

Maryland Association of Certified Public Accountants

A Discussion of OMB Circular A-123
Management's Responsibility for Internal Control

And
Recent Changes

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Discussion Topics

- A-123 Statutory Basis – FMFIA
- FMFIA Sections
- FMFIA Objectives
- FMFIA Requirements
- History
- A-123 (2004) & Appendices
- Status



FMFIA Sections

- Section 2 – Evaluation of systems of internal accounting and administrative (i.e., programmatic) control
- Section 4 – Evaluation of accounting system's conformance to principles, standards, and related requirements



FMFIA

- Objectives
 - Accounting and administrative controls to ensure
 - Obligations and costs are in compliance with applicable law
 - Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
 - Reliable financial and statistical reports and maintain accountability over assets



History of FMFIA & A-123

- FMFIA
 - 1982
- A-123
 - 1982
 - 1986
 - 1995
 - 2005



FMFIA

- Requirements
 - Comptroller General to issue internal control standards
 - OMB to issue implementing policies
 - Agency management to report whether (1) internal controls achieve objectives and (2) accounting systems conform to standards issued by the Comptroller General



History

- Comptroller General issued internal control standards, most recently
 - *Standards for Internal Control in the Federal Government (1999)*
- OMB has issued various revisions to Circular A-123, most recently
 - *Management's Responsibility for Internal Control (2004)*



OMB Circular A-123

- Recent Provisions
 - Appendix A: Internal Control Over Financial Reporting
 - Appendix B: Improving the Management of Government Charge Card Programs
 - Appendix C: Requirements for Effective Measurement and Remediation of Improper Payments



Appendix A

- Principal provisions
 - Establish a Senior Assessment Team
 - Evaluate Internal Control at the Entity Level
 - Evaluate Internal Control at the Process, Transaction, or Application Level
 - Overall Assessment of the Design and Operational Effectiveness of Internal Control over Financial Reporting
 - Documenting Internal Control over Financial Reporting
 - Documenting the Assessment of Effectiveness
 - Management's assurance statement
 - No audit opinion required, accept where statutory



Appendix A

- Implementation Guide
- Questions and Answers



Appendix A - Status

	Material Weaknesses	
	Management Identified	Auditor Identified
Operational	25	
Financial Reporting	27	32
Systems	12	



Appendix A - Major Challenges

- Better integration with program offices – A-123 and Appendix A requirements still viewed as only a CFO effort
- Responsibility without authority
- Better integration with other internal control reviews to reduce duplication of effort
- Complex (and sometimes decentralized) financial operations
- Better assimilation into culture of organization to make the assessment more routine
- Human capital needs
- Overwhelmed by compliance



Appendix B

- Addresses internal controls that reduce the risk of fraud, waste, and error in government charge card programs



Appendix B

- Objectives
 - Reduce administrative costs and time for purchasing and paying for goods and services;
 - Ensure the most effective controls are in place to mitigate the risk of fraud, misuse, and delinquency;
 - Improve financial, administrative, as well as other benefits offered to the government by government charge card providers and other entities, including maximizing refunds where appropriate;
 - Using government charge card data to monitor policy compliance and inform management decision-making to drive a more cost effective card program; and
 - Assuring recovery of state and local taxes paid on fleet cards.



Appendix C

- Improper Payments
- Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements



Appendix C

- The term “payment” means any payment (including a commitment for future payment, such as a loan guarantee) that is
 - derived from Federal funds or other Federal sources;
 - ultimately reimbursed from Federal funds or resources; or
 - made by a Federal agency, a Federal contractor, a governmental or other organization administering a Federal program or activity



Appendix C

- An agency may implement a measurement approach that excludes improper payments that have been subsequently corrected and recovered from the annual total reported in its Performance and Accountability Report (PAR).



IPIA Status

- March 2010
 - The President issued an Executive Order on Improper Payments
 - OMB issued new improper payment guidance



How Does This Affect You

- Agencies
- Recipients, and subrecipients of Federal assistance
- Contractors



How Does This Affect You

- Establish controls to prevent and detect improper payments and billing under Federal programs and contracts



Recent IPIA Guidance Changes

- Specifies responsibilities for agency accountable officials;
- Provides guidance for determining programs subject to the Executive Order (i.e., high priority-programs);
- Defines supplemental measures and targets for high-priority programs;
- Establishes reporting requirements under the Executive Order; and
- Establishes procedures to identify entities with outstanding improper payments.



Recent Guidance Changes

- What is an erroneous or improper payment?
- What agencies are required to comply with the requirements of IPIA?
- What is a program or activity?
- What constitutes an improper loan or loan guarantee payment?



Recent Guidance Changes

- What are agencies required to do?
- May agencies use alternative sampling methods?
- Are agencies required to subject the entire lifecycle of a payment to sampling and/or testing, or may agencies determine the transaction points that have the highest risk of error, and focus their sampling and/or testing accordingly?
- What are Federally-funded, State-administered programs, and may agencies consider other approaches for these types of programs?



Recent Guidance Changes

- Where and when should agencies report the information required by the Act?
- How does this Guidance affect recovery auditing activities?
- Are programs listed in the former Section 57 of OMB Circular A-11 permanently subject to IPIA reporting requirements?
- What activities may be used to identify, eliminate and recover improper payments?
- Where can agencies go to find additional information about estimating and reducing improper payments?



Questions

