

# **FMFIA Report Financial Student Aid Internal Control Plan**

## **Overview**

This Internal Control Plan, hereafter referred to as the Plan, will identify Financial Student Aid (FSA) internal controls that are necessary to provide reasonable assurance that:

- Assets are safeguarded;
- Financial records and reports are valid;
- FSA is in compliance with all laws, regulations, policies and procedures pertaining to financial transactions and reporting; and
- Effectiveness and efficiency of FSA's operations is achieved.

Also, the Plan will ensure that the following general internal control principles are adhered to by FSA:

- Duties are segregated so that no one person has complete control over a function or activity (Separation of Duties);
- All transactions are authorized, approved by designated officials and funds are available (Authorization and Approval);
- Records are examined and reconciled to determine that transactions were properly processed and approved (Review and Reconciliation);
- Equipment, inventories, investments, imprest funds and or other assets are secured physically, counted periodically and compared with amounts recorded in financial statements (Physical Controls);
- All employees are well trained and supervised to ensure that control processes function properly (Training and Supervision);
- All policies and procedures are well documented and current to ensure employee understanding of their job duties and help ensure continuity during employee absences and turnover (Documentation); and
- All costs associated with any internal control process should not exceed its expected benefit (Cost/Benefit).

Furthermore, the Plan will assess the FSA's level of compliance with specific internal control standards within each of its functional areas, and provide recommendations to strengthen FSA internal controls and financial integrity.

## **Detail Tasks**

The Internal Control Plan will be completed in four phases.

### **Phase I**

The first phase will involve identifying of the applicable internal control standards for each of FSA's functional areas, e.g., accounts payable, accounts receivable, fund balance with Treasury, etc., and related feeder systems. During this initial phase we will review various documentation from:

# **FMFIA Report Financial Student Aid Internal Control Plan**

- Department of Treasury’s Financial Service;
- Office of Management and Budget (OMB);
- General Accounting Office;
- ED Inspector General Document on Internal Control;
- Financial Accounting Standards Board; and
- Other Miscellaneous Sources.

Also, we will meet with key FSA personnel to gain an understanding of each functional area and related feeder systems (including the new Common Origination and Disbursement system for grant and loans) to identify/confirm applicable internal controls necessary for each of FSA functional areas. In addition, we will meet with staff in the Internal Review Division to review corrective action plan items in response to various internal audits and program compliance audits. We will also review the work done by FSA in support of the Presidential initiative to estimate and reduce erroneous payments of FSA funds.

This phase will produce an Executive Summary matrix (See attached Sample) of FSA’s internal controls. It will identify specific internal control standards by functional area, determine its risk level, and assign an assessment rating based upon compliance with the internal control standard. Each internal control standard will be assigned a subjective rating of “Full”, “Partial” or “Non” compliance, depending upon the level of compliance to the standard. The objective of this Executive Summary matrix is to highlight to senior FSA management FSA’s internal control strengths and weaknesses.

## **Phase II**

The second phase will involve the drafting of individual write-ups (See attached Sample) for each of FSA’s internal control standards. The write-ups will be limited to one to three pages and will include the following:

- Purpose;
- Background;
- Internal control standard;
- Assessment of compliance; and
- Recommendations to improve compliance, if applicable.

As with Phase I, this phase will involve meeting with FSA personnel to gain a further understanding of each functional area, to review source documents, and to assess the level of compliance with each of the standards.

## **Phase III**

The third phase will involve compiling a set of work papers to document FSA’s compliance assessment with each of the internal control standards. Documentation will include, but will not be limited to the following:

# **FMFIA Report Financial Student Aid Internal Control Plan**

- Correspondence designating approval authority, e.g., certifying officer designation;
- Monthly reconciliation worksheets;
- External Treasury Reports and Statements;
- FSA Trial Balances;
- Annual report by independent auditor's assessment of FSA's internal controls;
- ED Inspector General audit reports and General Accounting Office audit reports; and
- Other Miscellaneous Source documents;

## **Phase IV**

The fourth and final phase will involve training FSA staff on the internal control process and preparation of an Internal Control Manual. Appropriate FSA staff will be trained on how to assess and document internal control standards in their respective functional areas. The Internal Control Manual will include write-ups of all of the internal control standards identified in Phase I and II. It will also include examples of documentation necessary, in order to assess an internal control standard.

## **Due Dates**

- Completion of a draft Executive Summary Matrix, without an assigned assessment rating by April 15, 2002;
- Completion of 70 percent of internal control standard write-ups by June 15, 2002;
- Completion of a draft Executive Summary Matrix, with a preliminary assigned assessment rating by June 30, 2002;
- Completion of a draft Internal Control Manual by August 15, 2002;
- Completion of Final Executive Summary Matrix, internal control standard write-ups, workpapers and Internal Control Manual by September 30, 2002 which will be used by FSA in completing its FMFIA Report for FY 2002; and
- Provide detail training to appropriate FSA financial staff on the internal control process and basic internal control awareness training to certain FSA program managers by October 31, 2002. (Working with the Department to supplement the Department's internal control training initiatives as appropriate.)