

**H**aving a solid financial base is crucial to the work of the Federal Reserve Bank of Philadelphia. Donna Franco, vice president and chief financial officer, tells why strong internal controls are an essential part of that base.

Strong internal controls are important to the financial soundness and integrity of any organization. But when you're the entity that sets monetary policy and fosters the integrity of the nation's payments system, such controls are vital. The Philadelphia Fed's stability – indeed, that of the Federal Reserve System – is underlined by stringent internal controls.

In fact, we believe the more creative and innovative we want to be, the more crucial these

controls are. Bear in mind that many of the initiatives you've read about in this report are possible because strong internal controls are in place.

#### REINFORCING CONTROLS

How do we reinforce such controls? First, the Bank's senior management sets the tone that is crucial to the control environment. Since strong controls are an integral part of the Bank's strategic direction, there are well-documented policies and procedures in place, which serve as ready references for control questions that arise.

Second, in addition to our own controls, which are guided by the precepts of the Board of Governors in Washington, D.C., we also benefit from periodic reviews by the Board. Having dual controls gives us

## CHANGING TIMES mean

a definite advantage over other organizations.

Third, and equally important, is the ongoing cooperation and communication among the various departments at the Bank. For example, the Bank's chief counsel and ethics officer provides valuable insight and support in maintaining the ethical standards so important to strong internal controls.

#### OTHER RELATIONSHIPS

Furthermore, Audit and Accounting have an important relationship. This liaison is particularly valuable when the Bank goes through its yearly evaluation process, which assesses the effectiveness of the Bank's internal controls. It also comes into play during the year-end financial audit with the Bank's accounting firm.



Donna L. Franco, Vice President  
and Chief Financial Officer

# Internal Control System Components

- Control Environment — sets the tone and serves as a foundation for internal controls
- Risk Assessment — identifies and analyzes relevant risks to achievement of objectives
- Control Activities — includes policies and procedures that help ensure execution of management's directives
- Information and Communication — identifies and captures pertinent information and communicates it to relevant parties
- Monitoring — incorporates ongoing and periodic reviews of quality of internal controls



## e v e n   s t r o n g e r   c o n t r o l s

Another important area of cooperation is between the Bank's Board of Directors and the Bank's management. Our Board's Budget and Operations Committee receives regular reports and periodic presentations, and we use these opportunities to address financial and operational issues. Similarly, the Audit Committee receives reports on the effectiveness of controls throughout the Bank.

### RISK AND QUALITY

Of course, cooperation forms only part of the controls story. Controlling risk and promoting quality are also critical aspects.

On the risk side, a potential pitfall we face as a Federal Reserve Bank is reputational risk. We must be vigilant in all our activities to avoid

tarnishing our image. With our reputation intact, we can move forward and take on new strategic initiatives.

Quality is another key feature of strong fundamentals. When an organization lacks quality, it spends too much time and money fixing mistakes. A lot of an organization's success depends on having the right people with the right skills in the right job.

### THE BOTTOM LINE

So what's the bottom line? The Bank makes sure that all employees recognize their responsibilities in maintaining strong internal controls in their areas. Controls are a part of our normal routine — not a once-a-year checklist that we complete. ■