

Overview:

In order to have effective Enterprise Risk Management, it must be continuously monitored and updated as needed for any changing risks associated with a changing operating environment. This function consists of two distinct activities. First are the monitoring activities that review internal controls in order to identify areas of concern. Second is the remediation activity taken to resolve deficiencies identified through the monitoring of internal controls. Corrective actions are a necessary complement to control activities in order to achieve objectives.

The fifth component of the framework is Monitoring.

Monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews.

Monitoring has two principles, and to help management and the oversight body achieve each principle, there are attributes to each of the two principles.

Principle 16- Perform Monitoring Activities:

“Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.”

Attributes:

- Establishment of a baseline
- Internal control system monitoring
- Evaluation of results

Establishment of a Baseline:

Management establishes a baseline to monitor the internal control system. The baseline is the current state of the internal control system compared against management’s design of the internal control system. Once established, management can use the baseline as criteria in evaluating the internal control system and make changes to reduce the difference between the criteria and condition.

Things to Consider when Establishing Baselines to Monitor Internal Controls:

- Consider WHAT and WHO you are monitoring. Ultimately you are monitoring your agency’s internal controls, but what are the internal controls? Where do you find them? You must identify the internal controls for each operation under review.
- For example, if you monitor payroll and overtime for your department you might consider federal regulations, TCAs, DOHR policies, generally accepted accounting principles, and any departmental policies and procedures which enact these regulations and principles.
- If you monitor grant programs you might consider OMB guidance, state procurement regulations, contract terms and conditions, and any departmental policies and procedures which enact these regulations and principles.

Internal Control System Monitoring:

Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. The scope and frequency of separate evaluations depend primarily on the assessment of risks, effectiveness of ongoing monitoring, and rate of change within the entity and its environment. Separate evaluations also include audits and other evaluations that may involve the review of control design and direct testing of internal control. Management uses ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization's internal controls over the assigned process.

Evaluation of Results:

Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. Management uses this evaluation to determine the effectiveness of the internal control system. Management identifies changes in the internal control system that either have occurred or are needed because of changes in the entity and its environment.

Principle 17- Evaluate Issues and Remediate Deficiencies:

"Management should remediate identified internal control deficiencies on a timely basis."

Attributes:

- Reporting of issues
- Evaluation of issues
- Corrective actions

Reporting of Issues:

Identify what management units and personnel are most relevant to the monitoring effort at your agency. Personnel report internal control issues through established reporting lines to the appropriate internal and external parties on a timely basis to enable the entity to promptly evaluate those issues. For example, in addition to customary administrative and program staff, an organization should look at other functions that carry a monitoring responsibility. This could include quality control activities, risk management, resource development work, program monitors, internal audit, and internal affairs investigators. Any of these functions may have input and/or oversight responsibilities relevant to the monitoring function. Personnel communicate these issues to the key responsible parties both internally and externally based on the severity of the issue.

- Evaluate your organization and determine who is directly responsible for monitoring.
- Find opportunities for collaboration and synergy to support the agency's overall risk management effort.

- When considering internal audit activity evaluate threats to structural independence.
- Work to get buy-in and support for your monitoring activities.
- Communicate the issues internally to the person in the key role responsible for the internal control or externally to appropriate external parties if it is required.

Evaluation of Issues:

Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. Management evaluates issues identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency.

For Enterprise Risk Assessment:

- Review internal audit reports.
- Review external audit reports.
- Surveys
- Interviews
- Monitor external threats (such as administration and budget changes)
- Systematic review (monthly, quarterly, etc.) of results against baseline and trend analysis

For Internal Audit Engagements:

- Review enterprise risk assessments.
- Use appropriate audit standards and guidance.
- Incorporate baseline internal controls when planning audit engagements.
- Solicit input from management when planning audit engagements.
- Carefully evaluate your criteria for audit findings. Criteria should come from the baseline internal controls that you have identified.
- Respond timely and critically to external audit findings.

Corrective Actions:

Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings. Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level within the organization and delegating authority for completing corrective actions to appropriate personnel.

Items to Consider when Drafting a Report and Writing Corrective Actions:

- Thoroughly document the monitoring activity. Base your results ONLY on critical analysis of data and documented criteria. Monitoring results must clearly document deficiencies in the entity's internal control system.
- Make thoughtful recommendations.
- Identify who is responsible for corrective action.
- Communicate results timely.
- Communicate with management early and often, and allow them to respond appropriately (don't blind-side!).
- Be careful to maintain independence - avoid stepping into the role of management.
- Always strive to maintain a consultative, cooperative environment.
- Once corrective action has been identified by management it is important that the monitoring process be utilized to assure the organization that the remedial action is taken in a timely fashion and that it results in the anticipated improvement to the organization's operation.