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Assignment: Long papers

### OMB and MCSs

The management control system is to keep plans of an organization on track. It is an entire set of policies and processes affirming that resources are obtained and used effectively and efficiently in achieving the organization's goals (Finkler, 2005 p.302).

The management control system provides the foundation for accountability. It involves all actions, which help an organization run successfully, including the use of resources for an organization, the motivation and the performance assessment for employees, and the management and the corrective action for managers. The management control is grounded on the assignment of responsibility for achievement of the organization's plan, (p.207-271).

Major characteristics of the management control system are:

1. Focusing on programs and Responsibility Centers.
2. The total system covering all aspects of a firm's operation.
3. Connecting with a financial and accounting structure.
4. Using two types of information for managerial control, planned data (such as budgets, standards, and projections) and actual data ([www.wikipedia.org](http://www.wikipedia.org)).

As for Federal organizations, Office of Management and Budget (OMB) plays a pivotal role in providing guidance of management control systems (MCSs) for executive departments and agencies to develop, operate, evaluate, and report on financial

management systems. OMB distributed the circular No. A-123, issued under the authority of the Federal Managers' Financial Integrity Act, to ensure accountability for results and effectiveness of Federal programs ([www.whitehouse.gov](http://www.whitehouse.gov)).

The purpose of the study is to give an example of an organization, which creates and provides a new direction of management control systems to others. I will examine OMB's missions, background and responsibilities as well as clarify its policy relevant to management control systems, which OMB provides them to Federal managers as a guideline. And then I will lead to the analysis and the elements of a control system and explain how to apply the elements to help control management.

#### OMB's missions

OMB is authorized from Title 31 of the U.S. Code. The Bureau of the Budget was reorganized into OMB in 1970 by Reorganization plan No.2 of 1970.

OMB's main purpose is to help the President in developing policies and put them into action. OMB oversees the preparation of the federal budget and supervises its administration in Executive Branch agencies.

OMB provides the President with an institutional staff capability in Executive Branch management, particularly in

- “1.Performance measurement,
2. Financial management and financial systems management,
3. Management reform,
4. Regulatory analysis and information and management systems”

([www.whitehouse.gov](http://www.whitehouse.gov)). The OMB also provides the president's central mechanism for review and clearance of Executive Branch legislative proposals ([www.whitehouse.gov](http://www.whitehouse.gov)).

### OMB's background

OMB is part of the Executive Office of the President. Its structure is composed with

1. Four resource management offices (RMOs) organized by agency and program area,
2. Four statutory offices, and
3. Seven offices that provide OMB-wide support ([www.whitehouse.gov](http://www.whitehouse.gov)).

The four Resource Management Offices (RMOs) are the biggest component of the Office of Management and Budget, each of which is led by an OMB associate director. The RMOs' main responsibilities are the development and execution of Federal budgetary policies and provide ongoing policy and management guidance to federal agencies. Fifty percents of all OMB staffs work in these offices. They are experts in their program and policy areas and are responsible for the analysis, evaluation, and implementation of policy options as well as the implementation of government-wide management initiatives ([www.wikipedia.org](http://www.wikipedia.org)).

There are four OMB offices created by statute.

1. The Office of Federal Financial Management (OFFM): Its main duty is to prepare and give direction to develop financial management and systems.
2. The Office of Federal Procurement Policy (OFPP): It focuses on improving Federal procurement law, policies, and practices, which impact on all Federal purchases of goods, property, and services.
3. The Office of E-Government and Information technology: It prepares and provides direction in the use of information technology and the E-Government initiative.

4. The Office of Information and Regulatory Affairs (OIRA): It supervises the Federal regulations and information correction and quality, and develops policies to improve government statistics and information management ([www.whitehouse.gov](http://www.whitehouse.gov)).

Other offices are the seven OMB-wide support offices:

1. The Office of General Counsel
2. The Office of Legislative Affairs
3. The Office of Communication
4. The Office of Administration
5. The Office of Economic Policy
6. The Legislative Reference Division (LRD)
7. The Budget Review Division (BRD) ([www.whitehouse.gov](http://www.whitehouse.gov)).

The Budget Review Division (BRD) plays a significant role in the President's Budget. BRD provides leadership and analytic support across the agency. It performs government-wide budget coordination and is largely responsible for the technical aspects relating to the release of the President's budget each February.

The Office of Economic Policy (EP) will take action in the analyses of "economic conditions, long-run economic, demographic, and technological changes, and fiscal policy" ([www.whitehouse.gov](http://www.whitehouse.gov)).

The Legislative Reference Division (LRD) coordinates articulation of the Administration's position on legislation by coordinating the review and clearance of the Administration's legislative proposals, testimony, and statements on bills progressing through Congress.

It has the important role of being the center of exchanging information across the federal government for proposed legislation or testimony by federal officials. “LRD distributes proposed legislation and testimony to all relevant federal reviewers and distills the comments into a consensus opinion of the Administration about the proposal” ([www.wikipedia.org](http://www.wikipedia.org)).

## Organization Chart

## Organizational Responsibilities

The four resource management offices (RMOs), the four statutory offices, and the seven offices of OMB-wide support play a vital role in developing and helping the President's administration. These organizations prepare the Federal budget and help supervise its execution throughout the department and agencies for the President. The responsibilities of OMB can be categorized as the following:

*Budget and policy development*—RMOs take responsibility in the development of new programs and policies. Each new program or policy requires collaboration, especially budgeting from OMB staff.

*Budget and policy enactment*—OMB works to “assure that proposed legislation, and agency testimony, reports, and policies are consistent with the Administration policies, including the President's Budget” ([www.whitehouse.gov](http://www.whitehouse.gov)).

*Budget and policy implementation*—OMB supervises the operation of Federal programs and also helps resolve problems that arise.

Brief summary of the functions of each of the offices within OMB

*OMB-Wide Offices.* OMB-wide offices provide executive direction and coordination for all Office of Management and Budget activities. It provides “overall leadership for OMB's activities, develops instructions and processes for management, coordinates OMB review of agency activities and prepares the budget document” ([www.whitehouse.gov](http://www.whitehouse.gov)).

*National Security Programs, General Government Programs, Natural Resource Programs and Human Resource Programs.* RMOs take responsibility in examining agency programs in every aspect, especially budgeting.

*Financial Management.* OMB prepares the Government-wide financial management condition report and five-year plan. OFFM supervises the operation of the plan and provide feedback on preparation and audit of financial statements, financial systems requirements, management control, and cost accounting and audit requirements for the non-Federal grantee community.

*Information and regulatory Affairs.* OIRA examines and coordinates agency proposals to implement or revise federal regulations and information collection requirements.

*Procurement Policy.* OFPP provides the general rule of government procurement policies, regulations and processes for executive agencies.

*E-Government and Information Technology.* The Office of E-Government and Information Technology (IT) provides of agency IT investments and provides policy guidance on agency management and execution of these investments. “E-Gov and IT also provide direction and management support to the 25 presidential E-Government and six Line of Business initiatives. To improve IT performance, E-Gov and IT leverages its resources by working closely with the Chief Information Officer Council” ([www.whitehouse.gov](http://www.whitehouse.gov)).

#### Management Control Systems (MCSs) by OMB

Management controls can be described as any activity taken by an organization to ensure possibility of achieving the objectives of the organization. According to Finkler (2005), Management controls are to keep plans of the organizations on track by using complete set of policies and procedures to assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's goals (p.302).

Therefore, MCSs are important to control resources for the purposes of both business and public sectors.

OMB is the organization providing guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations.

OMB pays attention to management accountability that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

OMB distributed the circular on June 21, 1995, issued under the authority of the Federal Managers' Financial Integrity Act, as a guideline for federal managers to follow.

Therefore, MCSs by OMB aim to assure that:

1. Programs reach their desired outcomes.
2. Resources are used appropriately for the goal of the agency.
3. Programs and resources are protected from waste, fraud, and mismanagement.
4. Programs are operated under laws and regulations.
5. Reliable and timely information is obtained, maintained, reported and used for decision making ([www. whitehouse.gov](http://www.whitehouse.gov))

OMB requires Federal managers to implement the MCSs with the outline as the following (Circular A-123 by OMB).

### Establishing Management Controls

1. *Definition of Management Controls*—Management controls are organization's efforts used by agencies to reasonably ensure that programs achieve their intended results.

Broadly, management controls encompass plans, methods and processes adopted by management to ensure that its goals are met. Management controls involve processes for planning, organizing, directing, and controlling program operations. The internal control is a subset of management controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets

2. *Developing Management Controls*—The main purpose of MCSs is accountability. As Federal employees design plans and strategies for operating agency programs, they should also create management structures that help ensure accountability for results.

“Management controls guarantee neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with Federal programs and operations” ([www.whitehouse.gov](http://www.whitehouse.gov)). To help ensure that controls are appropriate and cost-effective, agencies should consider the extent and cost of controls relative to the importance and risk associated with a given program

3. *Standards*—Agency managers should include management controls in the plan of the organization. And MCSs should be consistent with the following standards, which are drawn in large part from the "Standards for Internal Control in the Federal Government," issued by the General Accounting Office ([www.whitehouse.gov](http://www.whitehouse.gov)).

General management control standards are:

- *Compliance With Law.* All aspects of program operations must comply with law and regulation. Resources should be used appropriately under authorized purposes.

- *Reasonable Assurance and Safeguards.* Management controls must guarantee that assets and resources will be used appropriately. Management controls should be reasonable and helpful in achieving management objectives.

- *Integrity, Competence, and Attitude.* Federal employees must have loyalty and support their organizations. The spirit of the Standards of Ethical Conduct requires that they develop and implement effective management controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

Specific management control standards are:

- *Delegation of Authority and Organization.* Managers have to create MCSs that ensure and delegate appropriate authority, responsibility and accountability to accomplish the mission of the organization. "To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff"(www.whitehouse.gov).

- *Separation of Duties and Supervision.* MCSs should separate key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions among individuals. Managers should be concerned of exceeding authorities in one position.

- *Access to and Accountability for Resources.* "Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained" (www.whitehouse.gov).

- *Recording and Documentation.* Transactions should be documented properly. And the documentation for transactions, management controls, and other significant events must be clear and ready for examination.

- *Resolution of Audit Findings and Other Deficiencies.* Managers should take action promptly in response to known problems. Also managers should create timeframe for the resolutions ([www.whitehouse.gov](http://www.whitehouse.gov)).

### Assessing and Improving Management Controls

Agency managers should pay attention on monitoring and improving the effectiveness of management controls of their programs. These continuous supervisions, and other regular assessments, should provide the basic information to the agency head for annual evaluation of and report on MCSs, which are required by the Integrity Act.

([www.whitehouse.gov](http://www.whitehouse.gov)).

1. *Sources of Information.* The agency head's assessment of management controls can be performed using a variety of information sources. Sources of information include:

- “ Management knowledge gained from the daily operation of agency programs and systems.
- Management reviews conducted (i) expressly for the purpose of assessing management controls, or (ii) for other purposes with an assessment of management controls as a by-product of the review.
- IG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.
- Program evaluations.
- Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other materials prepared relating to the statements.
- Reviews of financial systems which consider whether the requirements of OMB Circular No. A-127 are being met.
- Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 (40 U.S.C. 759 note) and OMB Circular No. A-130, "Management of Federal Information Resources."

- Annual performance plans and reports pursuant to the Government Performance and Results Act.
- Reports and other information provided by the Congressional committees of jurisdiction.
- Other reviews or reports relating to agency operations, e.g. for the Department of Health and Human Services, quality control reviews of the Medicaid and Aid to Families with Dependent Children programs” ([www.whitehouse.gov](http://www.whitehouse.gov)).

If a Federal manager realizes that there is not enough information available for an assessment of management controls, then proper reviews should be conducted which will provide such a basis.

*2. Identification of Deficiencies.* Agency managers and employees should look for deficiencies in management controls from the sources of information described above. If they find a deficiency, should report it to upper managers to be realized.

Agencies should carefully consider whether systemic problems exist that adversely affect management controls across organizational or program lines. “The Chief Financial Officer, the Senior Procurement Executive, the Senior IRM Official, and the managers of other functional offices should be involved in identifying and ensuring correction of systemic deficiencies relating to their respective functions” ([www.whitehouse.gov](http://www.whitehouse.gov)).

Agency managers and staff should be encouraged to identify and report deficiencies. This is the positive reflection on their commitment to the organization. Failing to report a known deficiency would reflect negatively on the agency.

*3. Role of A Senior Management Council.* The council is helpful for assessing and monitoring deficiencies in management controls.

### Correcting Management Control Deficiencies

To maintain accountability of the organization, after identifying deficiencies from the variety of sources, agency managers will take action to correct them. The corrective actions should depend upon how severe the deficiency is.

“A determination that a deficiency has been corrected should be made only when sufficient corrective actions have been taken and the desired results achieved. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials” ([www.whitehouse.gov](http://www.whitehouse.gov)).

### Reporting on Management Controls

Required by the Integrity Act, by December 31, the head of each executive agency will submit to the President and the Congress

- 1) A statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives
- 2) A report on material weaknesses in the agency's controls.

OMB provides guidance on the composition of the annual report.

- *Statement of Assurance*. This statement will show the overall result and effectiveness of management controls within the organization. “The statement must take one of the following forms: statement of assurance; qualified statement of assurance, considering the exceptions explicitly noted; or statement of no assurance” ([www.whitehouse.gov](http://www.whitehouse.gov)). The agency head must sign the statement of assurance.

- *Report on Material Weaknesses*. The Integrity Act report must include agency plans to correct the material weaknesses and progress against those plans ([www.whitehouse.gov](http://www.whitehouse.gov)).

As I have shown above, OMB provides the guidance of MCSs for executive departments and agencies to develop, operate, evaluate, and report on financial management systems. OMB distributed the circular No. A-123 to pave the way of MCSs to establish, assess, correct and report on management controls.

In this section, we will focus on the elements of MCSs from my class experience at San Francisco State University.

Management controls encompass two core aspects:

***General Controls + Internal Controls = Management Controls.***

#### The General Control

In my opinion, the general control is the set of actions for managers to minimize deficiencies of the workplace and enhance workability to reach the goal of the organization while the internal control focuses more on the financial aspect. General controls depend on technical, ethical and leadership competencies of managers.

Managers will be the ones who take responsibility in developing MCSs to help maintain their plans, protect resources, inspire employees, evaluate performance and situations and take corrective action (Finkler, 2005, p.270).

#### How can we set the general control?

1. *Goal and objective setting*: As I discussed with Dr. Jame Nordin, he told me that

when we first step in the organization, we should know background and data of the policy as well as the theory that underlie it. We have to make clear of policies and goals of the organization.

To develop a management control, first, we should be aware the policy itself. The clearer we understand the policy, the easier we can set MCSs. As we realize, public policy is what government wants to do. When we read it, we should answer the question: What is the policy for? How can we do it? Which groups of people are the targets? What and how resources are available to support? And what is the current problem. Obviously, these questions will lead us to the concept definition of the policy, which is the main theme to guide us toward the goal and away from distractions.

Second, we have to know relevant actors, systems and structures and then we can set the objectives for the management control process. It is obvious that the competent staff will help reach the goal of the policy. Not only our coworkers but also relevant actors are the main factor of success. The legislators, the higher level agencies and the agency head also take vital roles to help develop management control systems by supporting and letting public managers operate the process freely. After we know all relevant persons, we should look at systems and structures of the organization as well.

Understanding the problem and policy and knowing relevant people to our organization, then we can set the goals and objective of the MCSs more precisely and practically.

2. *Vulnerable points*: We have to design MCSs that cover and protect vulnerable points. The vulnerable point is a situation that can be out of control such as far distant units and independent actors.

3. *Provide program monitors and create the rule for financial flow in and out*: This

process is to create the instrument to control the process of the organization. It is how managers check on staff to ensure that they will not do something that we don't want them to do. Monitoring people and separating authority among individuals should be included in the management controls. The bottom line is that we should have check and balance systems on management controls.

4. *Create integrity and organizational culture*: It is how managers embed desired culture to the people they supervise. By either rewarding or punishing, the main point is creating the integrity for the organization because laws and regulations cannot control every situation. Even if we have the best MCSs, people can intentionally make a mistake. Therefore, MCSs should include “management’s attitude, operating style and integrity, and ethical values” (p.270).

General management control includes:

1. *The technical competency*: Know how to perform the job. Technical expertise is one of the three main characters for managers. It is scientific knowledge to realize how to perform the job task (Bowman, 2004). The roles of managers are usually involved with managerial work, which Hales described as the following:

- Playing the role of figurehead and leader of an organizational unit. The manager is a representative of the organization to others.
- Acting as liaison. It is an important duty to be a center of connection.
- Monitoring. Managers supervise what is going on in the unit.
- Allocating resources. Managers will be the ones who make decisions regarding to human, financial and physical resources.
- Handling disturbances.

- Negotiating. Compromising interest and reaching an agreement, managers plays the role of negotiations for the unit.
- Innovating. Managers act as a creative center.
- Planning. Managers must take the lead in creating visionary plans for the unit.
- Directing subordinates. This is the main role of managers in pursuing the goal of the organization (Denhardt, 2004, p.338)

2. *The ethical competency*: Know how to deal with conflicts.

Ethics are the processes through the use of reasons, and social moral experiences to clarify the action right or wrong. In the general case, the two main approaches should apply properly. For public managers, teleology and deontology are the two broad ways of his or her moral action. Since they can be applied in any situation, the official has to know the basics of these two approaches to create the ethical choice (Denhardt, 2006).

Teleology: The approach which focuses on the results and then decides on the way that gains more benefits. It emphasizes the end or goal as the ultimate purpose of the moral action. And the most popular form of this approach is utilitarianism, the idea that believes in the good action as the greatest total happiness of those whom it affects or the greatest good for the greatest number of people. This means they have to compare the case every time to weigh which sides can give the most profits. This approach cannot define which actions should be right or wrong without comparing the benefits. In sum, utilitarianism is the dynamic approach concerning the ultimate profit by comparing the benefits and selecting the better one from the situation ([www. answer.com](http://www.answer.com)).

Deontology: The approach which focuses solely on the belief of the general moral principle. It believes in rightness or wrongness that can be defined by the moral standard.

Even though it is almost impossible to specify which actions can call right or wrong under any circumstances, people try to find the universal rules, accepted moral principles, to guide the conducts. Deontology often emphasizes duties or responsibilities as the most important way to create the rightness. It almost looks like religion that somewhat fails to apply effectively because different societies have different culture. They always interpret the moral standard in their own ways, even the same religion. This is why people try to make this approach more flexible by focusing in the basic morality or common sense that can be applied broadly instead of holding certain actions to be categorically forbidden or intrinsically wrong (www.answer.com).

For some workaday problems, both approaches have to be intermingled. Managers can't apply teleology—utilitarianism—by concerning only benefits but ignoring the rules. At the same time, if they insist only deontology by looking only the intent or the process, the situation will be frigid and more difficult.

3. *The leadership competency*: Know how to mobilize people to get the job done effectively. Leadership is the power to encourage people to strive willingly for group purposes. It is the ability to be a leader or the qualities a good leader should have (Denhardt, 2006).

In theoretical perspective, leadership is the way to influence or direct others. It is the process of encouraging members of a group in efforts toward the goal attainment. Since the organization gives the manager formal authority over the work of other people, it is the responsibility for him or her to translate this authority into practical activities. To achieve success of the organization, the manager has to exercise the leadership competency through the task, people and organization (Bowman, 2004).

Leadership is the crucial characteristics for leaders or managers to achieve the aim of management. It helps influence people and co-workers to fulfill the group purpose. And it is one of the three competencies for the consummate professional.

The technical competence is how to do things right, the ethical competence is how to do right things, and the leadership competence is how to help do things. Therefore, public managers should exercise those three competencies to create integrity and organizational culture to accomplish management control systems.

### The Internal Control

A system of accounting checks and balances used to monitor assets, prevent fraud, minimize errors, verify the correctness and ensure the policy are followed ([www.wikipedia.org](http://www.wikipedia.org)).

Internal control requires two systems:

1. Accounting controls encompass safeguarding assets and the accuracy of financial records. They are involved with preventive or before-the-fact controls. Its purposes are “to prevent employee misuse of assets and to prevent suboptimal use of resources where no wrongful intent is involved” (Finkler, 2005, p. 294).

2. Administrative or managerial controls deal with operational efficiency, adherence to managerial policies, and management's authorization of transactions. Administrative controls are after-fact controls. Examples are quality control and employee performance reports. (p. 294-295).

For internal controls, American Institute of Certified Public Accountants (AICPA) identifies 4 keys control areas

1. System of management authorization—Key activities should not occur without authorization.
2. Financial transactions should be recorded in a manner that allows for preparation of financial statements and to allow accountability for assets.
3. Access to assets should be limited to those who have authorization from management.
4. Actual assets should be compared with assets listed in the organization's records, and differences should be reconciled (p.295).

#### Elements of a Control System

1. Audit Trail—Ability to trace each transaction to its original source.

The audit trail is the prior element in accounting control. Its main purpose is to allow managers to know what and how the organization spent the financial resources. Each transaction will be recorded clearly and systematically.

The audit trail is used as a preventive device. When employees know that the financial activities can be traced, they're less likely to spend inappropriately. And also it must be used regularly as a way to identify discrepancies or unusual spending patterns. It's not enough to just keep good records.

2. Reliable Personnel—Capable and trustworthy employees.

The best way to achieve management controls relies on capable and trustworthy personnel. Even though we have check & balance systems, people can intentionally make mistakes. Therefore, reliable employees are the keys of internal controls.

3. Separation of functions—A system of checks and balances.

This function is normally applied to internal controls. The person who authorizes payments cannot write checks, and the one who writes checks cannot sign them. The good thing from this function is that each person may catch a problem missed by another.

However, this function might not work if relevant people collude to cheat the organization.

4. Proper authorization—Expenditures to be reimbursed only if they have received proper authorization

This control element is about creating formal authorization mechanisms. It requires all spending to be authorized by spending policies. It can be divided into two categories.

- a. General authorization—A standing approval of certain spending, often under a certain dollar amount, to avoid bottlenecks
- b. Specific authorization—Given above general authorization

5. Adequate documentation—Recording transactions

Documentation of financial flow is the crucial evidence for organization. Either papers or electronic records should be well kept for financial evidence. Whenever something wrong happens, we can show the evidence of past financial activities. Therefore, the organization should pay enough attention on what documentation will be appropriate for keeping their transactions.

6. Proper procedures—Doing things by the book

The organization should create proper internal control procedures. This will be easier for managers and employees to follow and reduce the number of errors at the same time.

However, new approaches for increasing efficiency and protecting resources should always be a matter of concern.

#### 7. Physical safeguards

- a. Cash and blank checks should be in the safety place.
- b. Backup copies of computer records should be kept separately.
- c. Valuable inventory should be protected.

#### 8. Bonding, Vacations, Rotations of duties

- a. Bonding—Insurance to protect against employee theft

If personnel could use their positions to take improper advantages from organizations, we should have bonding for them. Bonding is the insurance against theft by the employees.

- b. Vacations—Moving an employee into each role periodically

While bonding is an administrative control, vacations and rotation are accounting controls. By applying vacations, we will move an employee into each role periodically. This will give a chance for checking what went wrong in the place.

- c. Rotation—No employees will be doing the same job year after year.

Rotation can occur with little advance notice.

#### 9. Performance Audits (Operational audits)

An independent check is helpful for the organization. Internal and outside auditors will help organization in reducing cost of operations as well as improving internal controls.

Performance audits or operational audits encompass two categories:

- a. Economy and efficiency audits—Is the organization acquiring, protecting and using resources efficiently? Is there waste?
- b. Program audits—Is the organization accomplishing its objectives?

There are two types of audits for the organization.

1. Internal audits—Conducted by the organization's own audit department

- Seeks out weaknesses in controls that may allow for theft of resources
- Improve systems to reduce chance of error in recording and reporting of financial information
- Discover ways to better achieve mission

2. External audits—Conducted by independent auditors outside the organization

- Benefit of experience from reviewing control systems in the different organizations.
- Outsider's point of view
  1. Likely to see flaws that insiders may not notice
  2. Reporting is in accordance with GAAP (Generally Accepted Accounting principles)

10. Cost-Effectiveness Analysis

Managers should be concerned with cost-effectiveness of a system. If we have to pay \$ 1,000 to prevent \$ 10 from being stolen or wasted, it is not worth it. The organization should not pay more on the system than they get benefit from it.

We should be aware that there is no perfect system for internal controls. No matter how hard we design a system, someone is going to beat it. Therefore, the idea is not to be perfect, but to achieve efficient operations and reduce temptation (p. 295-299).

### Conclusion

The management control system is the process to help keep financial management on track. It will motivate employees to attempt to achieve organizations' purposes. With the management control system, every worker will be accountable for their activities and outcomes (p. 302).

OMB is one of the good examples in creating and providing MCSs to Federal organizations. With the clear-cut policy and the specific pattern, we can emulate MCSs from OMB to our organizations.

As I have shown, I examine OMB by looking at the missions, background and responsibilities. I clarify its policy relevant to management control systems, which OMB provides them to Federal managers as a guideline. And I analyze the meaning and describe the elements of a control system as well as explain how to apply the elements to help control management.

This report is part of the Financial Management class. After attending the class for a semester, I realize that financial management is not quite hard, but we have to pay enough attention to details. The management control is an interesting topic. This is because it is the heart of a financial manager to carry on the project. With technical, ethical and leadership competencies a manager has, he or she will create accountability for an organization through the management control system.

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