**Internal Control**

Policy

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**General Description**

**Purpose:** The purpose of this policy is to provide management with guidance in achieving and maintaining sound control over CRS’ resources and activities overseas. The main objective of this policy is to enable management to cost-effectively reduce the risk of loss or misuse of funds or property to an endurable level.

**Scope:** This policy applies to all CRS overseas offices and all resources to which those offices have access.

**Description:**

**Introduction**

Internal control is a *process* that consists of activities supporting an organization in accomplishing its goals. Internal control is not a single event or circumstance or an assortment of unrelated procedures, but a series of actions. Strong internal controls not only serve to protect CRS’ assets, but also to promote employee morale and improve management-staff relations.

*People* at every level are the most critical components of CRS’ internal control systems. Policy manuals and forms alone are not enough. Employees must be properly educated and motivated to make internal controls work.

Internal control provides only *reasonable*, not absolute, *assurance* that control objectives are attained. The existence of internal control systems is not an absolute guarantee that all safeguards will work. Internal control will not prevent problems caused by poor management judgment.

Internal control is focused on the achievement of *objectives.* Strong, effective internal controls assist CRS in maintaining a high level of accountability.

**Components of Internal Control**

Internal control has five components that work together to create a control system.

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

**The Control Environment**

The control environment is the foundation for the internal control system. CRS’ core is its people. Each individual in the agency impacts CRS’ control environment. It is important that all employees are aware of the roles they play in ensuring proper controls are in place and operating as intended.

Human Resources (Personnel) policies and procedures are also important control environment elements. Policies and procedures should be written and distributed to the appropriate staff. A Country Program’s personnel manual should cover the following areas:

Hiring practices Training Compensation Promotion criteria

Disciplinary policy Performance evaluation Code of conduct

The “Code of Conduct” is an effective method of informing employees of the Company’s duty and integrity expectations. It should address the following:

* Catholic Social Teaching
* Integrity and ethics
* Treatment of Beneficiaries and Children
* Conflicts of interest
* Method for reporting noncompliance

All employees should be made aware of their responsibilities and levels of authority and should be made accountable for fulfilling those duties.

**Risk Assessment**

Management should consider potential risks and the controls needed within its operating context. This process is ongoing as situations and operating environments are constantly changing. Procedures should be put in place to reduce or eliminate identified financial, operational, and programmatic risks.

The Overseas Support Department, in coordination with the Country Programs, Regional Staffs, and the Office of Finance, regularly assesses agency risk utilizing Risk Disclosure Reports. These reports inform senior management of new risks and the status of risks previously identified. The Office of Finance works with the Overseas Support Department to ensure that the financial risks to the Agency are properly stated in the financial statements.

Per Finance Policy, POL-FIN-RLC-027, Country Programs are required to accrue for a risk or loss contingency if:

* It is probable (more than 50% chance) that a loss has been incurred,
* The situation arose on or before the month-end date, and
* The amount of the loss can be reasonably estimated.

Risk accruals should be recorded in Donor Source Number 1050.

**Control Activities**

The actions used to control risk are called control activities. Control activities are usually described in policies and procedures. Management assigns responsibility for activities needed to implement the controls.

Control activities occur at all levels of CRS and in all functions. Various types of control activities are:

Authorizations Approvals

Verifications Reconciliations

Performance reviews Segregation of duties

Certifications Staff supervision

Asset Counts

**Information and Communication**

The quality of information and the way it is communicated also impact internal control.

* Feedback on control implementation should be ongoing. Staff should be made aware when they do not follow controls and educated concerning controls and their purpose. All staff should be aware of the contributions they make to ensure that an adequate control environment is present.
* Reports given to management should be accurate and contain the information needed to make informed decisions.
* Employees need to have a formal, effective way of passing significant information to management. An environment that encourages open communication allows staff to communicate troublesome information. Open communication with vendors and partners is also a component of strong internal control.
* Local management should be prepared to take action when problems or irregularities are brought to its attention and HQ should be available to provide the necessary support.
* Internal control deficiencies should be reported to an official at least one level higher than the employee responsible for taking the corrective action to ensure corrective action is taken.
* Specific reporting channels may be necessary for reporting certain actions such as sexual harassment or fraud.

**Monitoring**

Ongoing monitoring is necessary to ensure that the controls that have been put in place are working. Monitoring activities may reveal the need to reinforce or modify existing controls or further educate staff.

The following are types of monitoring activities:

* Surprise cash counts
* Monthly reconciliation of balance sheet accounts
* Visits to vendors’ and partners’ offices
* Programmatic and financial reviews of partners’ activities
* Inventory of assets
* Audits - internal and/or external
* Training seminars, planning sessions, or other meetings that educate staff on controls
* Ongoing feedback concerning compliance with agency policy and procedure

A variety of methods and tools are available to monitor and evaluate internal control systems, such as:

* Checklists
* Questionnaires
* Flowcharts
* Quantitative techniques
* Comparison of control systems with those of peer organizations (benchmarking)
* Use of lists to identify generic objectives of internal control

**All Country Programs are required to perform an annual self-assessment of their internal control systems using the Office of Finance’s standardized questionnaires. The questionnaires can be accessed via the Intranet. From the Global Home page, select Programs & Communities / Support Communities / Global Finance / Financial Flash / Internal Control Questionnaires. See the User Guidance on the Intranet site and Internal Control Procedure (PRO-FIN-ICS-024.01) for the detailed requirements.**

Monitoring efforts should be documented. When breakdowns in control are identified, responsibilities should be assigned before creating and implementing solutions that repair internal control weaknesses.

**Objectives of Internal Control**

The objectives of internal control are as follows:

1. Operational Efficiency and Effectiveness (Internal standards)
2. Financial Reporting (External standards)
3. Compliance (External Standards)

Each of these objectives considers the needs of its audience. Objectives are those goals that an entity strives to achieve using the internal control components. Objectives are distinct, but overlapping, categories that address different needs. They frequently are the responsibility of different managers. Management must determine which controls are needed for each category. Internal control systems must provide reasonable assurance that an entity is producing reliable financial reporting and complying with laws and regulations. These objectives are imposed by external standards.

Operational objectives, although internal, are not always within an entity’s control. Bad judgments or decisions can be made. External events can also take place to prevent an entity from achieving its operational goals. An internal control system can only provide reasonable and timely assurance of the extent to which an entity is progressing toward its objectives. All five internal control components (control environment, risk assessment, control activities, information & communication, and monitoring) are needed to achieve the operational objectives.

**Organizational Structure**

CRS’ structure and that of its partners and donors must also be taken into consideration when evaluating its internal control process. Organizational structure consists of operating units and activities. Operating units, such as country programs or HQ departments, are physical in nature or appearance and distinct. Activities, however, can exist across organizational lines. For example, procurement activities frequently involve request, approval, purchasing, supply, shipping, receiving, custodial, and financial functions.

Aspects of organizational structure that impact internal control include the following:

* Number of staff
* Staff experience levels
* Duties – clearly defined and assigned to the appropriate staff
* Clarity of delegation of authority
* Extent of interaction between departments and/or operating units and degree of access to key data
* Appropriateness and frequency of reports issued

**Financial Reporting**

Internal control over financial reporting is designed to ensure that the financial statements are presented in accordance with generally accepted accounting principles (GAAP). The purpose of internal control over financial reporting is to prevent material misstatements in the financial statements from occurring. Misstatements may arise from either errors or fraud. **Errors** are mistakes in the financial statements. **Fraud** is usually the result of the theft of goods, services or cash.

CRS’ internal control systems are designed to ensure that:

* Transactions are executed according to management’s authorization.
* Transactions are recorded for the preparation of financial statements in conformity with GAAP or other applicable criteria.
* Transactions are recorded to maintain accountability for assets.
* Access to assets is given only through management’s authorization.
* Assets on the books are compared with the existing assets at reasonable intervals and appropriate action is taken to resolve any differences noted.

**Cost versus Benefit Analysis**

All CRS offices and departments must consider the cost versus the benefits for certain controls. Factors to consider when implementing new controls may include:

* The likelihood of the unfavorable or undesirable condition occurring
* The financial or operating effect on CRS
* Compensating controls that may exist in another department

The goal is to find the right balance between control and risk. Cost-effectiveness is a key consideration in this decision-making process.

**Segregation of Duties**

Segregation of duties is a basic internal control concept. Different people must be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. One person should not be in a position to embezzle funds or misappropriate assets and then conceal the transgression.

Basic functions that should be separated include the following:

* Authorization to purchase, procurement of goods, receipt of goods, payment for goods, and recording of transactions in the financial system
* Recruiting or hiring of staff and any payroll related functions
* Custody of assets and access to accounting records
* Custody of an asset and participation in the annual asset inventory

**Roles and Responsibilities**

Each employee within CRS has a role in carrying out internal control. Roles vary depending on the levels of responsibility and involvement. CRS’ internal control systems can only function effectively when all employees know who has been authorized to initiate or approve the use of Agency assets and the levels of that authority. Responsibilities and authority levels must be clearly defined and appropriate for the assigned positions.

Each employee who authorizes a disbursement transaction should be aware that his or her signature on the supporting documents means that the following have been taken into consideration:

* The expenditure is a reasonable, valid, and approved use of Agency resources
* The expenditure is in compliance with all donor and Agency regulations and procedures
* The expenditure is within budget
* The expenditure coding is correct and consistent with the approved Purchase Requisition or Payment Request

If an employee can not attest to each of the representations listed above, then that employee should not provide a signature approval for a given transaction.

**Authorization Chart**

All employees who can approve commitments or payments should be listed on an authorization chart. The Finance Manager should ensure that authorization charts for commitments and payments are current. Requests for changes should be routed to the Finance Manager for submission to the CR for approval. The standard authorization chart appears below:

**Authorization Chart in U.S. Dollars**

|  |  |  |  |
| --- | --- | --- | --- |
| **Approval Levels** | **Internal Authorization Limits for Approvals Needed Prior to:** | | **Notes** |
| **Commitments** | **Payments** |
| Level 1 – Country Program – limited to local purchases or other local commitments, and in-country payments | $5,000 (if sole approver)  $25,000 (as secondary approver) | $5,000 (if sole approver)  $25,000 (as secondary approver) | Level 1 approvers are to be designated by the Country Representative (CR). These would normally include: Project Officers, Program Managers, Heads of Administration or Logistics, Deputy State Representatives, and CP Technical Advisors. To ensure that financial duties are properly segregated, the Finance Manager should not be the final approver on commitments or payments. See Notes 8 & 11. |
| Level 2 – Country Program – limited to local purchases or other local commitments, and in-country payments | $5,000 (if sole approver)  $25,000 (as primary approver) | $5,000 (if sole approver)  $25,000 (as primary approver) | Level 2 approvers are to be designated by the Country Representative and should normally be limited to the following: DCRs, ACRs, Chiefs of Party, State Representatives, Heads of Suboffices, or Senior Program Managers. See Notes 8 & 11. |
| Level 3 – CR | $250,000 | $250,000 | Level 3 approvers consist of CRs or CR equivalents, such as Country Managers, Heads of Office, Subregional Representatives, or Zonal Represent-atives, as applicable. See Notes 3 & 7. |
| Level 4 – CR + RD | $500,000 | Full Amount | See Notes 3 & 7. |
| Level 5 – CR + RD + EVP | $1,000,000 |  | See Notes 3, 7 & 9. |
| Level 6 – CR + RD + EVP + President | Above $1,000,000 |  | See Notes 3, 7 & 9. |

**Chart Notes**

1. This chart replaces all previous versions.
2. **The chart grants authority to the positions listed to provide internal approvals. It does not grant authorization to sign commitments with external parties. Individuals who sign commitments with external parties should have signing authority granted in accordance with CRS policy or other proper delegation of authority.** For purposes of this chart, a “Commitment” is a legally binding obligation, such as a purchase order, contract, agreement, or other obligation to pay for goods or services. The limits indicated in the chart are for the internal approvals required from individuals holding positions listed in the chart **before** a commitment is made.
3. Project funding agreements are commitments subject to the limits specified in the Authorization Chart. Project funding agreements above $250,000 require additional approvals above the Country Representative (CR) level. To expedite the commitment approval process for project funding agreements, the Country Program should submit a completed Project Funding Agreement Financial Summary (PFAFS) when the approvals of the Regional Director (RD), Executive Vice President for Overseas Operations (EVP), and/or the President are required. The PFAFS (attached) is used in place of the project funding agreement for senior executive review purposes and **must be approved prior to signing the project funding agreement with the partner**.
4. In this chart, "Authorization for Payment" is the approval needed from the individuals holding positions listed in the chart **prior to** preparation of the disbursement voucher and check or wire. It is not the signature on the check or the approval of the wire disbursement. A copy of the signed commitment document must be provided along with the payment request.
5. This chart pertains only to approvals needed for commitments that will result in cash outlays. It does not apply to the approvals needed for grants, agreements, contracts, or other documents that provide incoming funding.
6. In-country authorization for payment is shown as a signature on the payment request. Payment requests are required for all disbursements made by a Country Program. (For Petty Cash disbursements, the Petty Cash Voucher serves as the request form.) If an authorization from an official outside of the Country Program is also needed, approval via email is acceptable.
7. A CR may approve all payment requests for local payment up to $250,000. Local payments above $250,000 must also be approved by the Regional Director, whose approval may be recorded on an email. The Regional Director may approve a field payment in excess of $500,000 if the underlying commitment has been previously approved by the appropriate Level 5 and/or Level 6 executive. The documentation supporting the Level 5 or Level 6 commitment approval should be furnished to the Regional Director and also attached to the payment voucher. For each Country Program payment to a partner pursuant to a project funding agreement, the payment request should be accompanied by a signed copy of the project funding agreement or a copy of the PFAFS.
8. All requests for local commitments or in-country payments between $5,000 and $25,000 that are approved by Level 1 and Level 2 officials must have two signatures, at least one of which must be a Level 2 approver.
9. If a Country Program requests that HQ make a payment on its behalf, the Payment or Wire Transfer request submitted to HQ must be signed by the Country Representative or the Country Representative's delegate, in the Country Representative’s absence. If a delegate signs the request, the delegate's name and title must also be typed or printed on the request document. If the amount of the requested payment exceeds $250,000, the request must be accompanied by documentation bearing the approval of the Regional Director for the payment. If the payment requested is above $500,000, the request submission must be accompanied by documentation bearing the approvals of the Regional Director and the appropriate Level 5 and/or Level 6 executive(s) for the underlying commitment. For each HQ payment to a partner pursuant to a project funding agreement, a copy of the PFAFS must be submitted by the Country Program with the payment or wire transfer request along with documents bearing other applicable approvals.
10. Interbank or interoffice cash transfers within the same Country Program do not require Regional or HQ approval.
11. The approval limits for Level 1, Level 2, and Level 3 approvers shall not exceed those indicated in the chart. Country Representatives may institute lower limits for Level 1 & 2 approvers. The Regional Director may reduce the approval limits for Level 1, 2, and 3 approvers, if so warranted.
12. An employee can not be the final approver for a commitment or payment from which that employee derives personal benefit. An employee can not authorize a payment to himself or herself.
13. If it becomes necessary to increase an existing commitment by more than 10%, approval must be obtained from the same level(s) of officials who approved the previous commitment.
14. Splitting purchases or payments in order to bypass the listed authorization levels violates Agency policy and is not acceptable.
15. The effective date and the signed approval of the CR should appear on the chart.
16. The limits for Level 1 & 2 approvers should be specified in the functional currency in which the Country Program or Department operates along with their U.S. equivalents as of the beginning of the fiscal year.
17. Reasonable monetary limits must be established for each employee position or level. The position title and corresponding monetary spending limit should be shown on the list for each applicable position.
18. The original chart should be retained on file by the local Finance Department. Copies of the list should be made available to all appropriate employees.
19. The Finance Manager is required to keep a copy of each authorization chart on file for five years.
20. Purchases must comply with the requirements specified in the CRS Purchasing Manual, where applicable.
21. Purchases should be supported by the appropriate documentation, which should normally include:
    * 1. Purchase Requisition
      2. Competitive Bid Analysis
      3. Purchase Order
      4. Receiving Report or equivalent document

**Documentation**

All financial activities must be recorded and appropriately documented. Supporting documentation should be sufficient to allow an outside party to confirm that the transaction is in compliance with CRS’ policies and the donor’s regulations. CRS’ Field Office Records Management Manual requires that all financial records be maintained for ten years, a minimum of three years onsite.

**Internal Control Effectiveness**

Auditors are required to assess the effectiveness of an entity’s or operating unit’s internal control system in their reports to management. Material weaknesses, significant deficiencies, and control deficiencies are terms used to describe flaws in internal control.

A **Material Weakness** is a significant deficiency, or combination of significant deficiencies, that results in more

than a remote likelihood that a material misstatement will not be prevented or detected. If there are material weaknesses, then the existing internal controls are not adequate. There are three things to consider when deciding if a weakness is material:

* Level of risk
* Materiality to the Country Program and to the Agency
* How quickly errors are identified and corrected

A **Significant Deficiency** is a control deficiency, or combination of deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement that is more than inconsequential will not be prevented or detected. If there is a significant deficiency, the control process (not implementation) is not adequate.

A **Control Deficiency** is when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Examples of control deficiencies are:

* Insufficient control consciousness within the organization
* Ineffective oversight by those responsible for governance of an entity’s financial reporting, performance reporting, or internal control or an ineffective governance structure
* Control systems that did not detect or prevent the need to restate previously issued financial statements or operating results
* Control systems that did not prevent or detect material misstatements identified by the Auditor
* An ineffective audit function or risk assessment function
* Identification of fraud of any magnitude on the part of senior management
* Failure by management to assess the effect of a significant deficiency communicated to it and either to correct it or conclude that it will not be corrected and alternative actions will be needed
* Inadequate controls for the safeguarding of assets
* Evidence of intentional override by those in authority
* Deficiencies in the design or operation of internal control that could result in violations of laws, regulations or contract/agreement provisions, or fraud
* Inadequate design of information systems general and application controls
* Failure of an application control caused by a deficiency in the design or operation of an information systems control
* Employees or management who lack the qualifications and training to fulfill their assigned functions

**Material weaknesses or significant deficiencies should be corrected as soon as possible after their detection.** If management takes measures to correct deficiencies before year-end and determines that the corrective actions were successful, it can assert that the internal control system at year-end was effective.

**Responsibility:**

* All CRS Employees

**Requirements**

**Approvals:** Rick Estridge - Director of Overseas Finance  
Jeffrey Baeuerlein - Director of Domestic Finance  
Mark Palmer – Executive Vice President & CFO

**Relevant Knowledge:** Basic Management Concepts

**Definitions: Internal Control**

Internal Control is the process, put into place by the board of directors, management, and other personnel, to provide reasonable assurance regarding the achievement of various management objectives in the following areas:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations

**Deficiency**

From an audit standpoint, a deficiency is a perceived, potential or real internal control shortcoming. It may also be an opportunity to strengthen the system to provide a greater likelihood that the entity’s objectives are achieved.

**Project Funding Agreement**

Within the context of this policy, the term means any agreement by which CRS agrees to provide funding to a partner, regardless of CRS’ funding source. The term includes subaward agreements with partners (subrecipients) who receive U.S. Government funds through CRS.

**Records and Notes**

**Special Notes/Appendix**

1. Internal Control Procedure PRO-FIN-ICS-024.01 requires Country Programs to perform an annual self-assessment of their internal control systems using standardized questionnaires developed by the Office of Finance. The updated versions of those checklists and the current user guidance are available on the Intranet under Global Finance / Financial Flash / Internal Control Questionnaires.
2. CRS’ standard Payment Request form should be used for the following:
   1. All payments to partners
   2. Payments against vendor invoices
   3. Advances to vendors
   4. Cash transfers to suboffices or other bank accounts
   5. Payments against contracts and agreements
   6. To establish or replenish Operating Cash-on-Hand Funds
   7. To establish or replenish Petty Cash Funds
   8. Payments of awards or subawards to other agencies
   9. Monetization fund distributions
   10. Advances to employees for short-term operating needs
   11. Microfinance loan distributions
   12. Payroll disbursements
   13. Severance payments
   14. Payments to local governments and taxing authorities
   15. Payments arising from litigation settlements
3. The following standard forms should be used in place of the Payment Request Form for disbursements relating to their specific applications:
   1. Salary Advance Request
   2. Travel Advance Request
   3. Travel Expense Voucher
   4. Petty Cash Voucher (used for advances and reimbursements)

**Attachments**

Project Funding Agreement Financial Summary (PFAFS)

**Related Documents**

**The following is a list of other documents related to the current document. Changes you make to the current document may affect the documents listed.**

**Policy**

POL-FIN-REC-027

Accounting for Risk & Loss Contingencies

INTRO-HD-2

Mission Statement

POL-HRD-NAT-0012

Personnel Manuals

POL-HRD-GEN-0002

Conflict of Interest

CRS Purchasing Manual

POL-OSD-GEN-001

Agreements

POL-OSD-GEN-009

Power of Attorney

**Procedure**

PRO-FIN-ICS-024.01

Internal Control Checklists

**External Documents:**

Internal Control - Integrated Framework

Published by the Committee of Sponsoring Organizations of the Treadway Committee (COSO)

Internal Controls: Design and Implementation

Published by the American Institute of Certified Public Accountants

Government Auditing Standards

Published by the Government Accountability Office – July 2007 Revision

**Revision History:**

**Revision Notes:** This is a revision of the policy issued on January 31, 2007. The changes are effective immediately.

**Authorization History:**

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* Office of Finance
* Office of Legal Counsel
* Internal Audit
* Director I, Purchasing
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**Distribution/Routing List**

**All persons or areas listed below should receive a controlled copy of this document once it is approved:**

Country Program Financial Managers  
Country Representatives  
Deputy Regional Directors / Management Quality  
Deputy Regional Directors / Program Quality

Regional Finance Officers

Director I, Purchasing

Management, Policy & Information Group   
Public Resources Group of OSD

Director of the Overseas Support Department  
Regional Directors  
Executive Vice President for Overseas Operations  
Director of the Program Quality Support Department

Executive Vice President for U.S. Operations

Vice President – Chief Learning Officer

Vice President for Risk Management  
Office of Finance  
Director of the Internal Audit Department  
Director – Workforce Development

Policy Coordination Group Members (not included elsewhere)  
Other HQ/Support Departments and Field Office Employees via Intranet