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## CONTROL ENVIRONMENT

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According to the first internal control standard, which relates to control environment, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. There are several key factors that affect the accomplishment of this goal. Managers and evaluators should consider each of these control environment factors when determining whether a positive control environment has been achieved. The factors that should be focused on are listed below. The list is a beginning point. It is not all-inclusive and not every item will apply to every agency or activity within the agency. Even though some of the functions are subjective in nature and require the use of judgment, they are important in achieving control environment effectiveness.

### Integrity and Ethical Values

### Comments/Descriptions

**1. The agency has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest. Consider the following:**

- The codes are comprehensive in nature and directly address issues such as improper payments, appropriate use of resources, conflicts of interest, political activities of employees, acceptance of gifts or donations or foreign decorations, and use of due professional care.<sup>2</sup>
- The codes are periodically acknowledged by signature from all employees.
- Employees indicate that they know what kind of behavior is acceptable and unacceptable, what penalties unacceptable behavior may bring, and what to do if they become aware of unacceptable behavior.

**2. An ethical tone has been established at the top of the organization and has been communicated throughout the agency. Consider the following:**

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<sup>2</sup>Executive branch employees are subject to standards and principles of ethical conduct in accordance with 5CFR2635 and Executive Orders 12674 and 12731.

## Integrity and Ethical Values

## Comments/Descriptions

- Management fosters and encourages an agency culture that emphasizes the importance of integrity and ethical values. This might be achieved through oral communications in meetings, via one-on-one discussions, and by example in day-to-day activities.
- Employees indicate that peer pressure exists for appropriate moral and ethical behavior.
- Management takes quick and appropriate action as soon as there are any signs that a problem may exist.

### **3. Dealings with the public, Congress, employees, suppliers, auditors, and others are conducted on a high ethical plane. Consider the following:**

- Financial, budgetary, and operational/programmatic reports to Congress, OMB, Treasury, the Office of Personnel Management (OPM), and the public are proper and accurate (not intentionally misleading).
- Management cooperates with auditors and other evaluators, discloses known problems to them, and values their comments and recommendations.
- Underbillings by suppliers or overpayments by users or customers are quickly corrected.
- The agency has a well-defined and understood process for dealing with employee claims and concerns in a timely and appropriate manner.

### **4. Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct. Consider the following:**

- Management takes action when there are violations of policies, procedures, or the code(s) of conduct.

## Integrity and Ethical Values

## Comments/Descriptions

- The types of disciplinary actions that can be taken are widely communicated throughout the agency so that others know that if they behave improperly, they will face similar consequences.

### **5. Management appropriately addresses intervention or overriding internal control. Consider the following:**

- Guidance exists concerning the circumstances and frequency with which intervention may be needed, and the management levels which may take such action.
- Any intervention or overriding of internal control is fully documented as to reasons and specific actions taken.
- Overriding of internal control by low-level management personnel is prohibited except in emergency situations, and upper-level management is immediately notified and the circumstances are documented.

### **6. Management removes temptation for unethical behavior. Consider the following:**

- Management has a sound basis for setting realistic and achievable goals and does not pressure employees to meet unrealistic ones.
- Management provides fair, nonextreme incentives (as opposed to unfair and unnecessary temptations) to help ensure integrity and adherence to ethical values.
- Compensation and promotion are based on achievements and performance.

## Commitment to Competence

## Comments/Descriptions

### **1. Management has identified and defined the tasks required to accomplish particular jobs and fill the various positions. Consider the following:**