

## **Internal Controls for Project Managers: How to Audit Yourself Before the Auditor Audits <sup>1</sup>**

**Dr. Kenneth F. Smith**

This article describes a ‘quick & easy’ financial management internal control and vulnerability assessment test -- VULNAS – a semi-automated Excel template which is available for program / project managers to apply within their own areas of financial responsibility and accountability.

**DISCLAIMER:** I am not now, and have never been, an Auditor. But I am a professional Evaluator and have helped auditors design & conduct vulnerability assessments of programs and projects.

Many project managers can concentrate on delivering the technical components of their project on time and on budget, relying on their organizations to handle the procedural financial management aspects. Other project managers, however, often also have internal financial management control responsibilities; so are accountable as well as responsible for their project. Unfortunately, unlike chartered accountants, CPAs, & Auditors -- most project managers have absolutely no idea what financial management standards are, or how they are supposed to comply with them!

Moreover, even if they are vaguely aware, and ‘inherit’ an existing financial management control system, it may be inadequate, so it doesn’t function as intended, or expected. Once established, financial control systems are often neglected, ignored, inadvertently abused, deliberately tampered with, and/or mismanaged during project implementation, resulting in FWAM -- Fraud, Waste, Abuse & Mismanagement. Consequently, many managers fail to recognize potential risks, and go about their business oblivious to the inherent dangers, until they fall afoul of a major infraction and/or are brought up short by an audit.

To mitigate this situation in 1984, the U.S. General Accounting Office (GAO) -- *not Oceania’s ‘Big Brother’ in George Orwell’s novel* – called for significant improvements in government agency financial management controls & vulnerability assessment practices. What this entailed was:

1. Clarifying established standards for financial processes
2. Identifying potential problems in terms of those standards
3. Identifying current safeguards already in place
4. Assessing remaining weaknesses and prioritizing them in terms of their potential financial magnitude and impact

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In essence, there were 20 aspects to probe; consisting of five General Standards, six Specific Standards, as well as nine Environmental Areas to safeguard for improved management and internal control. More specifically:

A. General Standards for Management and Internal Control:

1. Reasonable assurance of unimpaired operations
2. Supportive attitude by unit personnel
3. Competent personnel to operate the control system
4. Specific control objectives and target setting, and
5. Appropriate and comprehensive control techniques

B. Specific Standards for Management and Internal Control:

1. Adequate documentation of work and controls
2. Appropriate recording of transactions
3. Appropriate execution of transactions
4. Separation of duties
5. Adequate supervision, and
6. Limited access, and appropriate accountability

C. Environmental Safeguards in terms of:

1. Organizational structure
2. Policies and procedures
3. Budgeting and planning
4. Delegation of authority/responsibility
5. Personnel practices
6. Communications
7. Data processing — particularly computer usage
8. Reporting and management information systems, and
9. Checks and balances

Working with U.S. Agency for International Development (USAID) auditors, I adapted a U.S. Defense Department approach and designed a manual interactive "Expert System" we dubbed 'VULNAS' for program and project managers to self-assess their financial vulnerability; as well as for auditors to subsequently follow-up.

The system was subsequently adopted by USAID, implemented world-wide, and used for three years. Along with others, I conducted several VULNAS training sessions throughout the agency during 1984 & 1985, as well as assisting in its application on the job. However, the system was abandoned in 1986 due to its administrative complexity. In essence, in order to comply with GAO comprehensive requirements, VULNAS necessitated numerous matrix worksheet formats, time-consuming manual 'number crunching' and data analysis, plus burdensome administrative demands for processing, reviews, and reporting. In short, administrative overkill -- inability to collect and process

data efficiently -- was the major reason for the system's demise; not its conceptual underpinnings.

To overcome these obstacles while maintaining the system's integrity, in 1987 I computerized VULNAS as a semi-automated Test (VAT) process (a Lotus 123 macro) to record, weight and rate responses and produce systematic prioritized quantitative and qualitative assessment of the program/project under scrutiny. Essentially the test consists of:

**106 Questions** – Asked: Most: Yes / No (Others: Sat/Unsat. &/or Range 1-5)  
**40 Judgement Calls** -- Made by You/Team

which the system then processes and analyzes as the amount of **financial risk** faced by the project, and **highlights the 20 aforementioned Aspects, prioritized** for attention to improve financial management aspects and reduce risk.

Although questions call for direct responses by key informants, answers to many of the questions can also be obtained through unobtrusive "rapid appraisal" observations during brief site visits. Furthermore, these questions can trigger additional informant responses and lead to deeper probing by managers or investigative evaluation team members for anecdotal support; this is particularly helpful where sampling such as this is (of necessity) judgmental and haphazard, rather than scientific and randomly conducted.

I subsequently formally introduced this VULNAS Test to the Office of the Auditor General (OAG) of Thailand in 1996 as an independent consultant on an Asian Development Bank (ADB) program where my OAG Thai team members field-tested it on an *ad hoc* basis in a combined management-audit to several projects in different agencies. **They found they could conduct a meaningful interview with knowledgeable informants in about two hours, and without exception obtained useful feedback for subsequent follow-through.** In 2011 & 2012 I updated the system template in Excel format as well as to address then current requirements, issues and concerns of the international auditing, program & project management communities. The latest 2020 upgrade embedded detailed step-by-step instructions for 'DIY' – *i.e. Do It Yourself* -- users.

In summary, VULNAS is an invaluable tool for auditors, managers and evaluators as it highlights potential financial management weaknesses in their program/project's organization, and aspects in need of further scrutiny; as well as key areas to focus attention in submitting recommendations. The test itself is powerful as the questions are constant, and instructive as each question implies the remedy for improvement. So, take the VULNAS checkup test for your current project, program or organizational situation. <sup>2</sup>

[To download the VULNAS Questionnaire in Excel, click here.](#)

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<sup>2</sup> In addition to vulnerability assessment of internal controls for financial management with VULNAS/VAT, I have developed over 100 other tools for risk assessment, monitoring and evaluation at appropriate stages of program and project development, implementation, and post-project evaluation. **These templates are available for free** from [kensmith@aol.com](mailto:kensmith@aol.com) on proof of purchase of **Project Management PRAXIS** from Amazon.

Periodic vulnerability assessment testing is only one of several steps in risk analysis. Like a doctor's annual physical examination, the VAT is a general checkup, which can readily identify where you have potential problems to be remedied, and point you to other, more specialized, tests to diagnose particular ailments. Timely testing alone will not cure organizational ills, but it will help you avoid a premature post-mortem; conscientiously following the implicit prescriptions derived from the VAT and other tests should considerably enhance your prospects for project and program success!

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## About the Author



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Initially a US Civil Service Management Intern, then a management analyst & systems specialist with the US Department of Defense, Ken subsequently had a career as a senior foreign service officer -- management & evaluation specialist, project manager, and in-house facilitator/trainer -- with the US Agency for International Development (USAID). Ken assisted host country governments in many countries to plan, monitor and evaluate projects in various technical sectors; working 'hands-on' with their officers as well as other USAID personnel, contractors and NGOs. Intermittently, he was also a team leader &/or team member to conduct project, program & and country-level portfolio analyses and evaluations.

Concurrently, Ken had an active dual career as Air Force ready-reservist in Asia (Japan, Korea, Vietnam, Thailand, Indonesia, Philippines) as well as the Washington D.C. area; was Chairman of a Congressional Services Academy Advisory Board (SAAB); and had additional duties as an Air Force Academy Liaison Officer. He retired as a 'bird' colonel.

After retirement from USAID, Ken was a project management consultant for ADB, the World Bank, UNDP and USAID.

He earned his DPA (Doctor of Public Administration) from the George Mason University (GMU) in Virginia, his MS from Massachusetts Institute of Technology (MIT Systems

Analysis Fellow, Center for Advanced Engineering Study), and BA & MA degrees in Government & International Relations from the University of Connecticut (UCONN). A long-time member of the Project Management Institute (PMI) and IPMA-USA, Ken is a Certified Project Management Professional (PMP®) and a member of the PMI®-Honolulu and Philippines Chapters.

Ken's book -- **Project Management PRAXIS** (available from Amazon) -- includes many innovative project management tools & techniques; and describes a "**Toolkit**" of related templates available directly from him at [kensmith@aol.com](mailto:kensmith@aol.com) on proof of purchase of PRAXIS.

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