

MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania
Governor's Office

Subject: Evaluating Agency Internal Controls and Risk through Self Assessment	Number: 325.11 Amended
Date: May 17, 2012	By Direction of:  Charles B. Zogby, Secretary of the Budget
Contact Agency: Office of the Budget, Office of Comptroller Operations, Bureau of Audits, Telephone 717.783.0114	

This directive establishes policy, responsibilities, and procedures for identifying and analyzing financial, operational, compliance, and strategic risk and evaluating internal controls through self assessment. Control Self Assessment (CSA) allows an agency to evaluate internal control effectiveness in order to improve its ability to meet its stated vision/mission statements, goals, and objectives by limiting its risk. Marginal dots are excluded due to major changes.

- 1. PURPOSE.** This directive establishes policy, responsibilities, and procedures for identifying and analyzing financial, operational, compliance, and strategic risk and evaluating internal controls through self assessment.
- 2. SCOPE.** This directive applies to all departments, boards, commissions, councils, authorities, and offices (hereinafter referred to as "agencies") under the Governor's jurisdiction.
- 3. OBJECTIVES.**
 - a.** To ensure agencies develop an enterprise risk management (ERM) integrated framework by identifying risks, evaluating internal controls, and determining residual risk.
 - b.** To create or enhance internal controls for reducing risk impacting organizational vision/mission statements, goals, and objectives.

4. DEFINITIONS.

- a. **Control Self Assessment (CSA).** A process whereby an agency identifies risks, evaluates internal controls, determines residual risk, and, afterwards, considers whether to create or enhance internal controls that reduce the residual risks affecting organizational vision/mission statements, goals, and objectives. CSA is accomplished using an internal control framework through surveys of, or workshops consisting of, CSA work teams.
- b. **CSA Advocate.** An employee appointed by the agency head who has an integral understanding of the processes and functions of the agency as a whole, serves as the individual responsible for the agency's CSA, and works with the Office of the Budget, Office of Comptroller Operations, Bureau of Audits (BOA) to define the scope of the CSA.
- c. **CSA Work Team.** A group of employees assigned to work together and/or provide feedback to identify risks and evaluate internal controls.
- d. **Enterprise Risk Management (ERM) Integrated Framework.** An enterprise-level process of identifying and analyzing financial, operational, compliance, and strategic risks; developing responses to those risks; and improving deployment of resources.
- e. **Internal Control.** A process designed to mitigate risk and provide reasonable assurance regarding strategy, compliance, and the reliability of operations and reporting. This concept applies equally to the agency as a whole and specific units within the agency.
- f. **Residual Risk.** The risk remaining after management has taken action to alter the risk's likelihood or impact. "Risk minus internal controls equals residual risk" is the formula used to obtain the final level of risk that management must address.

5. POLICY.

- a. CSA shall be conducted at the direction of the commonwealth audit committee, agency head, or BOA.
- b. CSA shall focus on the scope (organizational vision/mission statements, goals or objectives, etc.) developed by the agency in consultation with BOA and approved by agency heads.
- c. CSA advocates and CSA work team members must have a thorough understanding of the risks and controls being evaluated. Before a union-represented job class can be included in a CSA work team assigned to evaluate matters that touch upon working conditions and/or work processes affecting such job class, the CSA advocate must consult human resource/labor relations personnel to assess possible labor relations obligations.
- d. CSA results must be provided to the agency within 30 days of the conclusion of the CSA.

6. RESPONSIBILITIES.

a. Agency Head.

- (1) Appoint a CSA advocate.
- (2) Approve the scope for conducting the CSA.

b. Agency CSA Advocate or Deputy Secretary for Administration/Designee.

- (1) Assign members to the CSA work team as evaluators; consult human resources/labor relations personnel to assess possible labor relations obligations with respect to the selection of CSA work team members from union-represented job classes.
- (2) Plan and prepare, with the assistance of BOA, the scope for conducting the CSA.

c. Office of the Budget, Office of Comptroller Operations, Bureau of Audits.

- (1) Introduce the CSA process to the agency.
- (2) Assist the agency CSA advocate or deputy secretary for administration/designee as needed in planning and preparing the scope for conducting the CSA.
- (3) Assist the agency as needed with its preparation for the CSA.
- (4) Facilitate the CSA by observing the agency CSA workshop and offering suggestions based on best practices from previous CSAs.
- (5) Compile and provide the CSA results to the agency within 30 days of the conclusion of the CSA.
- (6) Follow-up with the agency to address any questions related to the compiled CSA results and discuss, if applicable, need for the CSA process to continue.

7. PROCEDURES.

a. Agency Head. Appoint a CSA advocate or the deputy secretary for administration to serve as the individual responsible for the agency's CSA.

b. Office of the Budget, Office of Comptroller Operations, Bureau of Audits.

- (1) Contact the agency and schedule an introductory meeting.
- (2) Prepare and present the overall CSA process to the agency.

c. Agency CSA Advocate or Deputy Secretary for Administration/Designee.

- (1) Plan and prepare, with the assistance of BOA, the scope for conducting the CSA.

- (2) Submit the CSA scope to the agency head for approval.
- d. **Agency Head.** Approve or disapprove the CSA scope and notify the agency CSA advocate and deputy secretary for administration/designee.

NOTE: The CSA cannot proceed without the approval of the agency head.
- e. **Agency CSA Advocate or Deputy Secretary for Administration/Designee.**
 - (1) Assign members to the CSA work team as evaluators.
 - (2) Consult human resources/labor relations staff to assess possible labor relations obligations with respect to the selection of CSA work team members from union-represented job classes.
- f. **Office of the Budget, Office of Comptroller Operations, Bureau of Audits.**
 - (1) Assist the agency as needed with its preparation for the CSA.
 - (2) Facilitate the CSA by observing the agency CSA workshop and offering suggestions based on best practices from previous CSAs.
 - (3) Compile and provide the CSA results to the agency within 30 days of the conclusion of the CSA.
 - (4) Follow-up with the agency to address any questions related to the compiled CSA results and discuss, if applicable, need for the CSA process to continue.

This directive replaces, in its entirety, *Management Directive 325.11*, dated January 6, 2011.