

CHAPTER 2. INTERNAL CONTROL AND QUALITY ASSURANCE REVIEWS

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CHAPTER 2. INTERNAL CONTROL AND QUALITY ASSURANCE REVIEWS

2.1 OVERVIEW.

2.1.1 NASA conducts financial management internal control reviews to assess the design and operation of internal controls. As a result of the reviews, Corrective Action Plans (CAPs) are developed to identify the actions necessary to resolve the finding and are monitored to completion. The internal control review process supports the financial management internal control program in compliance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*; Federal Managers' Financial Integrity Act of 1982; and the Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government.

2.1.2 Financial management internal control reviews provide benefits by: (1) identifying and eliminating excess controls that may have accumulated over the years, identifying and correcting control gaps or weaknesses to establish the optimum internal control system; (2) requiring management consideration of risks in relation to the cost of instituting or maintaining management controls and ensuring that operational risks that remain do so based on a considered decision rather than oversight; (3) providing managers with a reasonable degree of confidence that their financial management internal controls are being implemented and carried out as directed; (4) implementing a systematic approach toward ensuring that the financial management internal control program is executed according to legal, regulatory, and policy requirements; and (5) supporting the Agency Chief Financial Officer's (CFO's) annual Statement of Assurance for Internal Control over Financial Reporting.

2.1.3 NASA conducts quality assurance reviews in order to evaluate compliance with generally accepted accounting principles, other Federal requirements, and Agency policy. Special reviews of financial management operations and processes may be conducted as directed by OCFO management.

2.2 POLICY.

2.2.1 NASA shall conduct internal control reviews to assure compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular No. A-123.

2.2.2 NASA shall conduct quality assurance reviews of financial operations to ensure compliance with financial, legal, regulatory, policy, and control monitoring program requirements and to identify the root cause of process deficiencies, resolve those deficiencies, and promote sound financial management practices.

2.3 AUTHORITIES AND REFERENCES.

2.3.1 Legislation and Regulations.

- A. Federal Managers' Financial Integrity Act (FMFIA) of 1982, Public Law 97-255 (31 U.S.C. § 3512). This Act requires agencies to establish and maintain internal control and serves as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion regarding the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.
- B. OMB Circular No. A-123, Management's Responsibility for Internal Control. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control and specifies that internal control should be an integral part of the entire financial cycle, including auditing.
- C. Standards for Internal Control in the Federal Government, Government Accountability Office (GAO) Report GAO/AIMD-00-21.3.1. These standards define the minimum level of reasonable assurance acceptable for internal control in Federal government and provide the basis against which internal control is to be evaluated.

2.3.2 NASA Policy and References.

- A. NASA Policy Directive (NPD) 1200.1, "NASA Internal Control." This NPD establishes NASA's policy regarding the Agency's internal control program and delegates management responsibilities for the development, implementation, and effectiveness of internal controls, as well as the annual assessment of and reporting on the effectiveness.
- B. NPD 1210.2, "NASA Surveys, Audits, and Reviews Policy." This NPD establishes the minimum criteria for the conduct of Headquarters-initiated surveys, audits, and reviews (SARs) of NASA activities in such a way that the SARs are value-added and effective in support of the Agency's mission.

2.4 ROLES AND RESPONSIBILITIES.

- 2.4.1 Director, Quality Assurance Division (QAD), Office of the CFO (OCFO). Shall oversee the financial management internal control review and quality assurance review processes in coordination with Headquarters and Center personnel.
- 2.4.2 Center Directors/Center CFOs/Executive Director, NASA Shared Services Center (NSSC)/Manager, Business Process and Application Support Office, Integrated Enterprise Management Program (IEMP) Competency Center/ Officials-in-Charge (OICs) of Headquarters Offices. Shall support QAD and the Agency CFO in conducting financial management internal control reviews and quality assurance reviews, as required.

2.5 DEFINITIONS.

- 2.5.1 Internal Control (also referred to as management control). Policies and procedures instituted by management to provide reasonable assurance of the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.
- 2.5.2 Internal Control Review. An in-depth examination of an entity's system of internal controls at the transaction or process-level that documents, assesses, and tests the operational effectiveness of internal controls over operations to identify internal control gaps or deficiencies that could adversely impact the ability of the organization to achieve mission or goals.

2.6 INTERNAL CONTROL REVIEWS.

- 2.6.1 Annually, the Director, QAD, in coordination with Agency CFO, Center CFOs, OICs, the IEMP Competency Center, and the NSSC, shall select the specific areas for which financial management internal control reviews will be conducted. Selection will be based on prior internal control evaluation information such as risk assessments or areas of concern identified by management or the Office of the Inspector General (OIG). Based on the selected review areas, a review plan will be developed at the beginning of each fiscal year, and the OIG will be notified of the areas to be reviewed. The Director, QAD, shall then oversee the internal control review process throughout the year.

2.7 QUALITY ASSURANCE REVIEWS.

- 2.7.1 Annually, the Director, QAD, in coordination with Agency DCFO, Center CFOs, OICs, the IEMP Competency Center, and the NSSC, shall establish the schedule for quality assurance reviews to be conducted during that year. The Director, QAD, shall then oversee the quality assurance review process throughout the year.