

# MS 784 Internal Control System

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## **1.0 Authorities**

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls* (Revised), December 21, 2004;

Federal Managers' Financial Integrity Act (FMFIA), 31 U. S. C. § 3512, Pub.L. 97-255;

Government Performance and Results Act, Pub.L. 103-62;

Chief Financial Officers Act, 31 U. S. C. § 901(d), Pub.L. 101-576, as amended;

Inspector General Act, Pub.L. 95-452, as amended;

Accountability for Tax Dollars Act of 2002 (ATDA), Pub.L. 107-289;

OMB Circular A-136, *Financial Reporting Requirements* (Revised), June 29, 2007.

## **2.0 Purpose**

This manual section sets out the policies and procedures for establishing, assessing, correcting, and reporting on, the Agency's internal control in order to achieve the objectives of effective and

efficient operations; reliable financial reporting; and compliance with applicable laws and regulations, and safeguarding of assets.

### **3.0 Definition**

Internal control comprises the plans, methods, and procedures used to meet the Peace Corps' missions, goals, and objectives. Internal control should provide reasonable assurance that objectives of the Peace Corps are being achieved in the following categories:

- (a) Effectiveness and efficiency of operations,
- (b) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation;
- (c) Reliability of financial reporting, and
- (d) Compliance with applicable laws and regulations.

Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting and program execution. Internal control applies to program, operational and administrative areas as well as accounting and financial management. Monitoring the effectiveness of internal control should occur in the normal course of business. Office heads, managers, and employees should identify deficiencies in internal control from all available sources of information and report those control deficiencies to the next supervisory level to determine the relative importance of each deficiency.

### **4.0 Policy**

It is the policy of the Peace Corps to adopt and use the Office of Management and Budget (OMB) policies, procedures, and standards related to management's responsibility for internal control set forth in Circular A-123.

### **5.0 Responsibilities**

#### **5.1 Peace Corps Director**

The Director is responsible for:

- (a) The establishment of a control environment within the Peace Corps to provide reasonable assurance that internal controls are operating in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123;

(b) Submitting an assurance statement to OMB each year as part of the Performance and Accountability Report (PAR) regarding the effectiveness of the Agency's overall internal controls and whether the Agency's financial management system conforms to government-wide requirements. The assurance statement must be accompanied by a report on identified material weaknesses and resulting corrective actions. The PAR provides financial and performance information that enables the President, the Congress, and the public to assess the performance of the Peace Corps relative to its mission and to demonstrate accountability.

## **5.2 Chief Financial Officer**

The Chief Financial Officer (CFO) is responsible for coordinating the overall Agency-wide effort of evaluating, improving, and reporting on internal control systems in accordance with Circular A-123 and this manual section. The CFO is responsible for establishing the Senior Assessment Team (SAT) and will ensure that the SAT receives adequate technical, administrative, and clerical support necessary to function in an effective, sufficient manner. The Deputy CFO or other CFO designee will chair the SAT in the absence of the CFO.

## **5.3 Office Heads**

Peace Corps office heads are responsible for internal control within their offices. Office heads are the Associate Directors; Regional Directors; Chief Acquisition Officer; Chief Financial Officer; Chief Information Officer; Manager of the Office of Civil Rights and Diversity; AIDS Relief Coordinator; Director of the Office of Private Sector Initiatives; Director of Congressional Relations; Chief Compliance Officer; Director of the Center for Field Assistance and Applied Research; Director of Communications; Director of the Office of Strategic Information, Research & and Planning; and the Director of Peace Corps Response.

Office heads shall:

- (a) Continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic assessments, will provide the basis for the Director's annual assessment of, and report on, internal control.
- (b) Promptly implement approved improvements identified by their own assessments, the Office of Inspector General reports, and recommendations of the independent auditors or the SAT.

## **5.4 Senior Assessment Team**

The SAT is the Director's senior management advisory body for all matters relating to internal control at the Peace Corps. The SAT is responsible for overseeing, coordinating and facilitating the establishment, assessment, correction, and reporting on internal control, consistent with the requirements, policies, and standards set forth in Circular A-123 and this manual section.

### **5.4.1 SAT Membership**

The membership of the SAT shall include the following officials:

- (a) The Chief Financial Officer (Chairperson);
- (b) Chief of Staff;
- (c) Chief Acquisition Officer;
- (d) Chief Information Officer;
- (e) Chief Compliance Officer (The Chief Compliance Officer is also responsible for monitoring the Agency's response to Office of Inspector General's audits of Peace Corps domestic and overseas operations conducted throughout the year);
- (f) Associate Director for Management;
- (g) Compliance Officer for OCFO;
- (h) Regional Director (on a rotating basis); and
- (i) Other members as appointed by the SAT Chairperson.

The Inspector General (IG) is not a member of the SAT; however, the IG will be available for advice and consultation as requested and will provide advice as deemed appropriate by the IG. Statutory and regulatory requirements regarding the IG's independence prevents the IG from participating directly in management initiatives to establish, correct or implement specific management policies or controls. The expertise of the IG may, nevertheless, be a valuable resource to managers as they develop appropriate controls.

### **5.4.2 SAT Responsibilities**

The SAT is responsible for:

- (a) Assisting management in implementing an internal control framework and fostering an organizational environment that supports continuous awareness of internal controls. The objectives of these controls are: to reasonably ensure that obligations and costs are in compliance with applicable law; to safeguard funds, property, and other assets against waste, loss, unauthorized use or misappropriation; to properly record and account for revenues and expenditures to permit the preparation of reliable financial and statistical reports; and to maintain accountability over the assets;

- (b) Developing a comprehensive internal control assessment program and ensuring that there are adequate policies and methods in place to document the assessment design, methodology and results;
- (c) Requiring all or selected office heads to prepare and submit periodic risk assessments;
- (d) Identifying weaknesses and assisting in the preparation of the FMFIA assessments and reports to be submitted in the PAR on November 15 of each year;
- (e) Assisting the responsible managers in developing plans to correct weaknesses or other vulnerable systems;
- (f) Measuring the progress of the Agency's responses against plans to correct identified weaknesses;
- (g) Monitoring the Agency's corrective actions in response to weaknesses identified by office self-assessments, trends and significant issues from the IG's domestic and overseas operational audits, and the IG's annual financial audit report, and other independent audits; and
- (h) Reviewing the results of administrative management control surveys or other instruments to determine that internal controls are being met.

## **6.0 Internal Control Procedures**

The SAT shall use the procedures in Section 6.0 through 6.6 to identify, evaluate, correct, and report on the Agency's internal control.

### **6.1 Agenda for Fiscal Year**

The SAT shall determine an agenda for the fiscal year which may include the establishment of goals and objectives in addition to responding to immediate or unanticipated circumstances that require the attention of the SAT.

### **6.2 Assessments and Reviews**

The SAT will determine the most efficient and effective manner of identifying, assessing, correcting, and/or monitoring internal control in light of resource constraints. A variety of methods may ensure the best use of resources. Key controls and identified material weaknesses will be scheduled for review and testing subject to SAT coordination.

In performing assessments and reviews, the appropriate balance between controls and risk to programs and operations must be maintained. The benefits of controls should outweigh the cost.

If resources permit, deficiencies not deemed significant enough to be reported as a material weakness may also be scheduled for review and/or testing. These reviews and testings will also be coordinated by the SAT. Technical assistance may be provided by, for example, administrative support units, temporary duty (TDY) assignments, the Office of Chief Financial Officer, the Associate Director for Management, and in-service trainings.

### **6.3 Findings, Recommendations, and Implementation**

The SAT will advise responsible managers of the results of any assessments and review, document concurrence or non-concurrence with those findings, and approve or request alternative recommendations for improved internal controls.

### **6.4 Implementation of Recommendations**

Responsible managers will develop a corrective action plan for the implementation of each recommended improvement, present it to the CFO for approval and monitor the progress of each corrective action. The SAT will determine which recommended improvements require their monitoring and assessing on the progress of corrective action plans. For those reportable conditions not included in the PAR, corrective action plans should be developed and tracked internally within the Peace Corps.

### **6.5 Internal Documentation**

The responsible manager should verify in writing that he or she has completed all corrective actions. Periodic status updates on the implementation of corrective action plans will be provided to the SAT. Any changes to an approved implementation plan must be justified in writing by the responsible manager to the CFO. The OCFO will maintain a record of such written documentation.

### **6.6 Reporting**

Office heads identified by the SAT will submit annual assurance statements not later than October 1 of each year. The CFO, in consultation with the SAT, will summarize these statements and the results of the activities associated with the procedures and responsibilities identified in Circular A-123 and this manual section for the purpose of supporting the Director's annual assurance statement in the PAR.

## **7.0 Effective Date**

The effective date is the date of issuance.

