CHAPTER 2

FINANCIAL MANAGEMENT INTERNAL CONTROL REQUIREMENTS

0201 GENERAL

This chapter describes the overall financial management internal control process, steps to ensure that financial management internal controls are in place, and details on high-level requirements for accounting and financial management systems.

0202 INTERNAL CONTROL PROCESS

020201. The following internal control process is based on Government Accountability Office (GAO) standards and Office of Management and Budget (OMB) guidelines. The Office of the Chief Financial Officer (OCFO) developed this comprehensive process to ensure that internal controls are in place and adequately monitored. The CFO's process for evaluating internal control systems encompasses all the steps taken to:

A. Plan, organize, and establish assessable units (AUs), risk assessments, self assessments, quality assistance visits and internal control reviews

B. Monitor the results and corrective actions from the assessments and reviews

C. Perform quality assistance visits and/or internal control reviews of the internal control evaluation process

D. Report review results to National Aeronautics and Space Administration (NASA) CFO Council, NASA Operations Council, and the Financial Audit Committee

E. Report evaluation results to the NASA Administrator regarding the CFO's internal control tools and processes

020202. Overall evaluation process. The CFO's internal control evaluation process includes providing guidance and overseeing, monitoring, and/or conducting internal control evaluation activities of NASA's financial management community. The financial management community encompasses the OCFO, Center CFOs, and those organizations within the Mission Directorates, Mission Support Offices, NASA Competency Center, and the NASA Shared Services Center (NSSC) that have financial management responsibilities.

The activities that are included in the internal control evaluation process include establishing AUs; conducting risk assessments, self assessments, quality assistance visits, and internal control reviews; and implementing corrective action plans.

020203. Establishing AUs. Establishing AUs involves the process of breaking down the OCFO, Center CFO organizations, and other appropriate financial management community organizations (e.g., Mission Directorates, Mission Support Offices, Competency Center, NSSC) into discrete organizational or functional components termed "assessable units."

020204. Risk Assessment. Risk assessments help managers determine the risks each AU faces from external and internal sources and what actions are currently in place or can be taken to mitigate the risks. The Center CFO and financial management community organizations are responsible for ensuring that risk assessments are completed. AU points of contact are assigned responsibility for completing the risk assessments.

020205. Self Assessment. Self assessments aid managers in determining how well an assessable unit's internal control is designed and functioning and help determine what, where, and how improvements, when needed, may be implemented. The self assessment incorporates the five standards for internal control as identified by the GAO and OMB Circular A-123 Revised (12/21/04): control environment, risk assessment, control activities, information and communications, and monitoring.

020206. Internal control review. Internal control reviews focus on a specific process within an assessable unit(s) and requires appropriate tests of existing internal controls to determine if the controls are operating as intended.

020207. Implementation of corrective actions. Managers shall be responsible for taking timely steps to implement corrective actions identified during the internal control evaluation process.

020208. Quality assistance visits. The Office of Quality Assistance (OQA) will conduct quality assistance visits over the internal control evaluation process to assure internal control evaluation guidance and requirements are being followed and provide guidance and advice, as necessary.

0203 ACCOUNTING CONTROLS

All NASA accounting systems, including subsidiary and program systems, must adhere to the accounting control standards below.

020301. Documentation.

A. All transactions, processing procedures, and systems of administrative control, and other internal controls (e.g., objectives, techniques) shall be fully documented so that a clear audit trail is established.

B. NASA offices responsible for accounting operations must establish internal controls to ensure that financial transaction documents are received and processed in a

timely manner. Documents shall be properly classified and filed for reference, and for certification of schedules for disposition in accordance with NASA records management policy (NASA Policy Directive 1440.6G).

C. Internal controls shall be included in directives, policies, manuals, plans, flowcharts, and desk procedures.

020302. Recording Transactions and Events.

A. Accounting transactions and events, such as journal entries or trial balance adjustments, shall be promptly and accurately recorded and classified.

B. An approved system of general ledger and subsidiary accounts shall be maintained for assets, liabilities, net worth, revenues, costs, budgetary accounts, and statistical accounts.

020303. Execution of Transactions and Events.

A. Transactions and events shall be authorized and executed only by persons acting within the scope of their authority.

B. Authorization shall be clearly communicated to managers and employees and shall include the specific terms under which the authority exists.

C. There shall be a systematic, ongoing administrative review of disbursement transactions to ensure proper certification of vouchers and disbursement of Government funds.

D. Statistical sampling may be employed in the administrative internal control review process in accordance with Title 7, GAO Policy and Procedures Manual for Guidance of Federal Agencies.

020304. Reconciliation of Accounts.

A. Proper reconciliation of accounts shall consist of identification of differences between general ledger balances, subsidiary ledgers, and details. The reconciliation must include the timely processing (preferably in the following month) of the identified items constituting the difference between controlling accounts and the detail. Accounting records must be promptly brought into agreement with the results of audits or physical inventories. Inconsistencies shall be investigated to determine the cause and resolution. Procedures shall be implemented to prevent recurrence and, if applicable, to effect recoveries.

B. General ledger accounts shall be reconciled to subsidiary ledgers and source documents as frequently as possible. The following is an example of a reasonable practice for a typical organization.

ACCOUNT	RECONCILIATION FREQUENCY
General Ledger Account	Monthly
Cash	Daily
Advances	Monthly
Accounts Receivable	Monthly
Loans Receivable	Monthly
Deposit Accounts	Monthly
Suspense Accounts	Monthly
Inventories	Annually
Fixed Assets	Annually
Other Assets	Annually
Undelivered Orders	Monthly
Accounts Payable	Monthly
Other Liabilities	Annually

C. The preparation of external financial statements or financial reports shall be preceded by proper and completed reconciliations.

D. Formal schedules and work papers for such reconciliations shall be maintained in sufficient detail to ensure the accuracy of financial statements and reports. The working papers and records on which such verifications are based shall be retained within the Agency in a form that will help to facilitate sufficient audit details.

E. The reconciliation of general ledger accounts with subsidiary and support records substantiates and maintains the accuracy of account postings and balances. Different tools may be used to accomplish an effective reconciliation based on the finance officer's professional judgment and knowledge of the systems and controls involved. Whenever possible, computer assisted procedures shall be employed. When it is not feasible to review every document, statistical sampling may be used. For example, the certification of obligations is a legally mandated reconciliation procedure. It is more stringent than other reconciliations, but GAO specifically authorizes statistical sampling. All business unit reconciliation procedures shall be fully documented.

F. To ensure that the samples are reliable, samples shall be selected randomly. Samples shall be based on an adequate sample size to reach a 90 percent confidence level.

020305. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions, as well as the receipt, use, and disposition of resources, shall be separated among individuals. To reduce situations where errors or irregularities can go undetected, no one individual shall control all phases of an activity or transaction.

020306. Supervision. Qualified and continuous supervision must be provided to ensure that internal control objectives are achieved. Supervisors shall control employees' activities to optimize productivity and to achieve internal control objectives.

020307. Access to and Accountability for Resources.

A. Access to resources and records must be limited to authorized individuals. Accountability for the custody and use of resources shall be assigned and maintained.

B. Periodic comparison (at least annually) shall be made by taking a physical count or inventory of resources and comparing the results with the amounts recorded in the official records to determine whether the items on hand and the records agree.

020308. Litigation, Claims and Assessments. Management is responsible for instituting internal controls to identify, evaluate, and account for litigation, claims, and assessments as a basis for preparing financial statements, per the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. This includes litigation, claims and assessments handled by legal counsel outside of the Federal reporting entity's legal department.

0204 CONTROL OBJECTIVES FOR ACCOUNTING TRANSACTIONS

The following control objectives for accounting transactions identify means that help ensure accounting transaction integrity. Accounting transactions for which these control objectives apply are outlined in FMR Volume 6, Accounting.

020401. Validity. Internal controls shall be implemented to reasonably assure all recorded transactions are valid. This must be done to prevent erroneous transactions from being introduced into official accounting records.

020402. Authorization. Internal controls shall be implemented to reasonably assure appropriate documentation is on-hand before any transactions are entered into financial management systems to prevent fraudulent or inaccurate use of resources.

020403. Completeness. Internal controls shall be implemented to reasonably assure the prevention of omissions and facilitation of timely postings of all relevant data to the finance and accounting records.

020404. Valuation. Internal controls shall be implemented to reasonably assure transactions are valued and posted correctly and data entries (dollar amounts) are entered accurately.

020405. Classification. Internal controls shall be implemented to reasonably assure transactions are posted accurately and in accordance with the NASA General Ledger Chart of Accounts maintained in the NASA Integrated Financial Management/Core Financial accounting system.

020406. Timing. Internal controls shall be implemented that reasonably assure that transactions are posted to accounts within the proper timeframe and ensure that transactions are accounted for in the proper period in which they occur.

020407. Posting and Accounting. Internal controls shall be implemented that reasonably assure accurate postings and accounting. Procedures for totaling, accumulating and apportioning transactions for the account allocations, and the final transition to the financial statements, must be controlled to prevent misstatement in the financial reports. Ensure that the accounting process for a transaction is completely performed and in conformity with generally accepted accounting principles.

0205 FINANCIAL MANAGEMENT SYSTEM CONTROLS

The following financial management system controls are prescribed by OMB for NASA's financial management systems, in addition to those described above under 0203, Accounting Controls. As stated by the Joint Financial Management Improvement Program (JFMIP) "Framework for Federal Financial Management Systems" (April 2004) financial management systems include core financial systems, other financial and mixed systems, shared systems, and departmental executive information systems.

020501. OMB Circular A-127. Financial management systems must be designed and operated in a manner that will produce accurate and timely financial reports, including those outlined in the external reporting requirements that NASA must adhere to. OMB Circular A-127, Financial Management Systems, prescribes policies and standards that NASA must adhere to in developing, operating, evaluating, and reporting on financial management systems.

020502. Integrated Financial Management Program (IFMP). NASA's core financial system is a module of IFMP. IFMP is responsible for ensuring that NASA's core financial management system and all associated systems ensure that the Office of the CFO is able to meet its mission in improving financial management and integrating budget and performance. IFMP is responsible for ensuring that adequate internal controls are in place and working effectively to ensure all requirements are met.

020503. Financial information classification structure. All IFMP systems must reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger (SGL), provides for tracking of specific program expenditures, and covers financial and financially related information.

020504. Integration. All IFMP systems must be designed and operate in a manner that provides for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within systems.

020505. SGL application. All IFMP systems must apply SGL requirements at the transaction level. In this way, the transactions follow the definitions and defined uses of the general ledger accounts as described in the SGL.

020506. Federal accounting standards. All IFMP systems must maintain accounting data to permit reporting in accordance with accounting standards recommended by Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB and/or the Secretary of Treasury.

020507. Financial reporting. All IFMP systems must meet all of NASA's financial reporting requirements, as maintained in FMR Volume 8, External Reporting.

020508. Budget reporting. All IFMP systems must enable the agency to prepare, execute, and report on the agency's budget in accordance with requirements of OMB Circular A-11, Preparation and Submission of Budget Estimates, OMB Circular A-34, Instructions on Budget Execution, and other circulars and bulletins issued by OMB.

020509. Functional requirements. All IFMP systems must conform to GAO's functional requirements for the design, development, operation, and maintenance of financial management systems. This includes such areas as ensuring that internal system edits are in place to control fund availability and account structure between related transactions.

020510. Computer Security Act requirements. All IFMP systems must incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A-130 for those systems that contain "sensitive information" as defined by the Computer Security Act.

020511. Documentation. All IFMP systems must have clear instructions documented in both hard copy and electronic version in accordance with the requirements contained in Federal Financial Management System requirements.

020512. Compliance. All IFMP systems must be in compliance with laws, regulations and policies.

020513. Training and user support. All IFMP systems must have training and appropriate user support for all users of the systems so that users can fully understand, operate and maintain the relevant financial management systems.

020514. Maintenance. All IFMP systems must have received on-going maintenance to ensure that systems continue to operate in an effective and efficient manner.

020515. Access. All IFMP systems must have appropriate access to authorized users, and do not permit access to unauthorized users.

020516. Requirements checklist. GAO issued a checklist "Checklist for Reviewing Systems under the Federal Financial Management Improvement Act" (GAO-04-763G) that should be used to assist appropriate organizations in designing, developing, implementing, operating, maintaining, and reviewing financial management systems.