 of 13

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

Accuracy Control Comments/Descriptions			
1. The agency's data entry design features contribute to data accuracy.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Data validation and editing are performed to identify erroneous data.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Erroneous data are captured, reported, investigated, and promptly corrected.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Output reports are reviewed to help maintain data accuracy and validity.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Control Over Integrity of Processing and Data Files Comments/Descriptions			
1. Procedures ensure that the current versions of production programs and data files are used during processing.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Programs include routines to verify that the proper version of the computer file is used during processing.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The application protects against concurrent file updates.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

Internal Control Evaluation Checklist - Management Evaluation Tool

<b>INFORMATION AND COMMUNICATIONS</b>			
<b>Information Comments/Descriptions</b>			
1. Information from internal and external sources is obtained and provided to management as a part of the agency's reporting on operational performance relative to established objectives.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Pertinent information is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Communications Comments/Descriptions</b>			
1. Management ensures that effective internal communications occur.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management ensures that effective external communications occur with groups that can have a serious impact on programs, projects, operations, and other activities, including budgeting and financing.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>MONITORING</b>			
<b>Ongoing Monitoring Comments/Descriptions</b>			
1. Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. In the process of carrying out their regular activities, agency personnel obtain information about whether internal control is functioning properly.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Communications from external parties should corroborate internally generated data or indicate problems with internal control.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Data recorded by information and financial systems are periodically compared with physical assets and discrepancies are examined.	Yes	No	N/A
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

FY 2011 Assessment on Internal Control and Management's  
 Statement of Assurance (VAIQ 7133800) – Year End Reporting

**Internal Control Evaluation Checklist - Management Evaluation Tool**

<b>5. The Inspector General and other auditors and evaluators regularly provide recommendations for improvements in internal control with management taking appropriate follow-up action.</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Separate Evaluations Comments/Descriptions</b>			
1. The scope and frequency of separate evaluations of internal control are appropriate for the agency.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The methodology for evaluating the agency's internal control is logical and appropriate.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Deficiencies found during separate evaluations are promptly resolved.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Audit Resolution. Comments/Descriptions</b> (Audit Resolution includes the resolution of findings and recommendations not just from formal audits, but also resulting from informal reviews, internal separate evaluations, management studies, and assessments made pursuant to the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996)			
1. The agency has a mechanism to ensure the prompt resolution of findings from audits and other reviews.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Agency management is responsive to the findings and recommendations of audits and other reviews aimed at strengthening internal control.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Program Office: \_\_\_\_\_

Program Manager: \_\_\_\_\_

Date: \_\_\_\_\_

**Exhibit 4: Attachment 3 Unqualified Statement of Assurance (*template*)**

**Attachment 3**

**Department of  
Veterans Affairs**

**Memorandum**

Date:

From:

Subj: Unqualified Statement of Assurance – Fiscal Year 2011 (IQ 7133800)

To: Executive in Charge (004)  
Thru: Management and Financial Reports Service (047GB2)

1. The leadership of the [Name of Organization] is responsible for establishing and maintaining effective management internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).
2. Management conducted its assessment and evaluation of the effectiveness and efficiency of internal control over the operation and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. After reviewing the results of this evaluation, I can provide reasonable assurance that my organization's systems of internal controls are achieving their intended objectives and that no significant deficiencies or material weaknesses were identified.
3. Therefore, I can provide an unqualified Statement of Assurance.

**Exhibit 5: Attachment 4 Qualified Statement of Assurance (*template*)**

<b>Attachment 4</b>	
<b>Department of Veterans Affairs</b>	<b>Memorandum</b>
Date:	
From:	
Subj:	Qualified Statement of Assurance – Fiscal Year 2011 (IQ 7133800)
To	Executive in Charge (004)
Thru::	Management and Financial Reports Service (047GB2)
<p>1. The leadership of the [Name of Organization] is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).</p>	
<p>2. Management conducted its assessment of the effectiveness of internal control over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. After reviewing the results of this evaluation, I can provide reasonable assurance that internal control over operations is effective, with the exception of [number] material weaknesses, [name of material weaknesses], [number] of significant deficiencies and [number] of non-conformance. The required corrective action plans are attached.</p>	
<p>3. As a result of this exception, I can provide a qualified statement of assurance.</p>	

Exhibit 6: Attachment 5 Statement of No Assurance (*template*)

Attachment 5

Department of  
Veterans Affairs

## Memorandum

Date:

From:

Subj: Statement of No Assurance – Fiscal Year 2011 (IQ 7133800)

To: Executive in Charge (004)

Thru: Management and Financial Reports Service (047GB2)

1. The leadership of the [Name of Organization] is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

2. [Organization Name] management is unable to provide reasonable assurance that the internal control and financial management systems meet the objectives of FMFIA, due to pervasive material weaknesses and nonconformance throughout the organization [and/or] no processes in place to conduct an adequate assessment.

3. Therefore, I must provide a statement of no assurance.

**Exhibit 7: Attachment 6 Management Internal Control Corrective Action Plan  
 (format)**

Attachment 6 (VAIQ 7133800)						
Department of Veterans Affairs		Management Internal Control Corrective Action Plan				
Office of Management (047GB2) 810 Vermont Avenue, NW Washington, DC 20420						
<b>1. Control No.</b>	<b>2. Organization</b>	<b>3. Program Office</b>	<b>4. Action Requested</b> <input type="checkbox"/> New <input type="checkbox"/> Update <input type="checkbox"/> Change <input type="checkbox"/> Closure			
<b>5. Deficiency</b>		<b>6. Source of Discovery</b>	<b>7. FY Identified</b>			
<b>8. Classification of Deficiency:</b> <input type="checkbox"/> Material Weakness – Integrity Act (FMFIA) Section 2 <input type="checkbox"/> Section 4 <input type="checkbox"/> <input type="checkbox"/> System Non Conformance – Federal Financial Managers' Improvement Act (FFMIA) <input type="checkbox"/> High Risk Area (Internal VA Reporting not reported outside the Department) <input type="checkbox"/> Significant Deficiency			<b>9. Additional Resource Requirement</b> <input type="checkbox"/> Not Anticipated <input type="checkbox"/> Anticipated \$ _____ <input type="checkbox"/> FTE No. _____			
<b>10. Brief Description of Deficiency</b>     						
11. Corrective Action ( <i>Substantive Documentation with Initiating Office</i> )		12. Milestone			13. On Schedule	
Task	Start Date	Target Completion Date	Revised Completion Date	Yes	No	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	
				<input type="checkbox"/>	<input type="checkbox"/>	

Management Internal Control Corrective Action Plan			
<b>14. Validation Process</b>			
<b>15. Reason Project not on schedule</b>			
<b>16. Signature of Responsible Official</b>	<b>17. Title</b>	<b>18. Date</b>	
<b>Management Accountability and Control Use Only</b>			
<b>19. <input type="checkbox"/> Concur      <input type="checkbox"/> Non Concur</b>		<b>20. <input type="checkbox"/> Approve      <input type="checkbox"/> Disapprove</b>	
<b>21. Signature</b>		<b>22. Signature</b>	
<b>23. Title</b>	<b>24. Date</b>	<b>25. Title</b>	<b>26. Date</b>
<b>Instructions</b>			
<p>This FMFIA Corrective Action Plan (VA Form 004INT) has been developed and designed to facilitate data entry of the required information relative to correcting deficiencies in VA's programs and operations, also to promote consistency in reporting. Completed Corrective Action Plan (VA Form 004INT), must be sent to the Management and Financial Reports Service (004/047GB2).</p> <p>POC: Audrey J. Beasley at 202.461.6383    Email: <a href="mailto:Audrey.Beasley@va.gov">Audrey.Beasley@va.gov</a></p>			

Exhibit 8: VA Intranet Quorum Screenshots

The screenshot displays a web application interface for managing correspondence. The browser title is "00M Correspondence. - 7133800 in Draft and Concur (ASSIGNED to: Beasley, Audrey (047GB2))". The address bar shows the URL: [https://vawww.vaiq.va.gov/ia/workflow\\_edit.aspx?cid=7133800&tabid=](https://vawww.vaiq.va.gov/ia/workflow_edit.aspx?cid=7133800&tabid=)

The main content area features a navigation menu with tabs: General, Steps, People, Contacts, Attachments, Links, Documents, and Discussion. Below the menu is a search bar labeled "Search this Record" and a "Sort by" dropdown set to "Date Asc".

A table lists document attachments with the following data:

✓	#	Type	Version	Document	Description	Created Date	Revised Date	Checked Out By
<input type="checkbox"/>	1	Document	1	FY 2011 mas call memo.doc		07/13/2011 10:14 AM	07/24/2011 03:39 PM	
<input type="checkbox"/>	2	Document	1	7133800 Assurance statement attachments		07/15/2011 01:38 PM	09/28/2011 12:00 PM	
<input type="checkbox"/>	3	Document	1	7133800 - C and S sheet.pdf	001AL-P writable C&S	08/23/2011 08:41 AM	08/23/2011 08:42 AM	
<input type="checkbox"/>	4	Document	1	7133800- 001AL-P Internal Control Assessment 2011 FINAL.doc	001AL-P Internal Control Evaluation Checklist	08/24/2011 06:53 AM	08/24/2011 06:56 AM	
<input type="checkbox"/>	5	Document	1	7133800 MEMO Quality Assurance DRAFT (5) 082311.doc	001AL-P memo	08/24/2011 06:54 AM	08/24/2011 06:55 AM	
<input type="checkbox"/>	6	Document	1	FY 2011 Unqual Stmt of Assurance VAIQ 7133800.doc		08/31/2011 07:33 AM	08/31/2011 07:33 AM	
<input type="checkbox"/>	7	Document	1	2011 NCA R&C sheet.docx		09/09/2011 03:49 PM	09/13/2011 10:07 AM	
<input type="checkbox"/>	8	Document	1	NCA 2011 Internal Controls Statement of		09/09/2011 03:49 PM	09/12/2011 03:15 PM	

The interface also includes a left-hand sidebar with various actions such as "Add WF Note", "Add Step Note", "Edit Open Date", "Send Info Copy", "Release", "Attach Document", "Attach New Document", "Attach New Form Letter", "Find/Add Person", "Attach Mail", "Attach File", "Audit Level(3)", "Monitor", and "Step Help".

OOM Correspondence. - 7133800 in Draft and Concur (ASSIGNED to: Beasley, Audrey (047GB2)) - Microsoft Internet Explorer provide

File Edit View Favorites Tools Help

https://vawww.vaiq.va.gov/iq/workflow\_edit.aspx?cid=7133800&tabid=

OOM Correspondence. - 7133800 in Draft and Concur ...

### OOM Correspondence. - 7133800 in Draft and Concur

(ASSIGNED to: Beasley, Audrey (047GB2))

General Steps People Contacts Attachments Links Documents Discussion

Search this Record

Sort by Date Asc Go

Go To Page 1 # per Page 25 Select All Clear All

✓	#	File Name	Codes	Date	Step	Attached By	Notes
<input type="checkbox"/>	1	7133800 - 004 signed memo.pdf		07/25/2011 12:02 PM	Draft and Concur	Hamilton, Janet (004)	004 signed memo by Helen Tierney
<input type="checkbox"/>	2	WF 7133800 02 Response.pdf		08/04/2011 11:00 AM	Draft and Concur	Williams, Kay (02)	02 Response (signed: John H. Thompson)
<input type="checkbox"/>	3	NAC Statement of Assurance.PDF		08/12/2011 02:03 PM	Draft and Concur	Lewis, Susan (001AL-A2)	Attached File -
<input type="checkbox"/>	4	7133800 - SIGNED memo and attachment 001AL-P.pdf		08/24/2011 08:01 AM	Draft and Concur	Scott, Steven (001AL-P)	001AL-P Signed memo and checklist
<input type="checkbox"/>	5	7133800 - SIGNED c and s sheet.pdf		08/24/2011 08:01 AM	Draft and Concur	Scott, Steven (001AL-P)	001AL-P signed Concurrence (Maurice Stewart s/d 08...
<input type="checkbox"/>	6	7133800 - 001AL-AA response.pdf		08/24/2011 02:56 PM	Draft and Concur	Sprankle, Marcie	001AL-AA signed memo, L. Doyle, 8/24/11
<input type="checkbox"/>	7	7133800_Memo_001AL-A.pdf		08/30/2011 12:06 PM	Draft and Concur	Whitted, Gail (001AL-A)	001AL-A Signed memo ( I. Cooper)
<input type="checkbox"/>	8	7133800_Memo_001AL-A1-		08/30/2011 12:16 PM	Draft and Concur	Whitted, Gail	Signed Memo - 001AL-A1-1 (CAI-DC D. Maloney)

Done Trusted sites 100%

start Policy Research - Micr... Statement of Assura... 2 Internet Explorer Reviewed Chapters 5:07 PM

Exhibit 9: Status Master Worksheet

Management Assurance Statement VAIQ 7133800					
Organizational and Staff Office Responses		Status - Received Yes or No	Agency Head	VAIQ POC	Status Update
<b>Office of the Secretary (00)</b>					
Office of Small and Disadvantaged Business Utilization	00SB	Yes			10/21 Signed Statement is uploaded in VAIQ.
Office of Employment Discrimination Complaint Adjudication	00D	Yes			
Center for Women Veterans	00W	Yes			
Center for Minority Veterans	00M	Yes			
General Counsel	02	Yes			
Board of Veterans Appeals	01	Yes			
Acquisition, Logistics and Construction	001AL-A1	Yes			
	001AL-A1-4	Yes			
	001AL-A1-A	Yes			
	001AL-A2	Yes			
	001AL-A3	Yes			
	001AL-A	Yes			
	001AL-AA	Yes			
	001AL-P	Yes			
	001ALC	Yes			11/02 Signed Statement is received in VAIQ.
	001AL	Yes			

**Exhibit 10: The Signed Statement of Assurance from the Executive in Charge,  
Office of Management and Chief Financial Officer**

FY 2011 Assessment on Internal Controls and  
Management's Statement of Assurance on  
Year-End Reporting

Qualified Statement of Assurance

The Office of Management (OM) is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

OM conducted its assessment and evaluation of the effectiveness and efficiency of internal controls over the operation and compliance with applicable laws and regulations in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." After reviewing the results of the FY 2011 assessment, OM managers can provide reasonable assurance that internal control over operations is effective, with the exception of two significant deficiencies. OM management has a role in remediating the significant deficiencies and all parties are fully engaged in implementing corrective action plans.

As a result of this exception, I am providing a Qualified Statement of Assurance.

  
\_\_\_\_\_  
W. Todd Grams  
Executive In Charge, Office of Management,  
and Chief Financial Officer

11-8-11  
Date

**Exhibit 11: The Signed Statement of Assurance from the Secretary**

November 15, 2011

Statement of Qualified Assurance

The Department of Veterans Affairs' (VA) management is responsible for establishing, maintaining, and assessing internal control to ensure the efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Based on the annual assessment of the Department's internal control program, VA provides a qualified statement of assurance, identifying one material weakness as it relates to internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA), Section 4. The details of the material weakness and related corrective actions are discussed in Part I, "Management Controls, Systems, and Compliance with Laws and Regulations," under the sections titled "Audit Material Weaknesses Identified by Management," and Part IV, "Other Accompanying Information" under the section titled "Summary of Financial Statement Audit and Management Assurances." No other material weaknesses were found in the design or operation of the internal controls for the fiscal year ended September 30, 2011.

In addition, VA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of revised OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of the assessment of key business processes tested during 2011, VA's internal control over financial reporting is operating effectively and no new material weaknesses were identified as of June 30, 2011.

This evaluation was conducted in accordance with the revised OMB Circular A-123. As a result of this evaluation, the Department provides the following:

**Effectiveness of Internal Control Over Operations (FMFIA § 2)**

Based on information provided, VA provides reasonable assurance that internal control over operations is effective. No new material weaknesses were identified during FY 2011.

**Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)**

In accordance with the Department's OMB approved plan for Appendix A of revised OMB Circular A-123, our efforts focused on assessment of the key business processes and financial statement accounts during 2011. Based on information provided for the processes and financial statement accounts assessed, VA provides reasonable assurance that internal control over financial reporting meets the objective. No new material weaknesses were identified during FY 2011.

**Conformance with Financial Management System Requirements (FMFIA § 4)**

The Department faces challenges in building and maintaining financial management systems that comply with the Federal Financial Management Improvement Act (FFMIA). Under FFMIA, VA is substantially compliant with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, VA is not compliant with Federal financial management system requirements as a result of the material weakness identified prior to FY 2011 related to Information Technology (IT) Security Controls.

  
Eric K. Shinseki  
Secretary of Veterans Affairs