Financial Policy

Volume I

General Accounting

Chapter 5

Management's Responsibility for Internal Controls

Approved:
Jon J. Rychalski
1367389
Digitally signed by
Jon J. Rychalski
Date: 2019.02.27
07:03:19 -05'00'

Jon J. Rychalski
Assistant Secretary for Management
and Chief Financial Officer
0501 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies regarding management’s responsibility for internal controls. An effective internal control program provides management with added confidence regarding the achievement of objectives, provides feedback on how effectively an organization is operating, and helps reduce organizational risks.

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. Management will establish the internal control system to align with the federal internal control standards set forth by the Government Accountability Office (GAO), Standards for Internal Control in the Federal Government (Green Book).

Key points covered in this chapter:

- Management’s continuous responsibility for internal controls in day-to-day operations; and
- VA’s process for performing an annual assessment of internal controls to meet the statutory requirements of the Federal Managers’ Financial Integrity Act of 1982 (FMFIA). For FMFIA compliance, VA will follow the implementation guidance set forth by Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control.

0502 Revisions

<table>
<thead>
<tr>
<th>Section</th>
<th>Revision</th>
<th>Office</th>
<th>Reason for Change</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix A</td>
<td>Updated language to ensure transactional level testing of internal controls to the greatest extent possible</td>
<td>OBO (047B)</td>
<td>Clarification on requirements for transaction level testing and corrective action plans</td>
<td>February 2019</td>
</tr>
<tr>
<td></td>
<td>Added requirement for corrective action plans in the event of a material weakness or significant deficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section</td>
<td>Revision</td>
<td>Office</td>
<td>Reason for Change</td>
<td>Effective Date</td>
</tr>
<tr>
<td>----------</td>
<td>----------</td>
<td>--------</td>
<td>-------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Various</td>
<td>Reformatted to new policy format and completed five-year update</td>
<td>OFP (047G)</td>
<td>Reorganized chapter layout and revised policy to reflect guidance updates</td>
<td>November 2018</td>
</tr>
<tr>
<td>Overall</td>
<td>Clarified policy to match GAO and OMB’s revision to internal control requirements</td>
<td>OBO (047B)</td>
<td>Align VA internal control policy with the GAO Green Book and OMB Circular A-123</td>
<td>November 2018</td>
</tr>
<tr>
<td>Overall</td>
<td>Change reference to SAT as the governing body for internal controls to the CFO Council</td>
<td>OBO (047B)</td>
<td>Changes internal control governance from the SAT to the CFO Council</td>
<td>November 2018</td>
</tr>
<tr>
<td>0503 Definitions</td>
<td>Added definitions for clarity of understanding of the Internal Control Assessment Process</td>
<td>OBO (047B)</td>
<td>Update definitions to align with OMB and GAO standards and policy</td>
<td>November 2018</td>
</tr>
<tr>
<td>0504 Responsibilities</td>
<td>Clarifies responsibilities for internal controls</td>
<td>OBO (047B)</td>
<td>Defines specific responsibilities for various positions and organizations responsible for internal controls</td>
<td>November 2018</td>
</tr>
<tr>
<td>0505 Policy</td>
<td>Entire section establishes revised procedures for designing, implementing, and assessing internal controls</td>
<td>OBO (047B)</td>
<td>Implements changes to internal control assessments per the Green Book and OMB Circular A-123</td>
<td>November 2018</td>
</tr>
</tbody>
</table>
0503 Definitions

**Component** - Highest level of the hierarchy of federal internal control standards in the GAO Green Book’s internal control framework. There are five required internal control components: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

**Control Activities** - The policies, procedures, techniques, and mechanisms that enforce management’s directives to achieve an entity’s objectives and address related risks.

**Control Objective** - The aim or purpose of specified controls. Control objectives address the risks related to achieving an entity’s objectives.

**Deficiency** or **Control Deficiency** - When the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks.

**Internal Controls Assessment Process** - Annual assessment process performed to determine the effectiveness of internal controls against federal internal control standards and to identify reportable Material Weaknesses at VA’s entity level.

**Internal Controls** - The organizational activities, plans, methods, policies, and processes used to reasonably ensure (1) programs achieve their intended results; (2) resources are used consistent with the organization/Department mission; (3) programs
and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision making.

**Internal Control System** - The collective grouping of all internal control activities established by management and built in as a continuous part of operations. The internal control system is affected by people and provides reasonable assurance, not absolute assurance, that the entity’s objectives will be achieved.

**Material Weakness** or **Material Non-Compliance with Laws or Regulations** - The most severe level of control deficiency, which is defined by management of the unit being assessed as being of sufficient importance to materially (1) impair fulfillment of the mission; (2) deprive customers and Veterans of services; (3) violate statutory or regulatory requirements; or (4) significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of assets. A material weakness in internal control over compliance (Material Non-Compliance with Laws or Regulations) is a condition where management lacks a process that reasonably ensures preventing a violation of law or regulation that has a direct and material effect on financial reporting or significant effect on other reporting or in achieving Agency objectives.

**Operational Objectives** - Objectives related to program operations that help achieve an entity’s mission. It is one of the three categories of objectives and related risks for which federal agencies implement internal controls.

**Principle** - Second level of the hierarchy of federal internal control standards in the GAO Green Book’s internal control framework. There are 17 required internal control principles within the 5 components.

**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.

**Reporting Entity** - VA offices responsible for annually completing the Internal Controls Assessment Process and Statement of Assurance. Reporting Entities consist of the three Administrations and major Staff Offices and collectively account for all activities in VA.

**Risk** - The potential for loss, harm, or missed opportunities in achieving the organization’s mission and strategic objectives due to uncertainty.

**Risk Assessment** - Management’s identification and evaluation of the internal and external impediments that may prevent the organization from meeting its objectives. Proper assessment includes consideration of relevant interactions within the organization
as well as with outside organizations; consideration of previous findings (e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations); and identifying management’s chosen response to each risk, considering impact, likelihood, and controls already in place. Risk Assessment may also refer to a tool used to document the process. Risk assessments addressed include: 1) inherent risk, the risk to an entity prior to considering management’s response to the risk; and 2) residual risk, the risk that remains after management’s response to inherent risk.

Risk Tolerance - The acceptable level of variation in performance relative to the achievement of objectives.

Service Organization - An external party that performs operational process(es) for an entity (i.e., accounting and payroll processing, security services, or health care claims processing).

Significant Deficiency - A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A Significant Deficiency should be shared internally across VA when identified by Reporting Entities because they represent significant weaknesses in the design or operation of internal controls that could adversely affect the Reporting Entity or organization’s ability to meet its internal control objectives. At the Department level, Significant Deficiencies are defined as severe enough to share across VA but not report to the President and Congress in the Secretary’s Statement of Assurance.

Statement of Assurance or Assurance Statement - The 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 FMFIA. The statement is based on the results of internal control assessments, evaluations, and/or reviews.

0504 Roles and Responsibilities

The VA Secretary is responsible for providing reasonable assurance to the President, Congress, and OMB on the status of VA’s compliance with FMFIA through the signed annual Statement of Assurance reported in the Agency Financial Report (AFR). The VA Secretary reports all Material Weaknesses and instances of Material Non-Compliance with Laws and Regulations in the Statement of Assurance. The VA Secretary considers information from VA’s internal control assessment process, with input from the Chief Financial Officer (CFO) Council, and has ultimate decision authority for deficiencies deemed Material Weaknesses or Material Non-Compliance with Laws and Regulations and included in the Statement of Assurance.
The Assistant Secretary for Management/Chief Financial Officer (VA CFO) directs and evaluates FMFIA annual reporting and chairs the CFO Council as the oversight body for financial audit activities and governance over internal controls.

Under Secretaries, Assistant Secretaries, and Other Key Officials are responsible for ensuring internal controls are designed and implemented within their organizations. They will ensure corrective action plans are communicated at appropriate levels and consistent with laws, regulations, and agency policy and that performance appraisals of appropriate officials reflect internal control responsibilities. As the leaders of VA’s Reporting Entities, they are responsible for completing and ensuring the Internal Controls Assessment for their entity level is accurate, represents their entire organization, includes self-identification of deficiencies, and is provided in accordance with timelines and instructions announced by the Office of Management (OM) and coordinated through the Office of Business Oversight (OBO). All VA Reporting Entity leaders will submit a Statement of Assurance.

CFO Council serves as an advisory committee to the VA CFO by recommending changes pertaining to programming, budgeting, manpower management, capital asset management, internal controls, fraud, waste, and abuse (FWA), improper payments, financial operations, and financial policy. The CFO Council is chaired by the VA CFO and consists of representative from VA Administration and Staff Offices at the CFO leadership level. Voting members and advisory (non-voting) members advises the VA CFO on matters related to issues of enterprise-wide importance, which helps VA integrate its efforts to meet the requirements of FMFIA and other acts. The CFO Council also addresses resolution of audit findings and integration with enterprise risk management. The CFO Council ensures efforts are ongoing throughout the year to meet internal control assessment responsibilities and provides recommendations regarding the content of the VA Secretary’s Statement of Assurance.

Chief Officers (e.g., CFO, CIO, Chief Acquisition Officer) have VA-wide duties and responsibilities required by federal law and regulations, OMB guidance, or VA delegation. Chief Officers review and attest to the effectiveness of internal controls, report deficiencies, and provide an overall Statement of Assurance for all responsibilities within the purview of their assigned Chief Officer function, including activities organizationally aligned outside their chain of command.

Office of Business Oversight (OBO) is responsible for managing and implementing VA’s program for management’s assessment and reporting on the effectiveness of the internal controls in accordance with OMB Circular A-123 and as required by FMFIA.

Office of Acquisitions and Logistics and Construction (OALC) is responsible for implementing guidance related to acquisition assessments pursuant to OMB Memorandum, Conducting Acquisition Assessments under OMB Circular No. A-123.
Office of Enterprise Integration (OEI) is responsible for managing the portion of VA’s OMB Circular A-123 implementation related to enterprise risk management framework that provides the necessary governance, communications, training, processes, and tools to effectively identify, assess, address, and monitor risks.

Office of Information and Technology (OIT) is responsible for the evaluation of VA’s financial management systems conformance with FMFIA Section 4 requirements in accordance with OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996; OMB Bulletin 17-03, Audit Requirements for Federal Financial Statements; and the Treasury Financial Manual (TFM) Volume I, Part 6, Chapter 9500, Revised Federal Financial Management System Requirements for Fiscal Reporting.

VA Managers and Supervisors at all levels are responsible for assigned activities within their purview and for designing, implementing, and monitoring internal controls to achieve operational objectives.

All VA Employees are responsible for participating in the internal control system designed by management by fulfilling assigned internal control responsibilities as part of day-to-day activities. Employees are responsible for reporting issues to their supervisory chain of command, including potential internal control deficiencies.

0505 Policies

050501 GAO Green Book Internal Control Components and Principles

A. VA will establish internal controls in accordance with GAO’s Green Book standards as required by FMFIA. The Green Book applies to all categories of VA’s objectives: effectiveness and efficiency of operations, reliability of reporting, and compliance with laws and regulations.

B. VA will use Green Book’s hierarchical structure of 5 components and 17 principles to effectively design and implement internal control systems that operate in an integrated manner. Internal control systems at all levels in VA will comply with the Green Book’s components and principles.

1. The 5 components of internal control per Green Book that VA will follow are:
   a. **Control Environment** - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.
   b. **Risk Assessment** - The process of assessing the risks facing an entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
c. **Control Activities** - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system.

d. **Information and Communication** - The quality information management and personnel communicate and use to support the internal control system.

e. **Monitoring** - The activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

2. The 17 principles of internal control per Green Book that VA will follow are listed in Table 1 below.

   **Table 1: List of Green Book Principles by Component**

<table>
<thead>
<tr>
<th>Components of Internal Control</th>
<th>Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Control Environment</td>
<td>1. Demonstrate Commitment to Integrity and Ethical Values</td>
</tr>
<tr>
<td></td>
<td>2. Exercise Oversight Responsibility</td>
</tr>
<tr>
<td></td>
<td>3. Establish Structure, Responsibility and Authority</td>
</tr>
<tr>
<td></td>
<td>4. Demonstrate Commitment to Competence</td>
</tr>
<tr>
<td></td>
<td>5. Enforce Accountability</td>
</tr>
<tr>
<td>2. Risk Assessment</td>
<td>6. Define Objectives and Risk Tolerances</td>
</tr>
<tr>
<td></td>
<td>7. Identify, Analyze, and Respond to Risk</td>
</tr>
<tr>
<td></td>
<td>8. Assess Fraud Risk</td>
</tr>
<tr>
<td></td>
<td>9. Analyze and Respond to Change</td>
</tr>
<tr>
<td>3. Control Activities</td>
<td>10. Design Control Activities</td>
</tr>
<tr>
<td></td>
<td>11. Design Activities for Information Systems</td>
</tr>
<tr>
<td></td>
<td>12. Implement Control Activities</td>
</tr>
<tr>
<td>4. Information and Communication</td>
<td>13. Use Quality Information</td>
</tr>
<tr>
<td></td>
<td>14. Communicate Internally</td>
</tr>
<tr>
<td></td>
<td>15. Communicate Externally</td>
</tr>
<tr>
<td>5. Monitoring</td>
<td>16. Perform Monitoring Activities</td>
</tr>
<tr>
<td></td>
<td>17. Remediate Deficiencies</td>
</tr>
</tbody>
</table>

**050502 Internal Controls as a Continuous Cycle**

A. VA will maintain and document the internal control system designed in accordance with the Green Book framework. See Appendix A: Annual Internal Controls Assessment and Statement of Assurance for additional information.
B. The internal control system will be a continuous, built-in component of operations, impacted by people, that provides reasonable assurance VA’s objectives will be achieved. Internal control is not one event, but a series of actions that occur throughout VA’s operations.

C. Internal control will be supported by higher levels of management, and management will view the internal control system as an integral part of the operational processes used to guide operations rather than as a separate system within VA. In this sense, internal control is built into VA as a part of the organizational structure to help managers achieve their objectives on an ongoing basis.

D. As depicted in Figure 1, the 5 components and 17 principles of internal control can be summarized in a series of steps representing the continuous cycle all VA managers will establish as part of day-to-day operations. Communication of quality information is at the center of the cycle and is integral for the system to operate effectively (Green Book, Component 4, Principles 13-15). The remaining steps are as follows:

1. **Establish the Environment** - VA management will set the tone of the organization or unit and establish internal control responsibilities and oversight requirements (Green Book, Component 1, Principles 1-5).

2. **Identify Objectives** - VA management will identify the specific goals and priorities of the organization or unit (Green Book, Component 2, Principle 6).

3. **Assess and Respond to Risks** - After objectives are identified, VA management will identify risks that could prevent the organization or unit from achieving its objectives and determines the appropriate risk response (Green Book, Component 2, Principles 7-9).

4. **Identify and Implement Controls Based on Risks** - VA management will design and implement internal controls for those risks (typically high and medium) for which mitigation is the desired risk response (Green Book, Component 3, Principles 10-12).

5. **Test Controls** - VA management will continuously monitor controls to ensure they are designed effectively and operating as intended (Green Book, Component 5, Principle 16).

6. **Implement Corrective Actions to Address Deficiencies** - When internal control deficiencies are identified, such as when testing controls, VA management will implement necessary corrective actions to remediate the deficiencies (Green Book, Component 5, Principle 17).
E. VA management will maintain documentation to demonstrate the internal control system. The level and nature of documentation will vary based on the size of the entity and the complexity of the operational processes the entity performs. Management will use judgment in determining the extent of documentation that is needed. At a minimum, VA management will comply with Green Book documentation requirements:

- Develop and maintain documentation of its internal control system;
- Document in policies the internal control responsibilities of the organization;
- Evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues;
- Evaluate and document internal control issues and determine appropriate corrective actions for internal control deficiencies timely; and
- Complete and document corrective actions to remediate internal control deficiencies timely.
050503 Special Considerations for Management’s Internal Control Responsibilities

A. In accordance with FMFIA and the GAO Green Book, all levels of VA management are responsible for internal control. In addition, due to the decentralized structure of VA, managers will also be aware that their responsibility for internal control may extend beyond traditional organizational reporting lines.

B. The decentralization of operational processes does not diminish management’s responsibility for implementing and monitoring internal controls. For example, the VA CFO delegates substantial responsibility to the VHA, VBA, NCA, and OIT CFOs to carry out the financial management activities within their organizations. However, that delegation does not relieve the VA CFO from overall responsibility for all financial activities across the Department. The VA CFO is required to provide an assessment of internal controls over all Department financial activities, including those delegated responsibilities, and requires separate interim Statements of Assurance over financial operations from the VHA, VBA, NCA, and OIT CFOs.

C. Chief Officers will design, implement, and monitor internal controls for their areas of functional responsibility, regardless of the reporting lines conducting the activities.

D. Management will consider how units interact to fulfill their overall responsibilities and establish reporting lines within an organizational structure that enables units to efficiently and effectively communicate the quality information necessary to comply with applicable laws and regulations while fulfilling its overall responsibilities.

E. All levels of management have a responsibility to communicate information not only within their chain of command but also across and around the organizational structure, to include the Chief Officers with delegated agency-level responsibilities such as human capital, finance, acquisition, and information technology.

050504 Service Organizations

A. VA management retains responsibility for the performance of, and risks associated with, processes outsourced to service organizations.

B. VA will use system and organization controls (SOC) to monitor the service organizations’ activities and internal controls.

C. The extent of VA’s SOCs will be dependent on the nature of the terms and conditions specified in the contract or agreement.

D. Management will provide increased oversight when the activity is significant to VA’s achievement of mission objectives and/or material to VA’s financial statements.
E. In accordance with the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, management will work with assigned VA contracting officers to establish contractual requirements to obtain independent audit reports attesting to the controls of service organizations for those organizations performing services that are either material to VA’s financial statements or mission objectives. SOC reports most relevant to VA contracts include:

1. **SOC 1, Type 2.** Reports on the design and operating effectiveness of controls for a service organization relevant to VA’s internal controls over financial reporting throughout a specified period. These reports, prepared in accordance with SSAE 18, Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting*, are specifically intended to meet the needs of entities that use service organizations (user entities) and the Certified Public Accountants that audit the user entities’ financial statements (user auditors), in evaluating the effect of the controls at the service organization on the user entities’ financial statements.

2. **SOC 2, Type 2.** Reports on the design and operating effectiveness of a service organization relevant to security, availability, processing integrity, confidentiality, or privacy throughout a specified period. These reports are intended to meet the needs of a broad range of users that need detailed information and assurance about the controls at a service organization relevant to security, availability, and processing integrity of the systems the service organization uses to process users’ data and the confidentiality and privacy of the information processed by these systems.

F. Beyond SOC reports, VA management can also attest to the validity of service organization controls using a variety of other methods. These include:

- Assessing service organization internal controls;
- Monitoring and regularly reporting on processes, products, or services provided by the service organization; or
- Engaging a Department entity to review SOCs.

G. In all cases, VA management will maintain documentation that clearly indicates SOCs have been tested and are functioning adequately to provide reasonable assurance the service organization can provide the contracted or outsourced service.
050505 Internal Controls Evaluation and Annual Reporting

A. VA managers at all organizational levels will continuously monitor, assess, and improve the effectiveness of internal controls associated with mitigating risks to achieve objectives.

B. All parts of the organization beneath the Central Office level are responsible for performing internal controls assessments and/or providing results of continuous monitoring and reviews as directed by their leadership and in support of the entity-level reporting.

C. The results of continuous monitoring and reviews should be reported to leadership and should include:

1. **Report of Internal Control Deficiencies.** VA managers and staff will identify and report deficiencies, and all levels of leadership will support a culture of openness. Managers can inform the chain of command of the perceived significance of deficiencies by designating the severity level using the definitions in this policy (i.e., material weakness, significant deficiency, control deficiency). Sharing deficiencies with the next level of supervision allows the VA chain of command to determine the relative importance of each deficiency.

2. **Corrective Action Plans for Deficiencies.** Correcting control deficiencies is an integral part of management accountability and is a priority in VA. VA’s ability to correct control deficiencies is an indicator of the strength of its internal control environment. Effective remediation of control deficiencies is essential to achieving the objectives of FMFIA, and uncorrected or longstanding control deficiencies will be considered in determining the overall effectiveness of internal control.

D. OBO will use the Internal Controls Assessment and Statement of Assurance process to coordinate VA’s evaluation and reporting on the effectiveness of internal controls at the entity level. See Appendix A: Annual Internal Controls Assessment and Statement of Assurance for more information.

E. VA field-level financial managers will ensure internal controls are in place and functioning for the activities under their stewardship.

*Figure 2 illustrates the annual reporting at the entity level as a derivative of the continuous cycle performed at all organizational levels.*
Figure 2: Continuous Cycle and Annual Reporting

050506  Governance

The CFO Council will review deficiencies, consider the impact to VA, and recommend the content of the VA Secretary’s Statement of Assurance.


B. The CFO Council will review financial and operational internal controls and financial audit matters and encourage continuous improvement of VA’s policies, procedures, and practices at all levels. Improving internal controls reduces audit findings, helps VA maintain clean audit opinions, and helps meet operational objectives.

C. The CFO Council will provide and support open communication among financial and senior management working to support VA’s mission and the Federal Government. The CFO Council is a forum for sharing control deficiencies that impact across the organization, between Administrations and Staff Offices.
0506  Authorities and References

American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements (SSAE) No. 18, Attestation Standards: Clarification and Recodification


Federal Financial Management Improvement Act of 1996 (FFMIA), P.L. 104-208, Title VII

Federal Information Security Management Act of 2002 (FISMA), P.L. 107-347, Title III


GAO Financial Audit Manual

GAO Standards for Internal Control in the Federal Government (Green Book)

Government Charge Card Abuse Prevention Act of 2012, P.L. 112-194

Government Performance and Results Act of 1993 (GPRA), P.L. 103-62

GPRA Modernization Act of 2010 (GPRAMA), P.L. 111-352

Improper Payments Elimination and Recovery Act of 2010 (IPERA), P.L. 111-204

Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), P.L. 112-248

Improper Payments Information Act of 2002 (IPIA), P.L. 107-300

OMB Bulletin 17-03, Audit Requirements for Federal Financial Statements

OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control

TFM Volume I, Part 6, Chapter 9500, Revised Federal Financial Management System Requirements for Fiscal Reporting

Sarbanes-Oxley Act of 2002, P.L. 107-204

Volume VII, Chapter 9 - Payment Integrity and Fraud Reduction
0507 Rescissions

Volume I, Chapter 5 - Management Accountability and Responsibility for Internal Controls, dated November 2010.

0508 Questions

Questions concerning these financial policies and procedures should be directed to the following points of contact:

<table>
<thead>
<tr>
<th>OBO ICPMO</th>
<th>ICPMO (Outlook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Others</td>
<td>OFP Accounting Policy (Outlook)</td>
</tr>
</tbody>
</table>
Appendix A: Annual Internal Controls Assessment and Statement of Assurance

To generate the Secretary’s annual Statement of Assurance, VA requires each of its designated Reporting Entities to complete an annual assessment of the effectiveness of internal controls and provide a Statement of Assurance. The assessment, referred to as the Internal Controls Assessment, requires Reporting Entities to (1) evaluate the internal control system against the Green Book’s 5 Components and 17 Principles of internal control and (2) identify and report internal control deficiencies. After completing the Internal Controls Assessment, Reporting Entities will submit a Statement of Assurance listing those deficiencies management determines to be Material Weaknesses. The OBO Internal Controls Program Management Office (ICPMO) coordinates VA’s annual Internal Controls Assessment and Statement of Assurance.

Responsibilities, Requirements, and Deliverables

A. ICPMO coordinates the Internal Controls Assessment and Statement of Assurance by:

1. Preparing the Internal Controls Assessment and Statement of Assurance templates, in accordance with guidelines in OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control. ICPMO will ensure the Internal Controls Assessment process conforms to the most recent federal internal control framework issued by GAO, including any changes that are published and effective for the current fiscal year.

2. Identifying the Reporting Entities required to complete the Internal Controls Assessment and Statement of Assurance. VA’s Reporting Entities consist of the three Administrations and major Staff Offices.

3. Coordinating the official announcement from OM. The official announcement is typically made in a memorandum to heads of the Reporting Entities and will include information regarding instructions, required templates, and due dates for conducting the annual Internal Controls Assessment and Statement of Assurance. When VA uses a combination of interim and final Statements of Assurance to cover the entire year, ICPMO will coordinate both announcements from OM.

4. Providing tools and training to VA’s Reporting Entities for completion of the Internal Controls Assessment and the resulting Statements of Assurance signed by the head of each Reporting Entity.

5. Collecting and analyzing Internal Controls Assessments and Statements of Assurance and reviewing them for completeness and to ensure proper supporting documentation is provided. ICPMO will apply reasonableness testing and inform Reporting Entities of any apparent conflicts between deficiencies.
reported and conclusions reached by management within the Internal Controls Assessment. ICPMO will require Reporting Entities to make corrections for missing and conflicting information.

6. Consolidating all identified internal control deficiencies from Reporting Entity Internal Controls Assessments and Statements of Assurance and presenting them to the oversight body for review. ICPMO will prepare the VA Secretary’s Statement of Assurance based on recommendations from the CFO Council or as directed by OM.

B. Reporting Entities are responsible for completing and consolidating entity-level Internal Controls Assessments into one comprehensive Internal Controls Assessment at the Reporting Entity level and ensuring the Internal Controls Assessment is complete, accurate, and fully supported with documentation and represents their entire organization. Reporting Entities are also responsible for providing a complete and accurate Statement of Assurance. Reporting Entities accomplish this by:

1. Ensuring Internal Controls Assessment responses include self-identified deficiencies from throughout the organization and address deficiencies identified by all other sources, including auditor findings.

2. Identifying and obtaining appropriate input from sub-offices and programs covering every level of the organization. Reporting Entities with Chief Officers (VA officials with duties and responsibilities that expand across VA) will encompass all Chief Officer responsibilities in Internal Controls Assessment responses. Reporting Entities maintain responsibility for outsourced processes and will provide information on how they monitor service organization controls to have a complete Internal Controls Assessment.

3. Completing one comprehensive Internal Controls Assessment at the Reporting Entity level, including providing documentation to support all assertions and narratives in the Internal Controls Assessment and signing a Statement of Assurance. To the greatest extent possible, documentation provided will consist of the detailed results of transactional level testing of internal controls.

4. Providing corrective action plans for deficiencies in accordance with ICPMO instructions. All internal control deficiencies rising to the severity of a material weakness or significant deficiency must be accompanied by a detailed, fully developed corrective action plan that clearly addresses the root causes of the deficiency and provides a path to correct them.

5. Preparing a Statement of Assurance using templates provided by ICPMO, listing all Material Weaknesses and Material Non-Compliance with Laws and
6. Updating the Internal Controls Assessment and Statement of Assurance to reflect changes in deficiencies (adding newly identified deficiencies or removing remediated deficiencies) that impact the fiscal year being assessed.

C. Internal Controls Assessment Process

1. The Internal Controls Assessment Process requires an assessment for each of the Green Book’s 17 internal control principles that comprise the 5 internal control components. The Reporting Entity will (1) describe how the Reporting Entity meets the principle, (2) identify deficiencies and their severity, (3) describe corrective action plans for Material Weaknesses and Material Non-Compliance with Laws and Regulations, and (4) conclude on the effectiveness of each principle. Reporting Entities will provide supporting documentation to substantiate the statements contained in their Internal Controls Assessment and demonstrate the internal control system is documented as required by the Green Book.

2. Deficiencies will be described with enough detail for people outside the Reporting Entity to understand the nature of the deficiency and the Reporting Entity will consider the magnitude of impact and the likelihood to conclude on the appropriate severity level.

   a. **Magnitude of Impact.** Magnitude of impact considers the effect the deficiency had or could have on the Reporting Entity’s ability to achieve its objectives. In other words, could the deficiency have a severe impact on meeting objectives?

   b. **Likelihood.** The likelihood considers how likely it is the deficiency will impact the objectives. In other words, what is the chance the deficiency will impact objectives?

3. Reporting Entity management will identify and select the appropriate severity rating for each deficiency. The Internal Controls Assessment categorizes deficiencies in four severity levels: Material Weaknesses (the most severe), Significant Deficiencies, Control Deficiencies, and Material Non-Compliance with Laws and Regulations. The severity rating should not conflict with the identified magnitude of impact and likelihood. For example, if a deficiency has a low impact and is considered unlikely, it should typically not be considered a Material Weakness. By assigning the highest severity level, management is recommending the Material Weakness be reported external to the Reporting Entity and considered by the oversight body for reporting outside VA.
4. The Internal Controls Assessment requires information about planned corrective actions for deficiencies identified as Material Weaknesses and Material Non-Compliance with Laws and Regulations. The Reporting Entity will provide a copy of the corrective action plan to ICPMO. The corrective action plan can be the most recent version of a corrective action plan already being tracked by another organization (e.g., OIG, GAO, OM, or established by the Reporting Entity). Once identified, Material Weaknesses will be reported in subsequent fiscal years unless the Reporting Entity can demonstrate the deficiency was resolved or lessened.

5. After assessing each principle within the component, the Reporting Entity will conclude on the effectiveness of the component (see Figure 3). The effectiveness of the component is directly related to the effectiveness of each principle. If any principle within a control component is deemed ineffective, the entire control component is ineffective. The Internal Controls Assessment provides space for Reporting Entity management to document its conclusion for each principle, followed by the relevant component. Figure 3 provides Component 1 as an example. Reporting Entities complete an assessment for each of the first 5 principles and then conclude on the effectiveness of Component 1.

*Figure 3: Continuous Cycle and Annual Reporting*
6. In addition to the assessments for the Green Book’s 17 Principles and 5 Components of internal control, the Internal Controls Assessment may contain additional sections addressing or adding emphasis to requirements that intersect with FMFIA, OMB Circular A-123, and the Green Book. For example, Public Law 112-194, *The Government Charge Card Abuse Prevention Act of 2012*, mandates that each executive agency that issues and uses charge cards (purchase cards, convenience checks, fleet cards, and travel cards) will establish and maintain safeguards and internal controls. OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, requires agencies to provide a certification about the use of charge cards in the annual FMFIA Statement of Assurance. To help management reach a conclusion regarding internal controls over charge cards and to support the certification statement, the Internal Controls Assessment contains a Charge Card Assessment. Reporting Entities will complete the Charge Card Assessment and ensure any internal control deficiencies related to charge cards are included in the appropriate principle within the Internal Controls Assessment.

7. After completing all sections of the Internal Controls Assessment, the Reporting Entity will complete an overall assessment of the system of internal controls. The overall assessment summarizes and builds on the conclusions reached for each component and results in a conclusion about the whole internal controls system. If one or more component is ineffective, management cannot conclude the overall system of internal controls is effective. *Figure 4* depicts the overall assessment as the final step after the Reporting Entity completes the assessment of the 5 internal control components.
D. Statement of Assurance

1. The Statement of Assurance provides an informed judgement of the overall adequacy and effectiveness of the Reporting Entity’s internal controls. It should be prepared after completion of the Internal Controls Assessment by Reporting Entities and viewed as the means of applying management’s signature to the assertions in the Internal Controls Assessment about the effectiveness of the internal controls system and the existence of Material Weakness (see Figure 5) and Material Non-Compliance with Laws and Regulations. Per the timelines set annually by ICPMO, VA may use a phased approach to obtain management’s assurance over the full fiscal year by using interim and final Statements of Assurance.
2. Reporting Entities will ensure the Statement of Assurance is not in conflict with the Internal Controls Assessment. For example, all Material Weaknesses identified in the Internal Controls Assessment will be reflected in the Statement of Assurance. The Statement of Assurance will be signed by the head of the Reporting Entity, contain the correct dates, and generally follow the template provided by ICPMO. Depending on management’s conclusions in the Internal Controls Assessment and the existence of Material Weaknesses and Material Non-Compliance with Laws and Regulations, Reporting Entities will submit one of the following types of Statement of Assurance:

a. Unmodified Statement of Assurance. The Reporting Entity will prepare an Unmodified Statement of Assurance when management concluded in the Internal Controls Assessment that the overall system of internal controls was effective and there were no Material Weaknesses or Material Non-Compliance to report.

b. Modified Statement of Assurance. The Reporting Entity will prepare a Modified Statement of Assurance when management concluded in the Internal Controls Assessment that the overall system of internal controls was effective and identified one or more Material Weaknesses or Material Non-Compliances.

c. Statement of No Assurance. The Reporting Entity will prepare a Statement of No Assurance when management cannot attest to the effectiveness of internal controls because an assessment was not performed, the extent of Material Weaknesses or Material Non-Compliance are pervasive, or the activities being assessed have been established less than 6 months.

E. VA Internal Controls Assessment and Statement of Assurance
1. ICPMO will prepare the overall VA Internal Controls Assessment after reviewing, assessing, and consolidating the Internal Controls Assessments completed by each Reporting Entity. The Internal Controls Assessment and resulting Statement of Assurance completed by the Reporting Entity are vital in providing the basis for the overall VA Internal Controls Assessment, and ultimately the Secretary’s Statement of Assurance (see Figure 6).

*Figure 6: Statement of Assurance Process from Reporting Entity to VA Secretary*

2. ICPMO will present deficiencies from the Reporting Entity Internal Controls Assessments to the CFO Council and prepare the VA Secretary’s Statement of Assurance. ICPMO will include Material Weaknesses and Material Non-Compliance with Laws and Regulations recommended by the CFO Council, with deviations only as directed by OM. The Secretary will ultimately decide the final contents of the Departmental Statement of Assurance and will submit the Statement to Congress by November 15 in the AFR.

F. Templates, Documents, References, and Points of Contact

ICPMO’s intranet site (http://vaww.va.gov/OIC/ICPMO/SOA.asp) contains the most current Internal Controls Assessment process template, guidebooks, reference documents, policies, training materials, and editable Statement of Assurance templates. Each year, ICPMO will provide Reporting Entities instructions on how to submit their Internal Controls Assessment, Statement of Assurance, and supporting documentation (e.g., secure folders on SharePoint). E-mail ICPMO@va.gov with any questions regarding the annual Internal Controls Assessment and Statement of Assurance.