



Overview of DOT's Internal Control Program

**OMB Circular A123, Appendix A
Evaluation of Internal Control at the Entity Level**

Internal Control Self Assessment Overview

March 18, 2009



Agenda

- **Background on DOT's A-123, Appendix A Program**
- **DOT's Entity Level Control Approach and Activities**
- **Overview of DOT's Internal Control Self-Assessment Tool**
- **Discussion and Questions**



DOT's A-123, Appendix A Program

■ Key Players

- **Internal Control Senior Assessment Team (ICSAT)**
 - Established in 2005 and meets monthly
 - Senior Management Level oversight
 - Varied program office representation with OIG advisory role
 - Fostering ongoing awareness
 - Providing recommendations and decisions
- **Internal Control Work Group (ICWG)**
 - Established in 2005 and meets biweekly
 - Designated Operating Administration (OA) staff with OIG advisory role
 - Assists the ICSAT and handles day-to-day activities
- **Contractor Support**



DOT's A-123, Appendix A Program

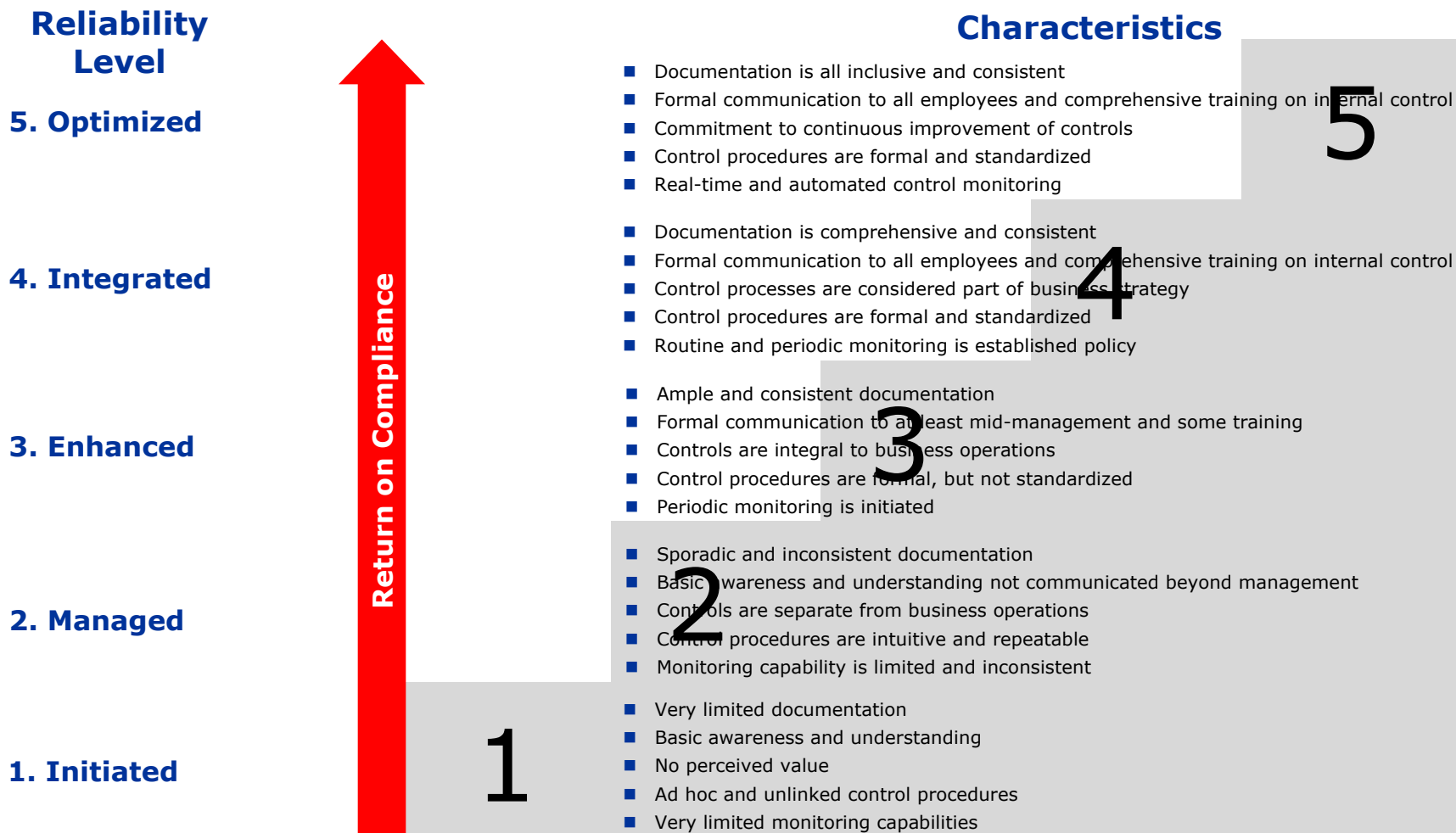
■ Details

- **Total of 14 Operating Administrations and the Enterprise Services Center**
- **DOT established a baseline by completing Implementation during 2006 – 2007**
- **In FY08, ICSAT approved a three year assessment cycle and entity level focus areas to meet the Circular requirement that key controls are tested at least once every three years**
- **14 Key Business Processes**
 - **Evaluated annually for Material Operating Administrations**
 - **Each process evaluated on a 3-year cycle for all other OAs**
 - **Restructured and streamlined business processes to support more efficient transaction level testing**
 - **Focused transaction level testing on significant accounts and material and high risk transaction classes, not broad business processes**
- **Received buy in from the Office of the Inspector General (OIG) and KPMG (FY 2008 financial statement auditor)**
- **Evaluate controls:**
 - **Process level evaluation**
 - **Entity level evaluation**
 - **Transaction level assessment**



Internal Control Reliability Model

As the internal control program progresses into more mature reliability levels, the agency should gain efficiencies in testing and monitoring functions and a return on their compliance investment





Entity Level Controls

■ **Internal control at the entity level refers to those elements of the five components of internal control that have an overarching or pervasive effect on the Department:**

- Control Environment
- Risk Assessment
- Control Activity
- Information and Communication
- Monitoring



DOT's Approach to Evaluation of Entity Level Controls

- **Evaluate those entity-level controls that are important to the conclusion about the effectiveness of internal control over financial reporting**
- **Focus is on improving entity level controls not answering a question**
- **The evaluation of entity-level controls may result in increasing or decreasing the testing that otherwise would have been performed on other controls**
- **As entity level controls are improved over time, detail transaction level testing should become more efficient**
- **More in-depth evaluation of entity level controls to occur over 3 year cycle:**
 - 2009 – Risk Assessment and Control Activity
 - 2010 – Information and Communication, Monitoring
 - 2011 - Control Environment



DOT's Approach to Evaluation of Entity Level Controls (Cont.)

- **The Department's OAs and the Enterprise Services Center will update entity level Internal Control Self-Assessment (ICSA) tool for non-focus areas and document entity level focus area(s) annually**

- **The Internal Control Program Management Office will validate selected questions and provide recommendations for remediation and/or improvement**
 - Non-focus areas will be reviewed for completeness and reasonableness
 - Focus areas will be validated by inspection, observation and inquiry



Entity Level ICSA Tool

- **The Entity Level ICSA Tool is based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework and provides illustrative ways to accomplish financial reporting control objectives in an effective and efficient manner**
- **The objective of the ICSA is to document and assess entity level internal control over financial reporting; and also to provide agency management with clearly defined descriptions of entity level control activities**
- **Incorporates 20 COSO principles across the 5 internal control components**
- **Each principle is comprised of illustrative attributes, control objectives and sample control activity specific to entity level internal control over financial reporting**
- **Each OA and the ESC is required to provide descriptions of the existing control activity, application frequency, owner and supporting and/or cross referencing documentation**
- **PMO will validate selected questions and provide recommendations for remediation and/or improvement**



ICSA Tool Data Elements

Column	Party	Description
Attribute Reference	PMO	The first digit represents the sequential number of the principle and the second digit represents the attribute number
Attribute	PMO	Description of the attribute for the COSO principle
Control Objective	PMO	Description of the control objective of the attribute
Control Reference	PMO	The first two digits represent the attribute number and the third digit represents the sample control activity
Sample Control Activity	PMO	Description of the sample illustrative control activity to meet the control objective
Existing Control Activity	OA/ESC	Description of the existing control activity to meet the control objective
Control Frequency	OA/ESC	Describe the frequency the existing control activity is applied: Annually, Quarterly, Monthly, Bi-weekly, Weekly or Daily
Process Owner	OA/ESC	Provide the name and title of the individual who is responsible for the existing control activity described
Supporting Documentation	OA/ESC	Provide title of specific corroborating documentation or other reference that substantiates the existing control activity described
Gap Assessment	PMO	Whether a gap in the existing control activity was identified during the test of the control design or operating effectiveness
Gap Reference	PMO	A sequential number assigned to each gap identified during the test of the control design or operating effectiveness
Gap Description	PMO	Description of the any gaps identified during the test of the control design or operating effectiveness
Gap/Best Practice Recommendation	PMO	Recommendation for remediating the identified gap or suggested improvements



Entity Level Activities

Activity
Revise and distribute ICSA Tool for designated focus area
Update, document and submit ICSA
Validate ICSA responses and follow up with OAs
Prepare and submit appropriate corrective actions
Prepare entity level summary report

Discussion





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