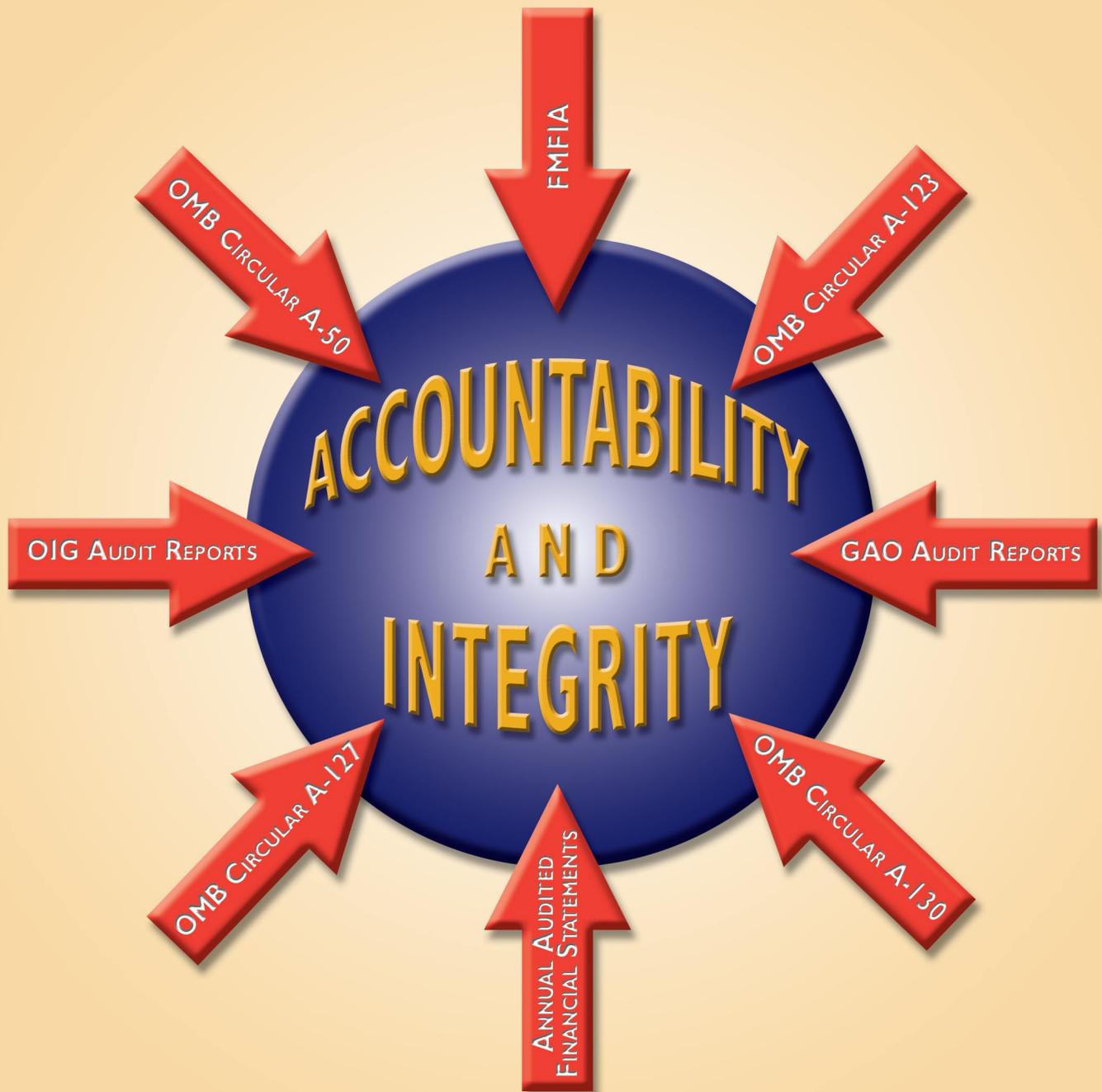


# MANAGEMENT CONTROL AND AUDIT FOLLOW-UP HANDBOOK



PREPARED BY

OFFICE OF FINANCIAL MANAGEMENT  
MANAGEMENT ACCOUNTABILITY AND CONTROL FOCUS GROUP



**U.S. DEPARTMENT OF THE INTERIOR**

**MANAGEMENT CONTROL  
AND AUDIT FOLLOW-UP  
H A N D B O O K**



**SEPTEMBER 2002**

*Graphic and production services provided by*  
**NBC** Creative Communication Services

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b> .....	1
Management Accountability and Control Focus Group Staff Listing .....	2
Management Control and Audit Follow-up Program Key Dates .....	3
Management Control and Audit Follow-up Organization Chart .....	4
List of Acronyms and Abbreviations .....	5

## **SECTION I – MANAGEMENT CONTROL PROGRAM**

Chapter 1: Overview of Management Control Program .....	M-1
Chapter 2: Overview of Management Control Process .....	M-5
Chapter 3: Annual Review Priorities Plan .....	M-8
Chapter 4: Conducting Management Control Assessments .....	M-14
Case Study No. 1 .....	M-19
Case Study No. 2 .....	M-25
Chapter 5: Identifying and Correcting Material Weaknesses .....	M-46
Chapter 6: Reporting .....	M-48
Chapter 7: Validating Completed Corrective Actions .....	M-50
Chapter 8: Key Management Control Terms .....	M-51
Addendum A: Conducting Alternative Management Control Reviews .....	M-53
Addendum B: Conducting Management Control Reviews .....	M-78
Addendum C: Internet References for OMB Circulars .....	M-87
Appendix 1: Worksheet for Analysis of General Control Environment .....	M-88
Appendix 2: Departmental Manual Chapters 340 DM 1 and 2 .....	M-95
Appendix 3: Federal Managers' Financial Integrity Act of 1982 .....	M-104

## **SECTION 2 – AUDIT FOLLOW-UP PROGRAM**

Chapter 1: Overview of the Audit Follow-up Program .....	A-1
Chapter 2: Accountability and Reporting .....	A-3
Addendum A: Internet References for OMB Circulars .....	A-6
Appendix 1: Departmental Manual Chapters 361 DM 1 and 2 .....	A-7

## **SECTION 3 – OFFICE OF INSPECTOR GENERAL AUDIT REPORTS**

Chapter 1: A Partnership – The Office of Inspector General and the Office of Financial Management .....	O-1
Addendum A: Key Terms Related to Office of Inspector General Audit Reports .....	O-2
Chapter 2: Internal Audit Reports .....	O-4
Chapter 3: External Audit Reports .....	O-11
Chapter 4: Financial Statement Audits .....	O-15

## **SECTION 4 – GENERAL ACCOUNTING OFFICE AUDIT REPORTS**

Chapter 1: Audit Reports Issued by the General Accounting Office .....	G-1
Chapter 2: Roles and Responsibilities .....	G-2
Chapter 3: General Accounting Office Audit Process .....	G-4
Addendum A: Sample GAO Response Letters .....	G-9



# EXECUTIVE SUMMARY

This handbook was developed as a reference tool to assist Department managers, management control coordinators, and audit liaison officers who are responsible for or carry-out responsibilities in the Management Control Program and/or the Audit Follow-up Program. These responsibilities include; implementing recommendations contained in audit reports issued by the Office of Inspector General (OIG) and the General Accounting Office (GAO); and for carrying out the requirements of the Federal Managers' Financial Integrity Act (FMFIA) which requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems. This handbook provides an overview of the Departmental Management Control and Audit Follow-up Programs, references pertinent Office of Management and Budget and GAO guidance, and provides detailed guidance and instruction in implementing the provisions and requirements of the Departmental Management Control and Audit Follow-up Programs.

The Department believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources in our care; (3) ensures high quality, responsible leadership; (4) ensures the sound delivery of services to customers; and (5) maximizes desired program outcomes. The Department has developed and implemented management, administrative, and financial system controls that reasonably ensure that:

- ◆ Programs and operations achieve their intended results efficiently and effectively;
- ◆ Resources are used in accordance with the Department's mission;
- ◆ Programs and resources are protected from waste, fraud, and mismanagement;
- ◆ Laws and regulations are followed; and,
- ◆ Reliable, complete, and timely data is maintained and used for decision making at all levels.

The Department firmly believes that correction of identified material weaknesses and the timely implementation of OIG and GAO audit recommendations is essential to improving the efficiency and effectiveness of its programs and operations as well as achieving integrity and accountability goals.

The Assistant Secretary - Policy, Management and Budget is the Department's Chief Financial Officer, Chair of the Management Control and Audit Follow-up Council, and Audit Follow-up Official. The Audit Follow-up Official is responsible for ensuring that systems and procedures are in place to respond to, resolve, and track the Department's progress in implementing recommendations contained in audit reports and that actions are taken to correct identified program and administrative material weaknesses. The Assistant Secretary has delegated day-to-day responsibility for the Management Control and Audit Follow-up Programs to the Office of Financial Management.

The staff of the Management Accountability and Control Focus Group within the Office of Financial Management carries out the day-to-day responsibilities of the Management Control and Audit Follow-up Programs. Department Managers, Management Control Coordinators, and Audit Liaison Officers are encouraged to contact Focus Group staff for assistance as they carry out the requirements of the Management Control and Audit Follow-up Programs.

**MANAGEMENT ACCOUNTABILITY AND CONTROL FOCUS GROUP  
OFFICE OF FINANCIAL MANAGEMENT**

---

**Wayne Howard, Focus Leader**  
202-208-4701  
Wayne\_Howard@IOS.DOI.GOV

**Management Accountability and Control Focus Group Desk Officers  
and Areas of Responsibility**

Ted Cross

*Assistant Secretary for Fish and Wildlife and Parks*  
202-208-5251, Room 5425 - Theodore\_Cross @IOS.DOI.GOV

Eric Eisenstein

*Office of the Special Trustee for American Indians/Office of Trust Funds Management*  
202-208-3417, Room 5413 -Eric\_Eisenstein@IOS.DOI.GOV

Gordon Horwitz

*Assistant Secretary - Land and Minerals Management*  
202-208-7317, Room 5413 - Gordon\_Horwitz@IOS.DOI.GOV

Charlene Hutchinson

*Assistant Secretary - Indian Affairs, Office of Insular Affairs*  
202-208-3964, Room 5423 - Charlene\_Hutchinson@IOS.DOI.GOV

Eddie Ray

*Office of the Secretary*  
202-208-7354, Room 5424 - Eddie\_Ray@IOS.DOI.GOV

Debbie Smith

*Assistant Secretary - Water and Science*  
202-208-3250, Room 5428 - Deborah\_L\_Smith@IOS.DOI.GOV

Deborah Williams

*All General Accounting Office Audits*  
202-208-3963, Room 5423 - Deborah\_GAO\_Liaison\_Williams @IOS.DOI.GOV

## MANAGEMENT CONTROL AND AUDIT FOLLOW-UP PROGRAMS KEY DATES

---

### **November**

- ◆ November 1 - Departmental Annual Management Control Guidance Issued

### **January**

- ◆ January 1 - Management Control Review Priorities Finalized
- ◆ January 15 - Quarterly Report on Management Control and Audit Follow-up Activity

### **April**

- ◆ April 15 - Quarterly Report on Management Control and Audit Follow-up Activity

### **May/November**

- ◆ Semi-Annual Bureau Progress Meetings

### **July**

- ◆ July 15 - Quarterly Report on Management Control and Audit Follow-up Activity

### **August**

- ◆ August 31 - Management Control Reviews Completed

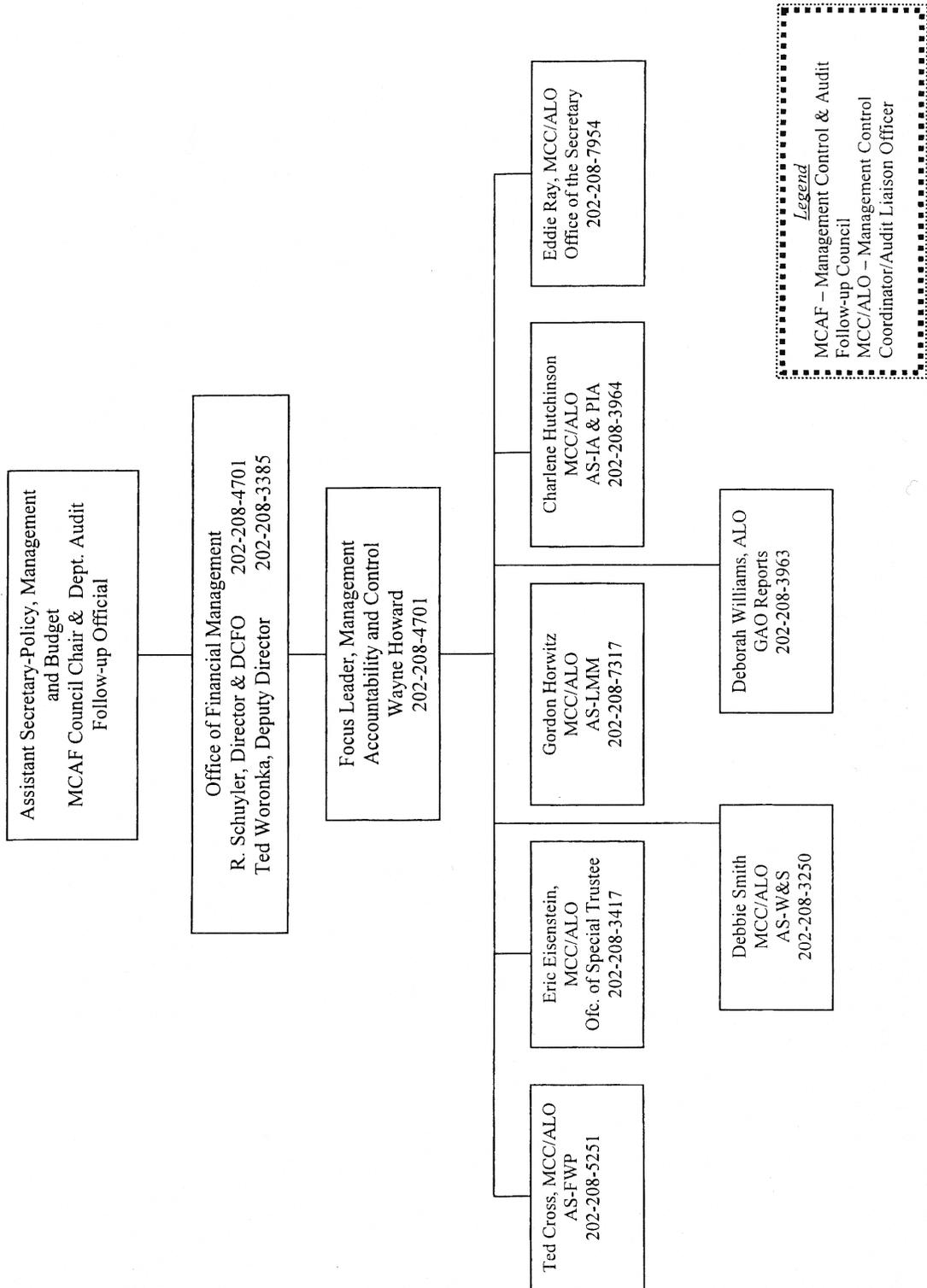
### **October**

- ◆ October 1 - Annual FMFIA Assurance Statements Due to the Office of Financial Management (PFM)
- ◆ October 15 - Quarterly Report on Management Control and Audit Follow-up Activity

### **December**

- ◆ Management Control and Audit Follow-up Council Year-End Resolution Meeting

**U.S. DEPARTMENT OF THE INTERIOR  
Management Control and Audit Follow-up Programs**



## LIST OF ACRONYMS AND ABBREVIATIONS

---

<b>ADP</b>	Automated Data Processing
<b>ALO</b>	Audit Liaison Officer
<b>AMCR</b>	Alternative Management Control Review
<b>CFO</b>	Chief Financial Officer
<b>DOI</b>	Department of the Interior
<b>DCFO</b>	Deputy Chief Financial Officer
<b>DFR</b>	Department wide Functional Review
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FMFIA</b>	Federal Managers' Financial Integrity Act
<b>GAO</b>	General Accounting Office
<b>GPRA</b>	Government Performance and Results Act
<b>GMRA</b>	Government Management Reform Act
<b>MCAF</b>	Management Control and Audit Follow-up
<b>MCC</b>	Management Control Coordinator
<b>MCP</b>	Management Control Plan
<b>MCR</b>	Management Control Review
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>PFM</b>	Office of Financial Management
<b>PMB</b>	Assistant Secretary - Policy, Management and Budget



# SECTION I – MANAGEMENT CONTROL PROGRAM

## C H A P T E R I

### OVERVIEW OF THE DEPARTMENT OF THE INTERIOR MANAGEMENT CONTROL PROGRAM

Legislative and regulatory requirements for federal agencies to establish and maintain adequate management control programs are not new; they date back almost fifty years. The historical evolution of the management control program is characterized by a number of key events that have had a significant influence on the current program as it operates today.

The Department's management control organizational structure provides for the involvement and interaction of many personnel: their respective roles and responsibilities help contribute to a successful Departmental management control program.

#### BACKGROUND AND AUTHORITY

The Congress, the Office of Management and Budget (OMB), and the General Accounting Office (GAO) have directed agencies to establish and maintain sound management control systems as a primary means of improving accountability, effectiveness and efficiency in achieving program goals and objectives, and in preventing fraud, waste, and mismanagement. The Department promotes the continuous monitoring of management controls as part of daily program and operation management as well as a means of strengthening management accountability and enhancing and improving program performance and operations.

The Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 ("Management Accountability and Control") require agencies to conduct an ongoing review process of management controls and to report annually on the adequacy of agencies program and operation management control systems. Under authority provided by the Government Management Reform Act (GMRA), the Department's annual assurance statement on compliance with the FMFIA is incorporated into the Department's Annual Accountability Report. The Chief Financial Officers (CFO) Act and Government Performance and Results Act (GPRA) reinforce the need for having effective management controls. Department managers should establish environments where management controls are understood, encouraged, practiced, and implemented.

The basic authority for establishing and maintaining agency controls is vested in the Accounting and Auditing Act of 1950 (U.S.C. 3512), as amended by the FMFIA.

#### DEPARTMENT'S GPRA GOAL FOR MANAGEMENT CONTROL

The Department's overall GPRA goal for the Management Control Program is twofold: (1) ensure that a sound system of financial management controls exist in all programs, organizations, and functions and meets the objectives and requirements of FMFIA and OMB Circular A-123; and, (2) implement an effective and systematic approach to assessing management controls that integrates other management improvement initiatives within the Department. The performance measure for this goal involves the timely correction of material weaknesses which is essential to improving the efficiency and effectiveness of DOI's programs and operations, and to achieving integrity and accountability goals. The current Departmental annual performance goal calls for complete implementation of 75% of corrective action plans for material weaknesses by the original target

date. Timely correction of material weaknesses will be accomplished through monitoring of corrective action plan milestones and target dates and more frequent monitoring of bureaus' progress by the Office of Financial Management (PFM) and bureau senior management and management control coordinators (MCCs).

Performance goals are intended to enhance decision making and accountability; provide information on how a program is operating; and relate program results to organization or program mission, goals and objectives. The Department's annual performance goal reflects these objectives and promotes management accountability as required by the GPRA.

## **ORGANIZATIONAL STRUCTURE**

DOI has established an integrated organizational structure to implement the Management Control Program. This structure uses the building block principle: it starts with the individual program manager and ascends to the bureau director, to the program assistant secretary, and ultimately to the Secretary. The Department's management control organization flowchart is shown on page M-4. Roles and responsibilities of key components of the Management Control Program are described below.

## **ROLES AND RESPONSIBILITIES**

The Secretary - establishes internal policy direction for the Management Control Program and submits the annual FMFIA Report to the President and the Congress.

Departmental Management Control and Audit Follow-up Council - is chaired by the Assistant Secretary-Policy, Management and Budget and is comprised of all program assistant secretaries, the Solicitor and the Inspector General (ex officio). The Council provides senior-level oversight of the Management Control and Audit Follow-up programs, resolves issues related to both programs, and decides reporting issues for the Department's Annual Accountability Report.

The Assistant Secretary-Policy, Management and Budget (PMB) Chief Financial Officer (CFO) has operational responsibility for the Management Control Program. The Chief Financial Officers Act of 1990 placed responsibility for management controls with the agency CFO.

See 340 DM 1 (pages 3 to 6) in Appendix 2 for detailed information on the roles and responsibilities of the Assistant Secretary - PMB, Inspector General, Assistant Secretaries/Solicitor, Bureau Heads, PMB management control coordinators and others in the Department's management control process.

## **MANAGEMENT CONTROL PROCESS**

The Management Control Program consists of six major components. These components are shown on page M-5 and described in later chapters of the handbook.

## **CALENDAR OF EVENTS**

Department-wide target dates for each step of the management control process are shown on page M-3. Annual updates to this schedule are prepared by PFM and transmitted in a yearly guidance memorandum to program assistant secretaries and heads of bureaus and offices.

S A M P L E \*

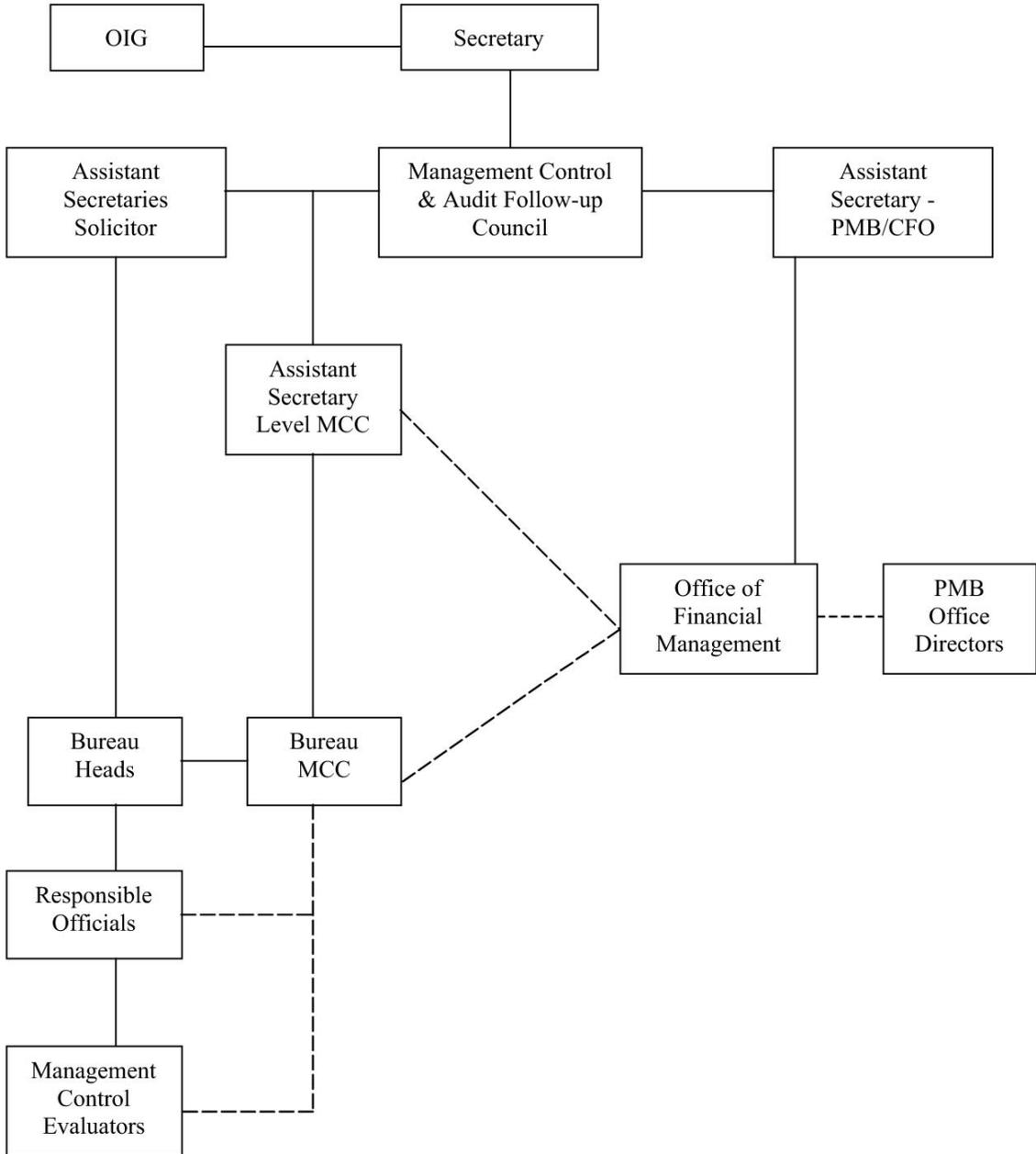
**MANAGEMENT CONTROL PROCESS  
 CALENDAR OF EVENTS**

<u>ACTION</u>	<u>ORGANIZATION</u>	<u>DUE DATE</u>
1. Develop and issue annual guidance	PMB	FIRST QUARTER
2. Develop and issue DFR guidance/models	PMB Offices	FIRST QUARTER
3. Complete MC Priorities Plan	Asst Secty Bureau Heads	FIRST QUARTER
4. Complete all assessments	Asst Secty Bureau Heads	JULY
5. Complete FMFIA Annual Assurance Statements	Bureau Heads	OCTOBER
6. Issue Resolution Meetings	Bureau, OIG, & PMB Staff	MAY/NOVEMBER
7. Management Control and Audit Follow-up Council Year-end Decision Meeting	Asst Secty Bureau Heads	DECEMBER
8. Quarterly Report on Management Control and Audit Follow-up Activity	Bureau Heads	JANUARY/APRIL/ JULY/OCTOBER

\* PFM annually updates this calendar of events.

MCAF Council meets periodically (usually semiannually) with bureau and office heads to discuss their respective management control programs and review plans, identification and correction of program and operation material weaknesses, accounting non-conformances and reportable conditions.

**U.S. DEPARTMENT OF THE INTERIOR  
 MANAGEMENT CONTROL ORGANIZATION CHART**



## C H A P T E R 2

---

**OVERVIEW OF THE DEPARTMENTAL  
MANAGEMENT CONTROL PROCESS**

The Departmental management control process has six distinct components:

- ◆ Developing and Updating the Management Control Review Priorities Plan
- ◆ Conducting Control Evaluations
- ◆ Monitoring Quality Control Over Evaluations
- ◆ Developing and Implementing Corrective Actions
- ◆ Preparing and Issuing an Annual Assurance Statement
- ◆ Verifying and Certifying Corrective Actions

A more detailed explanation of these components is provided in later chapters of the handbook.

1. The *Management Control Review Priorities Plan* is a written plan which summarizes a bureau's components; identifies the relative priority ranking of each component (high, medium or low risk activity); establishes the type of control evaluation to be conducted and the year in which the evaluation is to be completed; and fixes the responsibility for conducting the evaluation as planned. The review plan is updated on an annual basis.
2. A *Management Control Assessment* is a systematic evaluation of a control system to determine if the controls in operation are adequate to provide reasonable assurance of meeting the component's objectives efficiently and effectively while safeguarding government resources. All management control evaluations require testing of the effectiveness of the control system in operation in order to determine compliance with GAO control standards. The Department's evaluation process uses two types of control evaluation: the Management Control Review (MCR) and the Alternative Management Control Review (AMCR). Emphasis should be placed upon using the type of review which is most efficient and cost effective in reviewing a component's system of control.

A Management Control Review is an evaluation of control over *all* significant areas or activities of a component.

An Alternative Management Control Review provides the opportunity to narrow the scope of the review and focus attention on areas or activities of a component which have the highest potential for ineffective or inefficient operation or loss of government resources. Examples of an AMCR include OIG and GAO audit reports, program evaluations, GPRA annual assessments, Congressional reports, bureau internal studies relating to operations, reviews of financial systems and applications, and the **Department's automated assessment tool**.

The Department's automated assessment approach is a more efficient and less resource intensive alternative to a traditional management control assessment. This automated approach utilizes standard assessment templates for common administrative programs and functions along with supplemental procedures, as necessary (See Chapter 4 for more information on the automated assessment approach.)

3. *Quality Control* involves a system for verifying and maintaining a desired level of quality in the process by careful planning, continued inspection, and corrective action, where required. The quality control process includes all management control evaluations including AMCRs, MCRs, and Departmental Functional Reviews (DFRs). Quality control can be accomplished through the use of the following tools:
  1. Review Tracking System
  2. Management Control Review Committee
  3. Peer Review
  4. OIG Audit
  5. Management Control Coordinators
4. The fourth component in the management control process involves the *development and implementation of material weakness corrective actions* identified during management control assessments. The culmination of the management control process is not the preparation of evaluation reports; it is the improvement of program and functional services through the timely correction of control weaknesses. There are two types of control weaknesses:

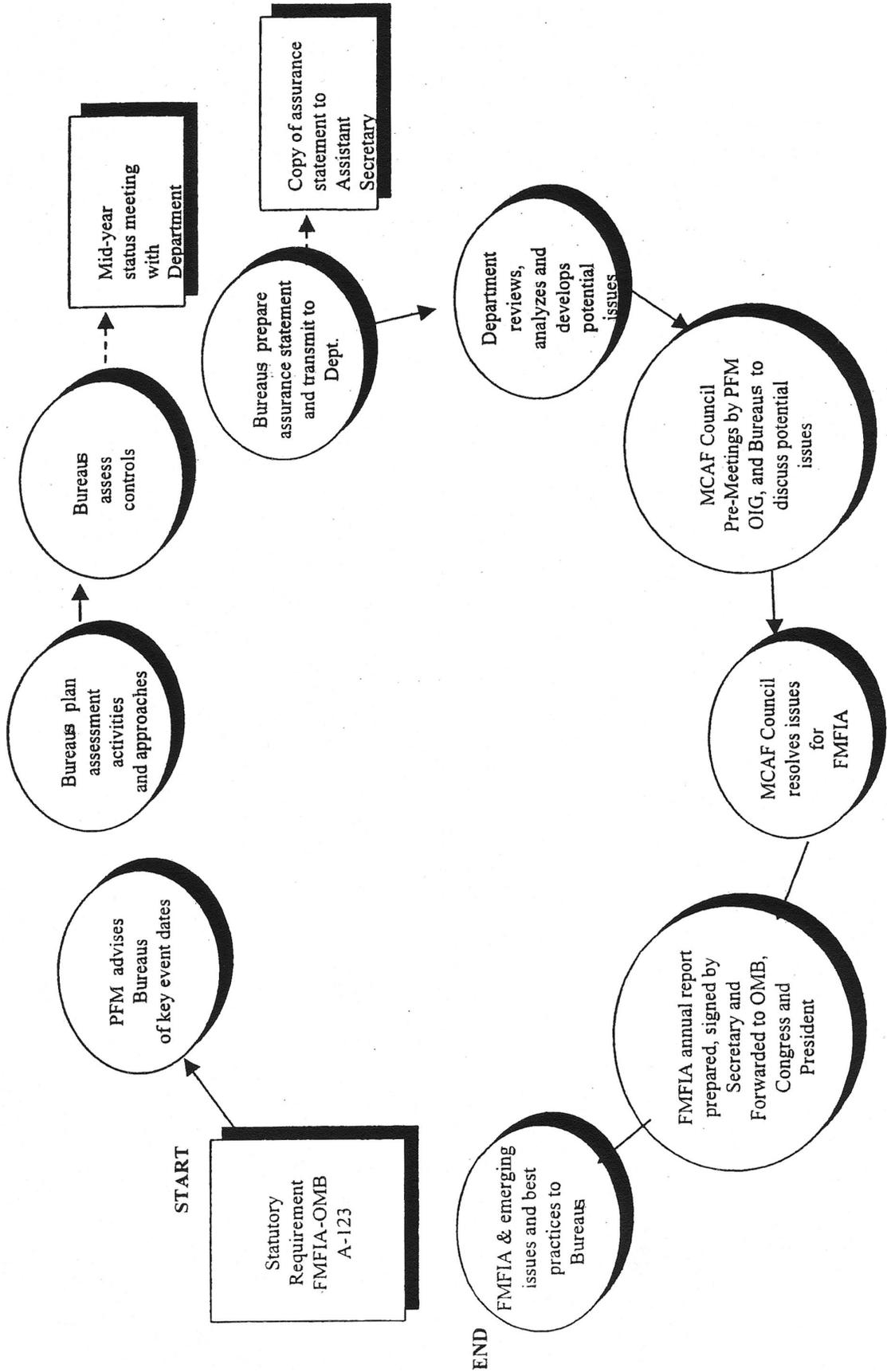
Nonmaterial weaknesses are control problems that can be corrected at the bureau level without the approval or attention of the next higher level of management.

Material weaknesses are those control problems that are of significance to the next higher level of management. **See 340 DM 2.7 F in Appendix 2 for Departmental criteria used for determining a material weakness.**

Bureaus are encouraged to establish and maintain a follow-up system to record and track material and non-material weaknesses and non-conformances corrective actions, and monitor related progress against scheduled completion dates.

5. The *Annual Assurance Statement* is prepared from the annual FMFIA reporting process in a vertical flow of information. Bureau and office heads prepare an annual assurance statement that is submitted through their respective program assistant secretary. Bureau assurance statements form the basis for the Secretary's Annual Assurance Statement which is submitted to the President and the Congress as part of the Department's Annual Accountability Report.
6. The final component in the Department's Management Control Process involves *verifying and certifying that corrective actions have been taken*. For all material weaknesses and material non-conformances and other deficiencies, the responsible program official is accountable for ensuring that planned corrective action(s) are completed and that the identified weakness or non-conformance is corrected. This certification should be incorporated into the bureau internal Corrective Action Tracking System reporting process. Bureaus have the discretion to determine how to track and validate correction of any identified weakness or non-conformance.

# DOI MANAGEMENT CONTROL STREAMLINED PROCESS



## C H A P T E R 3

**ANNUAL REVIEW PRIORITIES PLAN**

The first step in the Management Control Process involves the preparation of a “Review Priorities Plan.” This plan helps institutionalize the Management Control Process within the bureau by involving all levels of management in its preparation and approval. The review plan represents the bureau schedule for performing management control assessments for the current fiscal year and/or later years (usually over a five-year period).

**Definition**

A Review Priorities Plan should summarize a bureau’s components; identify the relative priority ranking of each component as high, medium, or low risk activity; establish the type of control evaluation to be conducted and the year in which the evaluation is to be completed; and, fix the responsibility for conducting the planned evaluation.

**Annual Review Plan**

At a minimum, the Review Plan should be updated annually. The update consists of adjusting the plan to accommodate new components or programs, changes in priority, the completion of control evaluations and corrective actions, and any additional information available on the status of controls. Annual updates should coordinate review activity to avoid redundancy by integrating, to the maximum extent possible, internal program, functional, and operational reviews, GPRA performance assessments, management studies, OIG and GAO audits, or any other independent review efforts.

The Review Priorities Plan is a useful management tool for monitoring the Management Control Program.

**COMPONENT INVENTORY**

The first step in preparing the Review Priorities Plan is to establish and maintain an inventory of bureau components. The components should be customized so that management control assessments will provide an accurate reflection of operations and activities of a specific bureau.

**Definition**

A component is defined as a major program, administrative activity, organization, function, or subdivision of a bureau or office that requires one or more separate systems of management control. However, it is suggested that bureaus define their programs and administrative functions along budget line items or other similar segmentation such as GPRA-defined activities for performance assessment and reporting purposes.

### ***Scope and Size***

Components should be properly sized to facilitate management control assessments. Each component should:

- follow organizational line and structure;
- encompass a major, identifiable program or activity; and
- have a single accountable official.

Bureau component inventories should include a specified number of functional components. These components are functional activities generic to all bureaus and offices. They are defined by the Office of Financial Management; however, the management control assessment guidelines for the functional activities are issued by the responsible Assistant Secretary - Policy, Management and Budget (PMB) office. Examples of Department Functional Reviews (DFRs) include Acquisition Management, Computer Centers, Cash Management and Debt Collection, Property Management, and Travel.

Departmental and PMB offices should include as components only those programs or functions for which they have operational, as opposed to discretionary or policymaking, responsibilities.

### ***Annual Update***

Component inventories should be updated annually before the review priorities plan is developed. This annual update is to ensure that the inventory:

- includes all programs, organizations, or functions which may encompass one or more systems of management control;
- addresses all automated data processing systems, either as a separate component or an integral part of a program component; and
- breaks out components in such a way that each component could be reviewed in an efficient, reasonable, and logical manner.

Changes in budgetary resources assigned to a component or changes in mission may lead to consolidation or splitting of a component. Other items to consider when updating the inventory are: new components, obsolete components, changes in the nature or scope of any components, and past experience in handling components.

### ***Retention of Documentation***

The MCC should maintain the current list of components as supporting documentation. This list should include a brief narrative description of each component's scope. This listing is the basis of the review priorities plan.

## **REVIEW PRIORITY RATINGS**

The second step of the review planning process is to evaluate the risk associated with individual components and assign each component an appropriate rating (high, medium, or low risk).

### **Definition**

Risk is defined as the probability of an unwanted occurrence. Evaluation of risk is the judgmental review by bureau officials of the susceptibility of all the components to the occurrence of waste, loss, unauthorized use, and/or misappropriation.

### **Scope**

Ideally, assessments of risk should be completed for all components every year. Since the purpose of prioritizing components is to provide a basis for determining the appropriate nature, scope, and frequency of reviews, all components should be assessed at least once (usually within a five-year period).

### **Process**

The review priority rating should be based on total organizational knowledge of the component and can be accomplished by gathering knowledgeable staff around a table for discussions about the components. Documentation of the process used and the conclusion reached should be retained for a minimum of five years for future reference by bureau officials, PFM, or Office of Inspector General (OIG) staff.

To assist in the priority rating process, the Department has designed the Priority Rating Worksheet. The worksheet on page M-13 (or a comparable bureau-designed alternative) should be used in gathering relevant information prior to meeting with management officials as well as documenting decisions reached during roundtable discussions.

Appropriate consideration should be given to previous control assessments such as audit reports and management control evaluations; the degree and timeliness of correcting known weaknesses; and institutional knowledge of the component. Other considerations in assigning priority rankings include factors that would:

- prevent management from meeting program objectives and goals;
- subject management to unwarranted potential loss of assets and revenues;
- cause management to provide unreliable information and reports about the component;
- encourage departures from established procedures; and/or
- create adverse public opinion.

A component with a material weakness should be rated high until the weakness is corrected.

Items which may be considered when assessing risk and assigning the priority ratings are:

1. *Analysis of the General Control Environment*

The general control environment is represented by prevailing management attitude and discipline toward management controls. An analysis of the general control environment will determine if management's attitude is conducive to a strong and effective control system. The major factors that influence the general control environment are: organization; delegation of authority; policies and procedures; personnel; planning, programming and budgeting; and, reporting and monitoring. A subjective analysis of these factors will lead the evaluators to a conclusion on the general control environment (Use Worksheet in Appendix 1 for analysis of general control environment).

2. *Analysis of Inherent Risk*

Inherent risk, as defined by OMB Guidelines, is the innate or inherent potential for waste, loss, unauthorized use, or misappropriation due to the nature of an activity itself. The major factors that affect the inherent risks of a component are: size of budget, life of component, component administration, the nature of component activities, component's impact outside the Department, and special concerns. The purpose of assessing inherent risk is to gain an indication of the degree of risk in component operations so that managers can relate the risks involved to the safeguards used.

3. *Preliminary Evaluation of Existing Controls*

The existence and adequacy of a component's management control system must be evaluated by bureau officials exercising professional judgment based on their knowledge and experience with the component. Some questions the evaluator is expected to consider are whether: employee duties are properly segregated; expenditures or other use of resources are properly authorized; funds, property or other resources are adequately protected; management monitors controls and provides oversight to identify exceptions from normal program operations; there is an active quality review staff to assure, periodically, that controls are functioning as intended; and the results of audits or other studies do not indicate control weaknesses.

**Retention of Documentation**

The MCC is encouraged to maintain current evaluation of risk assessments for each component for a minimum of five years, including documentation supporting the review priority ranking assigned. This documentation should demonstrate the basis for the priority rankings. It is suggested that each component's priority ranking be listed in the review priorities plan.

## **SCHEDULING MANAGEMENT CONTROL ASSESSMENTS**

The third step in preparing a review priorities plan is to schedule management control assessments for each component. It is suggested that these assessments be scheduled over a cyclical number of years to help assist bureaus with the review planning process. Scheduled management control reviews that have been conducted should be documented.

### ***Definition***

A management control assessment is a systematic assessment of a control system to determine if the controls in operation are adequate to provide reasonable assurance of meeting component objectives efficiently and effectively and safeguarding government resources. The two types of control evaluations are Management Control Reviews (MCRs) and Alternative Management Control Reviews (AMCRs). Emphasis should be placed on using the type of review which is the most efficient and cost effective in assessing a component's system of control. MCRs are control evaluations which cover all significant areas or activities (event cycles) of a component. An AMCR allows a bureau to narrow the scope of the review and focus attention on areas or activities of a component which have the highest potential for ineffective and inefficient operation or loss of government resources. Examples of AMCRs include GAO and OIG audit reports, GPRA performance assessments, program evaluations and internal studies, reviews of financial systems and applications, Congressional reports, and the automated assessment approach. MCRs are control evaluations which cover all significant areas or activities (event cycles) of a component.

### ***Scope and Frequency***

High risk activities should be given priority in the planning and scheduling of reviews. AMCRs should be combined with existing bureau management review processes as much as possible.

Bureaus are encouraged to consider reviewing all components ranked as high at least every three years; components with a medium or low priority ranking should be evaluated, at least every four or five years, respectively.

Because of the cost effective nature of AMCRs, their use should be encouraged to the maximum extent possible. Bureaus are especially encouraged to utilize the DOI automated assessment approach because it is a more efficient and less resource intensive alternative to the traditional MCR.

S A M P L E

---

**PRIORITY RATING WORKSHEET**  
(UPDATING THE MANGEMENT CONTROL PLAN)

COMPONENT TITLE : \_\_\_\_\_

CURRENT REVIEW PRIORITY RATING: High \_\_\_\_\_ Medium \_\_\_\_\_ Low \_\_\_\_\_

LAST REVIEW:TYPE: MCR \_\_\_\_\_ AMCR \_\_\_\_\_ YEAR \_\_\_\_\_

REPORTED AS CURRENT MATERIAL WEAKNESS? YES \_\_\_\_\_ NO \_\_\_\_\_  
(If yes, rating is high)

LIST ANY SIGNIFICANT WEAKNESSES CORRECTED SINCE LAST REVIEW.

LIST ANY SIGNIFICANT UNCORRECTED WEAKNESSES.

LIST ANY AUDITS/STUDIES CONDUCTED SINCE LAST REVIEW ALONG WITH ANY SIGNIFICANT  
RECOMMENDATIONS.

LIST ANY WEAKNESSES/PROBLEMS NOT PREVIOUSLY IDENTIFIED.

EXPLAIN ANY SIGNIFICANT INCREASE/DECREASE IN BUDGET.

EXPLAIN ANY SIGNIFICANT ORGANIZATIONAL CHANGES.

SUMMARY OF THE RATIONALE/DECISIONS SUPPORTING NEW PRIORITY RATING.

DATE, LOCATION, AND ATTENDEES OF MANAGEMENT CONTROL PLANNING MEETING.

---

NEW PRIORITY RISK RATING: HIGH \_\_\_\_\_ MEDIUM \_\_\_\_\_ LOW \_\_\_\_\_

PLANNED REVIEW:TYPE MCR \_\_\_\_\_ AMCR \_\_\_\_\_ YEAR \_\_\_\_\_

## C H A P T E R 4

---

**CONDUCTING MANAGEMENT CONTROL ASSESSMENTS**

---

The second step in the Management Control Process is conducting management control assessments. All control evaluations require appropriate tests of controls in operation. There are two types of control evaluations: Alternative Management Control Reviews and Management Control Reviews. *Bureaus are encouraged to use the DOI automated assessment approach to review a component's controls; this approach is considered an AMCR and is discussed further in the chapter (examples of an automated assessment approach and traditional AMCR are included at the end of this chapter).*

**Difference Between AMCRS and MCRS**

AMCRs are preferred over MCRs since they are generally less paper intensive and more cost effective and efficient. The differences between an AMCR and a MCR are in the focus of testing and documentation. Generally, the AMCR documents only high risk areas while the MCR documents all risk areas. Consequently, the AMCR analysis focuses on documenting the control techniques in place for control of high risk areas. Because of its limited scope, the AMCR does not require a detailed description of a component's event cycles and analysis of the related control objectives. Since the MCR requires a description of all event cycles and analysis of control objectives and techniques, testing becomes much more involved.

The differences can be seen by comparing the individual steps of AMCRs and MCRs as shown on page M-17.

**Similarities**

AMCRs and MCRs have the same goal: assessing a component's control system effectiveness. Both types of reviews should answer the following questions:

- ◆ Does the component have clear objectives?
- ◆ Do the control systems provide reasonable assurance of meeting the objectives?
- ◆ Are there any control systems weaknesses?
- ◆ Have the weaknesses caused any problems?
- ◆ What actions, if any, are necessary to improve controls?

AMCRs and MCRs also share common elements. Both types of reviews consist of the following steps:

- ◆ Identifying what might go wrong (risk)
- ◆ Comparing control systems to the GAO control standards
- ◆ Testing control techniques
- ◆ Documenting the evaluation

- ◆ Planning corrective actions
- ◆ Reporting the results

Identifying risk was discussed in Chapter 3. The remaining common elements will be discussed in Addendum A, “Conducting AMCRs.”

### ***Automated Assessment Approach***

The automated assessment approach is based on the results of a Management Control Re-Engineering Laboratory conducted by the Department in 1996. The Laboratory developed a new automated, less resource-intensive approach for targeting and conducting management control assessments. The automated assessment approach is built around eight management integrity measures that support the general and specific management control standards outlined in OMB’s Circular A-123 (“Management Accountability and Control”) and GAO’s “Standards for Internal Control in the Federal Government.” A unique feature of the automated assessment approach is that it provides for identifying areas of both potential material deficiencies and best practices. The assessment is performed electronically using an off-the-shelf surveying and analytical software tool (Survey Tracker) that provides diagnostic and executive-level reporting. The results of the survey questionnaire and responses are analyzed by the software and a graphical summary report known as a “spider diagram” is produced. The “spider diagram” presents the actual assessment against a Departmental standard for each management integrity measure. The eight integrity measures are:

- ◆ Organizational Control Environment
- ◆ Risk Management
- ◆ Fiscal Resources Stewardship
- ◆ Program Effectiveness
- ◆ Regulatory Compliance
- ◆ Audit Resolution
- ◆ Management Information
- ◆ Financial Systems and Data Integrity

For detailed information on the automated assessment approach and the eight integrity measures, see Addendum A, and a sample “spider diagram” is included in Case Study No. 1 at the end of this chapter. Also, information on the integrity measures can be found in OMB Circular A-123 and GAO’s “Standards for Internal Control in the Federal Government.”

If a bureau wants to utilize the automated assessment approach, it should contact PFM which will work closely with the bureau in planning, conducting, analyzing, and reporting the results of the automated assessment approach. ***The automated assessment approach is a useful tool that can assist bureaus in planning and conducting more focused and cost-effective assessments and, for these reasons, the Department encourages its use.***

## **Quality Control**

Quality control is the third step in DOI's Management Control Process. Each bureau is to establish and maintain a quality control process to ensure that control techniques are properly defined, management control assessments are properly performed, and results are accurately reported.

### **Definition of Quality Control Review**

Quality control is a system for verifying and maintaining a desired level of quality in a process by careful planning, continued inspection, and corrective action, where required. The quality control process includes all management control evaluations including AMCRs, MCRs, and DFRs.

### **Quality Control Tools**

Quality control can be accomplished through several tools:

*Management Control Review Committee.* The first quality control tool is bureau and assistant secretary Management Control Review Committees. These committees assure that all management control assessments have been conducted in accordance with guidelines prior to submission to the Assistant Secretary - PMB. The Committees focus on the technical aspects of the evaluations as well as on the proper identification of the weaknesses and appropriateness of corrective actions.

*Peer Review.* A second quality control tool is a peer review. Peer reviews on management control assessments are another way of assuring that the assessment has been conducted in accordance with guidelines prior to submission to the Assistant Secretary - PMB. Peer reviews have the same focus as the Management Control Review Committee, but may consist of program managers from a single bureau or from several bureaus.

*Management Control Coordinators.* A third quality control tool is management control coordinators who have been designated by each program assistant secretary or bureau head to coordinate and facilitate compliance with Management Control Program requirements.

## **CONDUCTING MANAGEMENT CONTROL ASSESSMENTS**

### **AMCR**

1. Starting the Evaluation
  - planning
  - general control environment
  - ADP
  
2. Defining Control Systems
  - identify and document high risks cycles
  - identify and document control techniques
  - compare control systems to the GAO control standards
  
3. Testing the Control System
  - select controls to be tested
  - select test methods
  - determine amount of testing
  - plan data collection
  - conduct the tests
  - analyze test results, develop conclusions and plans for corrective action
  - report the results

### **MCR**

1. Starting the Evaluation
  - planning
  - component survey
  - general control environment
  - ADP
  
2. Defining Control Systems
  - identify and document event
  - identify and document all risks
  - identify and document control objectives
  - identify and document control techniques
  - compare control systems to the GAO control standards
  
3. Reviewing the System Design
  - adequacy of control objectives
  - adequacy of control techniques
  
4. Testing the Control System
  - select controls to be tested
  - select test methods
  - determine amount of testing
  - plan data collection
  - conduct the tests
  - analyze test results, develop conclusions and plans for corrective action
  - report the results



## **CASE STUDY No. I**





# United States Department of the Interior

FISH AND WILDLIFE SERVICE  
Washington, D.C. 20240



In Reply Refer To:  
FWS/AMBS/DBHC/004416

Memorandum

To: Director, Office of Financial Management

Through: Assistant to the Assistant Secretary for Fish and Wildlife and Parks AUG 30 2001

From: **FOR** Acting Deputy Director DAN B. ALLEN AUG 29 2001

Subject: Management Control Assessment of Bird Habitat Conservation

A review of controls was conducted for the Bird Habitat Conservation (North American Wetlands Conservation Act) component during January-July 2001 in the Washington Office. The current Fiscal Year budget is \$72 million and 19 FTEs. The review included an automated questionnaire covering the NAWCA grants process which is performed only in the Washington Office.

The automated assessment questionnaire was administered to ten staff within the Washington Office and ten were completed. The attached overall results exceed the Department minimum standards in each of the integrity measures: (1) Organizational Control and Environment; (2) Risk Management; (3) Program Effectiveness; (4) Regulatory Compliance; (5) Management Information; (6) Resource Stewardship; and (7) Audit Resolution.

The review focused on controls over the following risks:

- (1) Program performance reviews not systematically conducted;
- (2) Project monitoring site visits not systematically conducted;
- (3) Division of labor between the Division of Contracting and General Services and the Division of Bird Habitat Conservation is unclear, inefficient, and often duplicative; and
- (4) Intra-agency inconsistency in interpretation and application of laws and regulations.

Tests conducted during the evaluation were sufficient to provide reasonable assurance of detecting any significant control weaknesses. Testing methods used for this assessment were: questionnaire, interviews, observation, and document analysis. The attached Control Review Report describes the weaknesses found and the planned corrective actions to be undertaken and completed by December 2002.

#### Attachments

Control Review Report  
Spider Diagram  
DOI Integrity Measure Summary



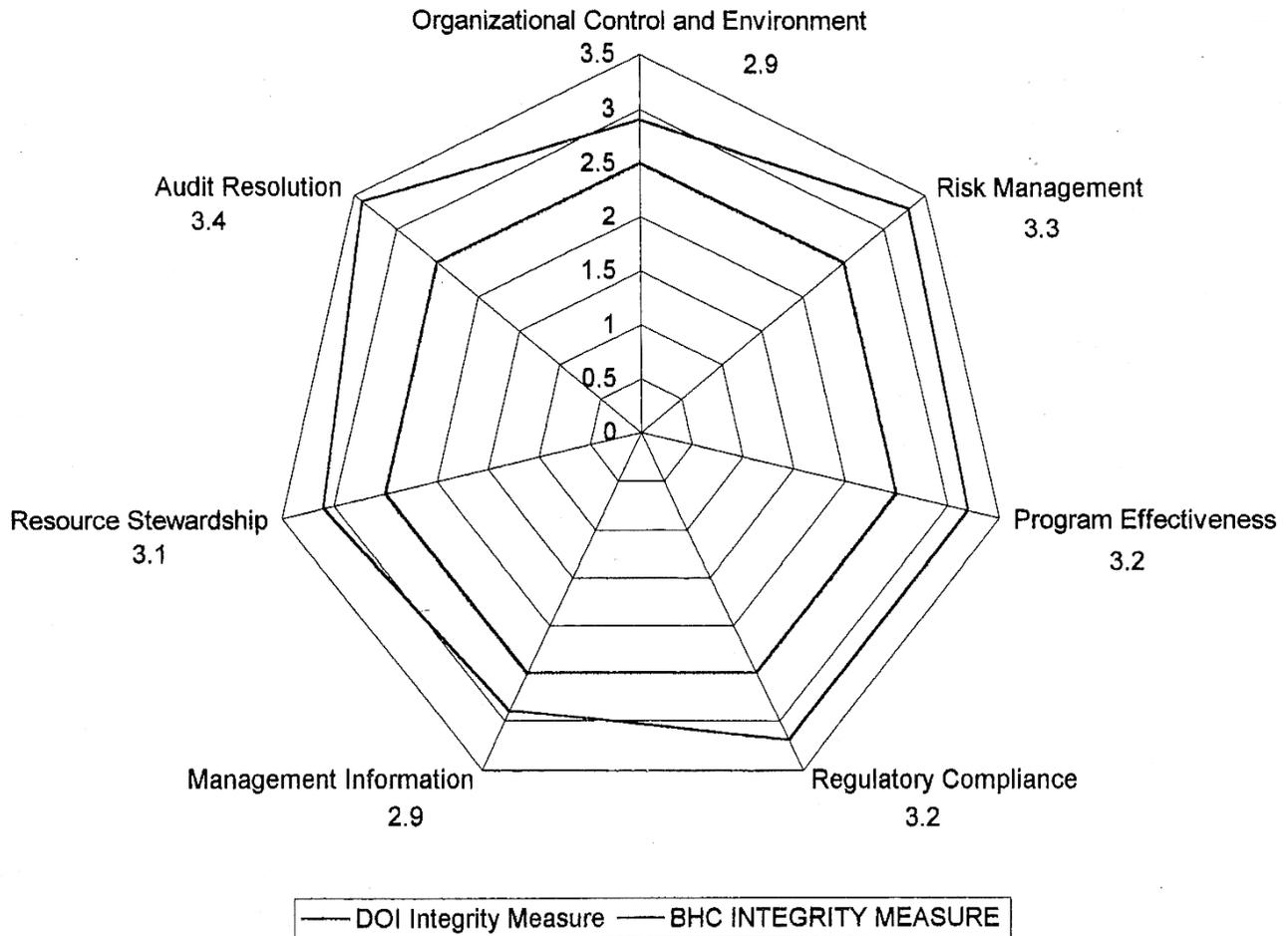
CONTROL REVIEW REPORT

Bureau: U.S. Fish and Wildlife Service Component: Bird Habitat Conservation (NAWCA)  
 Responsible Official: Assistant Director-Migratory Birds & State Programs Date: August 7, 2001

NO.	IDENTIFIED CONTROL WEAKNESSES of the Division of Bird Habitat Conservation (North American Wetlands Conservation Act)	TYPE		NO.	PLANNED CORRECTIVE ACTION (PCA) (Assigned to/Certifying Official)	PLANNED COMPLE- TION DATE
		S	C			
1	The status of program effectiveness is not known because program evaluations are not systematically conducted.	✓		1	A programmatic evaluation will be conducted; A procedure & plan for future evaluations will be developed and implemented (DBHC Program Analyst/DBHC Division Chief).	2/02
2	The status of habitat acquired, enhanced or restored is not known because on-site monitoring and evaluation of projects are not systematically conducted.	✓		2	A systematic project monitoring and evaluation site-visit procedure and plan will be developed and implemented (DBHC Program Analyst/DBHC Division Chief).	6/02
3	Lack of Service policy or guidelines promotes inefficient division of labor between DCGS and DBHC which results in gaps in grants administration responsibilities.	✓		3	Procedures clarifying the division of labor between DCGS and DBHC will be developed for proposal to DCGS (DBHC Deputy Chief/Division Chief).	8/02
4	Intra-agency inconsistency in interpretation & application of laws and regulations may result in poor customer service and intra-agency conflicts.	✓		4	A NAWCA domestic grants administration policy will be developed and following rule-making procedures, will be published in the Federal Register (DBHC Deputy Chief/Division Chief).	12/02

1. Indicate the type of weakness by checking the appropriate column.  
 S = A weakness in system design, i.e., necessary controls are lacking.  
 C = A weakness in complying with established controls.
2. Indicate whether a control weakness is a material weakness by inserting (MW) after the weakness.
3. Indicate position of person "Assigned to" complete each planned corrective action (PCA).
4. Indicate "Certifying Official" for each PCA; must be at least one level higher than person completing the action.

### BIRD HABITAT CONSERVATION



### BIRD HABITAT CONSERVATION

	DOI Integrity Measure	BHC INTEGRITY MEASURE
Organizational Control and Environment	2.5	2.9
Risk Management	2.5	3.3
Program Effectiveness	2.5	3.2
Regulatory Compliance	2.5	3.2
Management Information	2.5	2.9
Resource Stewardship	2.5	3.1
Audit Resolution	2.5	3.4

## **CASE STUDY No. 2**





## United States Department of the Interior

U.S. GEOLOGICAL SURVEY

Office of the Director  
Reston, Virginia 22092

### MEMORANDUM

JUL 1 1994

To: Director, Office of Financial Management

Through: <sup>for</sup> Elizabeth A. Rieke *Debra Kney* JUL 20 1994  
Assistant Secretary--Water and Science

From: Gordon P. Eaton *Barbara J. Ryan*  
Director, U.S. Geological Survey

Subject: Alternative Management Control Review--National Mapping Division  
Contractually Produced Digital Orthophoto Quadrangles

Attached is the completed Alternative Management Control Review for Contractually Produced Digital Orthophoto Quadrangles in the National Mapping Division. Extensive testing of the program was conducted by reviewing existing records, completed forms, or other documentation; by interviewing/eliciting information from the personnel who perform the control technique; or by observing the performance of a specific control technique. This testing was sufficient to provide reasonable assurance of detecting any significant control weaknesses. There were no identified control weaknesses.

Attachment

Copy to: Office of Inspector General



## **ALTERNATIVE MANAGEMENT CONTROL REVIEW**

### **CONTRACTUALLY PRODUCED DIGITAL ORTHOPHOTO QUADRANGLES**

#### **GENERAL INFORMATION**

##### **MISSION OF THE NATIONAL MAPPING DIVISION (NMD)**

The National Mapping Division (NMD) supports the U.S. Geological Survey's (USGS) mission to provide national earth science information in a variety of ways. The NMD provides current and accurate maps and other graphic products, as well as a variety of digital cartographic products to meet the needs of Federal and State governments and the private sector for multipurpose base information. The value of these digital cartographic data is increasing rapidly as computers become more readily available to a wider cross section of users. Additionally, new applications, such as those found in Geographic Information Systems (GIS), find their way into the decision making process at all levels. Advanced techniques for collecting, processing, and disseminating digital cartographic data are constantly evolving to meet the increasing demands. One of the newer products in high demand is the Digital Orthophoto Quadrangle (DOQ). Orthophotos combine the image characteristics of an aerial photograph with the accuracy of a conventional map. When these data are combined with other earth science data, particularly in GIS systems, new levels of measurement and analysis are possible, providing increasingly high levels of support to the decision making process. These data are being used to support land use programs, resource management applications, transportation studies, and update of other products.

The NMD combines appropriated and reimbursable funds to produce these data. The annual appropriation is not sufficient to meet all of the high priority requirements of NMD and other activities. When joint requirements can be satisfied, the NMD enters into a variety of reimbursable work agreements with Federal, State, and local agencies, and some nongovernmental activities to fund the priority projects these organizations require.

##### **LIMITS OF THIS ALTERNATIVE MANAGEMENT CONTROL REVIEW**

A thorough Alternative Management Control Review of the entire Reimbursable Cartographic Program was completed in June of 1991 and all associated weaknesses have been corrected. Since then, the digital orthophoto program has expanded. The production procedures to generate the digital orthophoto product also have been refined. Additionally, the NMD is placing an increasing reliance on private contractors to provide the production capacity for a large part of this program. This AMCR is limited to the capabilities and procedures developed since the 1991 study. It focuses on the contract production process and examines the assignment of priorities, billing procedures, and quality control activities supporting contracted production.

##### **FUNDING LIMITATIONS FOR COOPERATIVE CARTOGRAPHIC WORK**

Cooperative cartographic work with other *Federal* agencies is generally performed under an appropriate agreement. There are no legal or regulatory requirements regarding the distribution of costs, therefore other-agency share of costs can be any percentage from full repay to no payment at all. Because this program produces a DOQ, which is a standard NMD product, the NMD goal is to share costs on a 50-percent-of-total basis whenever possible. Fixed prices based on average costs are used to compute the agreed funding levels.

Cooperative cartographic work with the **States** is subject to different regulations, even when an NMD standard product results the process. Public law (43 U.S.C. 50) allows the USGS to enter into cooperative mapping projects with States, including counties and other municipal organizations. Language in the USGS's annual appropriation (P.L. 101-512), however, limits the amount of appropriated funds used for cooperative projects with States and municipalities to 50 percent of the actual cost. Estimated costs are provided to the cooperating agency as a planning tool but reimbursement to NMD is based on actual costs.

Historically the NMD has entered into **private** cooperative agreements for products with only service organizations such as the Boy Scouts of America, or academic institutions that are capable of providing unique insight into a technical investigation. To date there has been no opportunity to explore this funding option for the DOQ product.

The basis of reimbursement received by NMD can take several forms, direct payment of funds by the cooperator, work share where each agency performs a portion of the work and data exchange which provides for receipt of digital data of like value for that generated by NMD production processes. Supplemental funding is used to provide the incentive for a cooperating agency to add value or complete a product to NMD specifications. In this case, NMD transfers funds to the cooperating agency for the additional services.

### **ANALYSIS OF THE CONTROL ENVIRONMENT**

The control environment is strong and dynamic due in large measure to the experience with a reimbursable program through the years. Management emphasizes a commitment to the existing directives and policies which delineate the procedures to be followed in this activity. Positive attitudes are evident from the personnel associated with the program. This is due largely to the successful implementation of tailored production software, systems, and procedures developed by NMD managerial and technical staff to pursue this activity. There is continuous interaction between the various offices associated with negotiating agreements with other organizations, and with completing the assignments. Because the program was developed within NMD, there is an exemplary sense of dedication to ensuring a quality outcome for each project. The shared responsibility for completion of this program institutes many checks and balances throughout the production process. Because of the control exercised at the various stages, an error made at one level would be quickly caught at the next before processing could continue.

See Attachment A, "Analysis of the General Control Environment" for a detailed summary of the General Control Environment.

### **DOCUMENTING AND ANALYZING THE PROCESS**

The process was documented by delineating a high level event cycle for the process, (Attachment B). Using the event cycle for guidance, the risks associated with each event were identified in discussions with various headquarters and production personnel associated with the program. This step included analyzing the impact on the event, should the undesirable consequence occur. Once these were defined, it was possible in the next step to estimate the probability associated with each. Various production and staff personnel were interviewed to determine the probability of an undesirable event happening, and the management controls in place to mitigate each risk. The results are included as Attachment C, and a list of personnel and their contribution is at Attachment D.

## **TESTING**

Testing was conducted at headquarters and at the Western Mapping Center in Menlo

Park California. Headquarter's elements are responsible for product standards, overall program direction, and final resolution of the financial agreements between USGS and cooperating agencies. Western Mapping Center (WMC) is in operational control of the program, with an organizational element dedicated to conducting the day-to-day activities of the program. In support of the contracting process, there are several WMC personnel serving as Contracting Officer's Technical Representatives (COTR); each is assigned primary responsibility for each contractor and a deputy is assigned back up duties. They have also established source evaluation, Quality Control, and product handling units.

Testing was conducted during April and May 1994 by review of existing documentation and record keeping procedures, interviews with staff and production personnel, and observation of production coordination activities. All information gathered is summarized and documented on the attachments included in this AMCR report.

## **INVESTIGATIVE RESULTS**

As a result of the investigation, the contracted DOQ production program was found to be functioning effectively and efficiently. The possibility of waste, fraud, and abuse is considered to be minimal. There are however some aspects of the process which would benefit from changes in the production procedures:

1. For all cooperative projects, there has always been a potential problem associated with cooperative funding agreements with States. USGS is limited by law to paying only 50% of the costs. Schedule or requirements changes can often result in unanticipated cost increases. The cooperating State then must provide additional funds to meet their hag of the increase. Problems are likely to occur when the State agency has a different fiscal year than the Federal Government, and is unable to readily acquire additional funding. NMD may be required to negotiate a decrease in the size of the project, accepting payment "in-kind" for products or data, or finding a different source of funding in order to avoid violating the 50% provision.

*Recommendation.* Much of the uncertainty associated with this program would be eliminated if the source material such as aerial photography, field control, and map separates to be used for the project were to be collected and evaluated prior to making a resource estimate and giving it to the cooperator. A better feel for the quality and completeness of the source would eliminate schedule changes and the need for additional funds to acquire additional control or elevation models. NMD does not provide the resources for this "up front" evaluation, which has been described by several personnel interviewed as part of the cost of doing business. It is recommended that NMD evaluate the utility of available source material prior to entering into cooperative agreements.

2. Because the time required to collect and evaluate the source material (usually about 4 months) must be added to the time necessary to negotiate a contract, it is crucial that firm guidance as to the number of products which can be funded be provided as early as possible. The uncertainty in the level of funding greatly inhibits the ability of program managers to plan and allocate resources for the collection and evaluation of source material. There is a very real possibility that the obligation dates associated with the contracting process may preclude achieving the fiscal year's goals if final production requirements aren't known until near the end of the fiscal year.

*Recommendation.* To facilitate planning, production personnel have requested a periodic report, preferably monthly, showing the contract dollars remaining for projects. Given the lead times required to assemble and evaluate the source material to be used on a project, the limited number of personnel available, and the fact that the contractor can add another 11 weeks in evaluation and negotiation, this request seems reasonable.

**ALTERNATIVE MANAGEMENT CONTROL REVIEW**  
**CONTRACTUALLY PRODUCED**  
**DIGITAL ORTHOPHOTO QUADRANGLES**

Although no control weaknesses were identified in the management review, two areas in which changes to management procedures or production process would strengthen the program were identified.

NUMBER	OPPORTUNITIES FOR STRENGTHENING PROGRAM	PROPOSED ACTION	COMPLETION SCHEDULE
1	Move source evaluation to an earlier point in the event cycle	Establish a process to facilitate earlier source collection and analysis	Details to be developed during a Government Furnished Materials Technical Exchange Meeting to be held in July 1994
2	Provide more frequent reports on the status of funds available for contract production	Initiate a more frequent reporting cycle to permit more detailed advance planning.	A more specific reporting program will be implemented beginning with the 4th quarter FY 1994

**ANALYSIS OF THE GENERAL CONTROL ENVIRONMENT**

	N/A	AGREE	UNCERTAIN	DISAGREE	COMMENT
<b>POLICIES AND PROCEDURES</b>					
Are policies and procedures clearly stated in writing and organized in manuals, handbooks, or other?		X			
Are they communicated throughout the assessable unit?		X			
Are they consistent with applicable laws, regulations, and policies prescribed by higher levels?		X			
Are they easy to locate at all times?		X			
<b>PLANNING, BUDGETING, AND REPORTING</b>					
Does the approved budget become the operating plan.		X			
Are plans and budgets effectively communicated throughout the assessable unit?		X			
Are financial reports available for comparison to the budget?		X			
do managers in the assessable unit make the comparison referred to above and initiate corrective action?		X			
Are expenditure reports accurate and timely?		X			
Are reports scanned by higher level management?			X		See note 1
<sup>1</sup> Many reports are provided but it was impossible to ascertain whether all the information reported was used by headquarters management, or just the data needed for a particular application. No activity receiving reports complained about too little data.					

**ATTACHMENT A**

	N/A	AGREE	UNCERTAIN	DISAGREE	COMMENT
<b>DELEGATION OF AUTHORITY AND RESPONSIBILITY</b>					
Do delegations of authority exist in writing?		X			
Do they clearly outline duties, authority, and responsibilities (including any limitations thereof)?		X			
Do they prevent overlapping duplication, and conflicts of duties/authority/responsibility?		X			
Do they grant sufficient authority to carry out the responsibilities?		X			
<b>PERSONNEL PRACTICES</b>					
Is the Standards of Conduct for Federal Employees brought to employees' attention annually?		X			
Does each employee have an accurate up-to-date position description?		X			
Do performance standards include internal control considerations?		X			
In addition to the annual performance appraisal, are there interim appraisals/counseling sessions?		X			
Has there been training on internal controls for supervisor/managers of the assessable unit?			X		See note 2
Are there sufficient training opportunities to improve job competency and to update employees on new policies and procedures?		X			
Are employees held responsible for their performance?		X			
<sup>2</sup> There has been no recent formal training in management control at WMC and some supervisors have been promoted to supervisory roles since the last training session. Additionally several of the trained personnel took advantage of the "early out" window. All employees interviewed seemed to be familiar with the process and concepts. In addition, a brief tutorial was provided as part of the AMCR, to focus the review discussions and orientation. For practical purposes, the tutorial and participation in the review may suffice until a formal training course can be provided.					

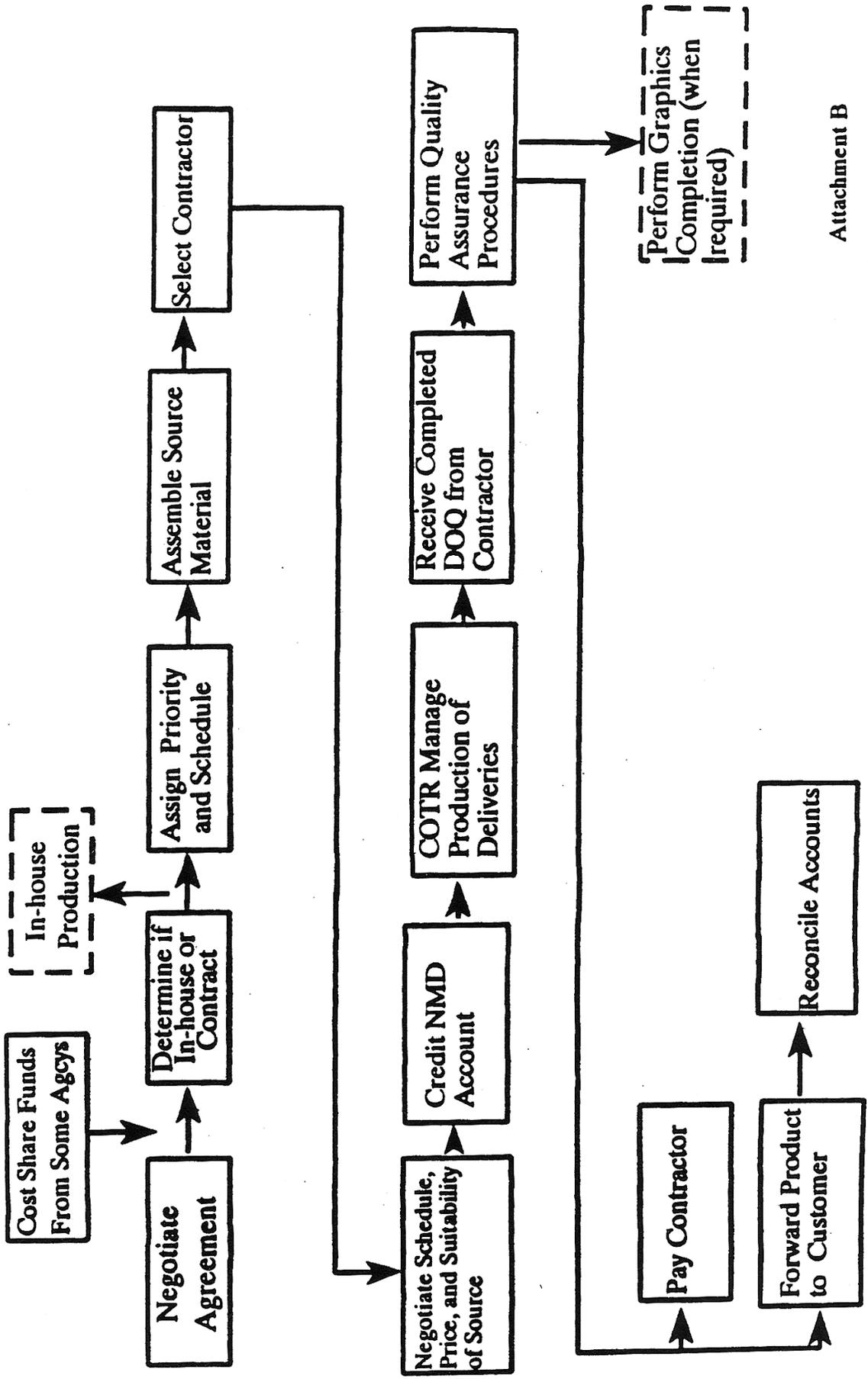
G:\DOGAMCR\ATCHMNT.A  
June 14, 1984

	N/A	AGREE	UNCERTAIN	DISAGREE	COMMENT
<b>MANAGEMENT ATTITUDE AND COMMUNICATION</b>					
Is management of this assessable unit aware of the importance of internal controls as they relate to this unit?		X			
Has management communicated that importance to employees in the assessable unit?		X			
In the past year has management specifically reviewed internal controls to assure they are working?		X			
Does unit management hold regular staff meetings?		X			
Is management receptive to suggestions for changes in operating procedures?		X			
<b>ORGANIZATIONAL CHECK AND BALANCES</b>					
Are contracts or cooperative agreements audited regularly by a third party?		X			
<b>ADP CONSIDERATIONS</b>					
Are security measures in effect which limits the use adp equipment to authorized personnel?	X				
Are published instructions and procedures available to the user or operator of this equipment?	X				
Are controls used to assure that only approved input is accepted in the system?	X				
Are output reports timely and reviewed for correctness?	X				
Are physical security measures present for the protection of the equipment during both office hours and non-office hours?	X				

	N/A	AGREE	UNCERTAIN	DISAGREE	COMMENT
<b>ORGANIZATIONAL STRUCTURE</b>					<b>Currently reorganizing</b>
Does the assessable unit have clearly written goals and objectives?		X			
Does the assessable unit have necessary authority to meet those goals/objectives?		X			
Is the assessable unit sufficiently flexible to accommodate changes?		X			
Is the assessable unit held accountable for the results of this operation?		X			
Is the organizational chart current?		X			
Does the organizational structure provide for adequate separation of duties?		X			
Does the organizational structure provide for adequate supervision?		X			

Evaluation of factors derived from interviews and observations with personnel from various locations and levels within the Division, and review of documents and records.

# Event Cycles



Attachment B

May 10, 1994

**ALTERNATIVE MANAGEMENT CONTROL REVIEW**  
**WORKSHEET FOR DOCUMENTATION OR EVENT CYCLES, RISK, RISK SCALE IMPACT AUTHORITY, AND CONTROL TECHNIQUES**  
**COMPONENT: NMD PRODUCTION OPERATIONS OFFICE**

1. Agreement made with cooperating agency.

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Agreement over-extends production resources available to NMD.	Low	Deadlines not met or adversely impact another program's funding.	a. D/I b. D/I c. D/I d. D/I e. D/I	a. NMD Policy on State Joint funding Agreements (Jan 1989). b. NMD Policy on Funding of Reimbursable Production Programs/ Approval of Agreement (June 1991). c. Policy on Work Share Agreements (July 1992). d. Policies and Guidelines on Agreements (Feb 1993). e. Cost Estimates for Reimbursable and/or Work Share Agreements (May 1993).
B. Establishes unreasonable schedule or delivery requirements that cannot be logically met by NMD.	Low	NMD required to shift production priorities for other work or risk causing cooperator to miss scheduled deadlines.	a. D/I b. I	a. Documentation listed above plus several levels of management review of proposed agreement would forestall. b. Generally will not enter into the kind of arrangement calling for specific delivery dates.
C. Establishes inappropriate or unauthorized cost share or work share agreements.	Low	Violates statutory funding guideline. Slows process when discrepancy discovered.	a. D/I	a. Guidelines in place handle standard requirements. (A, a-e) Custom products or inaccurate estimates are adjusted after the true costs are known.
D. Establishes agreement that obligates cooperator to conditions that cannot be met because of subsequent budgetary cuts or cost overruns.	Medium	NMD share of costs goes up which violates statutory funding requirements. Alternatively State has to provide additional funds or agree to less work.	a. I b. I/O	a. NMD gaining experience with process and refining estimating procedures for costs involved with QA/QC and bringing new contractors up to acceptable productivity levels. b. Production process being subjected to more intensive standardization as experience is gained.

2. Assign priority and schedule

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Production schedule and priority do not reflect conditions necessary to meet delivery schedule.	Low	Early delivery wastes production resources which could be used for higher priority items. Late delivery may violate agreement or shift delivery into time frame where funds are no longer available from cooperator.	a. I/D	a. 14-18 month completion time used for estimates is realistic. Supported by production records.

3. Assemble Source Material

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Required source material not available.	Medium	Source Collection activity delays production and stretches out schedule. May result in higher cost than estimated if contractor has to provide additional work.	a. I b. I	a. Negotiations with contractors not started until source package complete. b. Higher costs, alternative delivery schedules or project areas negotiated with cooperator prior to starting work.
B. Previously scheduled source collection activities are not completed when expected.	Low - Medium	Production schedule delayed until source collection complete. May negate plans. Must negotiate new schedule with customer.	a. I/D	a. Condition usually occurs when weather precludes completion of serial photography or control. Either can delay completion of control analysis. To date, schedule adjustments have been possible to accommodate customer needs. Documented in Memo For Records "Factors that contribute to long turnaround time in the acquisition of Government Furnished Photography for the DOQ Contract", dated Apr 21, 1994.

C. Quality of existing or new source does not meet requirements.	Low	Use unsatisfactory material with quality of finished product suspect, or upgrade/recollect source. May impact schedule if prod. Ctr. has to upgrade or if contractor has to upgrade or replace.	a. I	a. Experience shows that except in rare cases source quality is satisfactory or there is enough time to modify existing or collect new source.
D. Poor quality source may result in unacceptable deliverable.	Low	May fail QC. May have to pay contractor for unacceptable product if use of source mandated by NMD	a. I	a. Quality of source established and documented prior to delivery to contractor. On rare occasions when questionable source must be used, the judgement as to whether the delivery schedule and estimated product quality takes priority over time to acquire additional source is made and approved by NMD management.

4. Select Contractor

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Signs inappropriate award under pre-negotiated contract.	Not considered possible	May not be able to hold contractor to delivery schedules or quality standards.	a. I	a. Given checks and balances currently employed, contractor is very closely scrutinized. In addition to forms 254 and 255 which contractor must keep current, the COTR periodically visits the production site and evaluates procedures and personnel.
B. Contractor overextended/unrealistically optimistic about capabilities	Low	Delivery late due to scheduling conflicts.	a. I/D	a. Correspondence chain and record of past performances are used to monitor contractor capability.
C. Contractor does not have appropriately trained personnel or uses inappropriate technology	Low	Quality of product suffers or delivery late.	a. I	a. Contractor's facility and production procedures, including personnel are evaluated as part of certification process. Contractor then required by law to keep CO informed of changes by means of Forms 254 and 225 listing changes in equipment or personnel. COTR periodically evaluates to ensure that procedures are being followed. Change in performance or quality of product would also be noticed by COTR or QA personnel.

5. Negotiate schedule. Price and suitability of source.

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Can't reach accord with contractor.	Low-Medium	Affects schedule. May lose contract or COOP funds.	a. I/O	a. Source suitability is no longer an issue given recently developed evaluation techniques. Additionally the capabilities and costing standards for each process used by contractors are generally well known by the NMD staff.

6. Credit NMD account with estimated cost

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Amount billed is more or less than negotiated in agreement.	Low-Medium	Statutory requirements may be compromised. Funds may not be available for other projects.	a. I	a. With more data NMD personnel are developing better cost averages and estimating criteria, which will reduce risk. If procedures changed to allow source collection and evaluation prior to estimating cost much more accurate estimates and schedules could be provided.

7. Manage Production of Deliverables

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Possible incremental payment before production complete.	Not considered possible	Relives contractor of need for prompt delivery.	a. I/O	a. Given checks and balances currently employed, contractor is closely scrutinized by the COTR. Weekly production status reports are required and coordinated with other COTRs and the CO staff.
B. Schedule adjustments in response to changing requirements may not be effectively communicated.	Low	May require cost adjustments or cause conflicts in schedules.	a. I	a. Procedures require review of modified delivery schedules which would disclose problems. Cost changes must be negotiated before work is permitted to commence.
C. Response to technical questions from contractor late or incomplete.	Low - Medium	Wrong information may result in inaccurate or incomplete product.	a. I/O	a. All technical questions and responses are recorded and the response reviewed by Chief, Contractor Management Section. Also reviewed by COTR committee.

D. Negligent COTR does not maintain adequate records or insufficient contact with contractor	Low	Delivery schedule or quality of product suffers.	a. I/O/D	a. Weekly CO/COTR meeting would drive out discrepancy between expected performance and actual progress, and COTR's knowledge of current status.
--	-----	--	----------	---

8. Receive completed DOQ from contractor

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Completed DOQ late	Low	Schedule met. May influence availability of cooperators funds. Internal funds not available next FY	a. I	a. Schedule well defined monitored by COTR. b. Funds available in advance. Only problem may be if agreed cost exceeded and additional resources are not available form cooperator.
B. Job incomplete or damage in transit	Low	Schedule not met. May require rework.	a. I	a. If minor discrepancies on product are found, they are returned to contractor for correction. If major problems are found, products are formally rejected by letter from CO and must be completely reworked by contractor. Close attention by COTR precludes most problems.
C. Source material not returned or damaged	Low	Source material not available for subsequent QC activities. Delay while source solicited from contractor.	a. I/D	a. This has not happened to date but is considered a possibility. Each piece of source is valued prior to being forwarded to contractor. Part of contract is that contractor will replace lost or damaged source.

9. Perform quality assurance/quality control procedure

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Assigning the wrong level of QC with respect to the capabilities of the contractor.	Low	Too stringent QA/QC procedures may delay throughout and delivery to customer. Too lax control procedures may allow poor quality DOQ to be accepted and paid for.	a. I b. D	a. Each delivery individually evaluated for appropriate QA based on complexity of job and known capabilities of contractors. b. Draft QA procedures manual completed and disseminated for use.

10. Pay Contractor

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Contractor paid for work not done.	None to Low	Government has to initiate cost recovery activities when situation discovered.	a. I	a. COTR signs invoice only after work completed and passed through QC procedures. Many personnel looking at progress throughout production cycle and status reported at weekly CO/COTR meetings.
B. Contractor paid early or late.	Low	Government cost accounting procedures are disrupted. May incur penalty for late payment.	a. I	a. Early payment extremely unlikely, see above. Late payment also unlikely because COTR or designated alternate ensures that job leaves production area in a timely manner and invoices are accounted for.

11. Forward product to cooperator

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Shipped Late	Low	May adversely impact customer's schedule.	a. I	a. Mapping Center has established a special unit responsible for receiving products from contractor and shipping to customer when QC complete.
B. Lost or damaged in transit	Low	Product needs to be regenerated at cost of additional time and resources.	a. I	a. Has not happened in past although there is slight possibility. Back up of all digital data forwarded maintained in production center until customer acknowledges receipt. Most digital data also forwarded to MAC for inclusion in the NDCDB.

12. Reconcile accounts

RISKS	RISK SCALE	IMPACT	TESTING*	CONTROL TECHNIQUES
A. Accounts are not reconciled or funds are applied to inappropriate accounts	None to Low	May have to return funds for products not received.	a. I	a. Each contract draws on individual project account which is set up and approved at various levels throughout the mapping center and the headquarters organizations. No work is authorized or invoice paid without appropriate approvals and reference to established accounts.

B. Actual costs are less than estimated.	Low	Negotiated with customer for additional services or products to be provided by NMD to make up difference.	a. I	a. As estimating techniques have improved, the risk of this happening is reduced. In the event that it should occur, most tasks are parts of continuing projects to which the resources could be applied with the customers approval.
C. Actual costs exceed estimates Cooperator can provide difference	Medium	Negotiate with customer for additional funds	a. I	a. Changing requirements on the part of the customer or quality or availability of source material may require modification of the contract to increase the cost. In most cases details are known far enough in advance to preclude adverse consequences. In some cases the scope of the work can be reduced if additional funds from the cooperator are not expected to be available.
D. Actual costs exceed estimates. Cooperator may not have funds to pay 50 % of difference between estimated and actual costs.	Medium	NMD pays more than 50% statutory requirement for matching funds compromised. Funds taken from other in house programs to make up difference.	a. I	a. This happens only when cooperator is unable to produce additional funds which were expected to be available. Because much of the uncertainty derives from the quality of the source material which is projected to be available, the risk could be decreased significantly if the production process could be adjusted to allow the source material to be evaluated for accuracy and completeness before cost estimates are prepared.

\*TESTING

- D Document Analysis – reviewing existing records, completed forms, or other documentation.
- O Observation – watching the performance of specific control techniques.
- I Interview – eliciting information from the personnel who perform the control technique.

## C H A P T E R 5

---

**IDENTIFYING AND CORRECTING MATERIAL WEAKNESSES**

---

The fourth step of the Management Control Program is correcting the weaknesses identified during the management control assessments. The culmination of the management control program is not the preparation of evaluation reports - it is the improvement of program and functional services through the timely correction of control weaknesses.

***Definition***

A nonmaterial weakness is a control problem which can be corrected at the bureau level without the approval or attention of the next higher level of management.

Material weaknesses are those control problems which are of significance to the next higher level of management (see 340 DM 2.7F in Appendix 2).

***Correcting Material Weaknesses***

All weaknesses are to be corrected in a timely manner. An exception to this policy exists when a documented analysis demonstrates that the estimated costs of improved management control techniques exceed the potential benefits or when corrective actions are precluded by legislative actions. Responsible officials at all levels are expected to be actively involved in correcting material and nonmaterial weaknesses. The plans and schedules for correcting reported weaknesses must show target dates for completing corrective actions.

***Monitoring Corrective Actions***

Each bureau should develop a tracking and reporting system for weaknesses identified during the management control assessments. The reporting system developed should be responsive to the needs of the bureau head, the program assistant secretary, the Assistant Secretary - PMB, and OMB. Bureau tracking systems should include all weaknesses, not just the weaknesses identified as material at the Secretarial level and reported in the Department's Annual Accountability Report. Bureau progress in correcting existing material weaknesses is reported at the mid-year MCAF progress meetings. Additionally, the Department requires bureaus to report progress in correcting material weaknesses on a quarterly basis. Due dates for the quarterly progress reports are provided by PFM in the annual management control guidance.

**NOTE:** The postponement of the completion of any material weakness corrective action to a succeeding fiscal year should be approved by the responsible program assistant secretary and reported to the Management Control and Audit Follow-up Council and to PFM. Postponement of the completion of a material weakness corrective action adversely impacts the achievement of the Department's GPRA goals.

***Completed Corrected Actions***

Before removing a nonmaterial weakness from the bureau material weakness tracking system, the responsible official must certify that the planned corrective action was completed and that the action taken corrected the weakness. The certification should be incorporated into the bureau material weakness tracking system. Before reporting a material weakness as corrected, bureau MCCs need to verify that the corrective action was taken and that the weakness was

corrected. For example, if the corrective action for a material weakness requires the issuance of policies and procedures, the MCC should verify that the policies and procedures were issued. If the corrective action requires the implementation of a system or process, the responsible program official needs to test the system or process and forward the test results to the MCC. After the MCC has verified the corrective action taken and reviewed the test results, bureaus may report a material weakness as corrected.

To ensure that the corrective action taken was sufficient to correct a control weakness, the responsible program official should validate the correction to determine whether the action taken corrected the weakness.

### ***Linking Material Weaknesses to Budget Submission***

Managers are to ensure that needed funds and staff resources are included in the budget for correcting material weaknesses. These amounts should be identified and reported separately in bureau budget requests. The status of the request should be tracked throughout the budget review and appeals process. OMB Circular A-11, "Preparation and Submission of Budget Estimates," requires a separate schedule on funding requested to correct material weaknesses in high risk areas.

Bureaus are encouraged to complete seventy-five percent of their scheduled management control assessments by June 15th to facilitate budget linkage of any newly identified material weaknesses. Once a material weakness is identified in a current evaluation, the additional funding request is to be included in the bureau and program assistant secretary budget submission.

## CHAPTER 6

### REPORTING

The fifth step in the Management Control Process is preparing the annual assurance statements from bureau/office heads and program assistant secretaries that support the Secretary's Assurance Statement and Annual Report to the President and the Congress.

#### ***Annual Reporting***

DOI's annual reporting process is a vertical flow of information. Bureau annual assurance statements must incorporate information regarding Section 2-FMFIA, Section 4-FMFIA, automated information system security, and compliance with core accounting system requirements. The bureaus' annual assurance statements form the basis for the Secretary's Statement to the President and the Congress which is included as part of the Department's Annual Accountability Report. The process is described below.

#### ***Bureau Head's Reporting***

In order to allow assistant secretaries to fulfill their reporting responsibilities to the Secretary, each bureau head is required to submit their annual statements through their program assistant secretary to the Secretary. The assurance statement must be reviewed and approved by the appropriate program assistant secretary. Assurance statements should be addressed to the Secretary and sent, through the program assistant secretary, directly to PFM. The annual assurance statement must include information on the following:

1. *Information on Bureau's System of Management Controls (Section 2, FMFIA).* This statement is based on all available information, including scheduled management control assessments, audits performed by OIG and GAO, GPRAs performance assessments, management studies and other reviews. These evaluations provide the basis for the bureau head's reasonable assurance, as explained below. The statement must include all open material weaknesses reported in the Secretary's previous assurance statement for which corrective actions have not been completed, and for all material weaknesses identified from the current year assessments, together with the plans and schedules for correcting such weaknesses. In addition, weaknesses reported in previous years that are no longer considered material, require a certification that the corrective actions were completed.

Full compliance with Section 2 of the FMFIA includes having reasonable assurance that adequate review documentation exists with sufficient testing to support evaluation conclusions. Full compliance also includes the effective utilization of people and other resources, and the timely correction of weaknesses.

2. *Information on Bureaus' Automated Information System Security (OMB Circular A-130).* The information should describe whether adequate security exists in bureau automated information systems. It also describes computer security material weaknesses identified during reviews or audits of sensitive applications and/or risk analyses of installations.
3. *Information on Bureau Accounting System Compliance Review (Section 4, FMFIA).* This information should be based on the results of the audit of the bureau financial statements.

4. *Information on Bureau Core Accounting System Compliance.* This information should be based on the Core Compliance reviews, as required by the Chief Financial Officers Act of 1990 and the FFMIA Act of 1996 and other statutes, and, where appropriate, the results of the bureau financial statement audit reports.
5. *Basis for Assurance.* Bureau annual assurance statements must specifically list the management control assessments and OIG/GAO audits which were relied upon to reach assurance statement conclusions.

***Please note that PFM's annual management control guidance to bureaus includes a sample assurance statement for bureaus to follow.***

### **Secretary's Reporting**

The Secretary, under FMFIA, has annual reporting responsibilities to the President and the Congress on: (1) the results of assessments made on the Department's systems of management controls including any identified material weaknesses (Section 2, FMFIA); and (2) whether the Department's accounting systems conform to the Federal Accounting Standards Advisory Board (FASAB) issued accounting standards and related requirements (Section 4, FMFIA).

Serving as the Secretary's key staff office on FMFIA, PFM prepares the Secretary's annual assurance statement. In addition to the Secretary's statements on Section 2 and Section 4 of the FMFIA, the assurance statement includes: (1) highlights of DOI's current FY Management Control Program results; (2) actions taken to improve the program; (3) descriptions of material and mission critical weaknesses; and (4) schedules for corrective actions. This statement is based on all bureau assurance statements and is included in the Department's Annual Accountability Report.

## C H A P T E R 7

---

**VALIDATING COMPLETED CORRECTIVE ACTIONS**

Validating completed corrective actions is the last step of DOI's Management Control Program. This is an important step because it determines if control weaknesses were corrected or still exist. Bureaus should establish and maintain a follow-up system to record and track material and/or non-material weaknesses or non-conformance corrective actions and monitor related progress against scheduled completion dates.

**Validation Process**

For all *non-material weaknesses*, the responsible program official should certify that the planned corrective action was completed and that the action taken corrected the weakness. This certification should be incorporated into the bureau internal Corrective Action Tracking System reporting process.

For all material weaknesses, the bureau MCC should verify that corrective action was taken and that the weakness was corrected. This requirement may entail verifying that policies and procedures were issued.

To ensure that the corrective action taken was sufficient to correct the material weakness, responsible program officials have the discretion to determine how to track and validate correction of identified weaknesses and non-conformances. Bureaus are required to maintain documentation supporting verification that material weaknesses and non-conformances reported as corrected have indeed been corrected and corrective actions implemented.

## C H A P T E R 8

---

**KEY MANAGEMENT CONTROL TERMS**

*Alternative Management Control Review (AMCR)* – AMCRs are evaluations of controls over areas of activities of a component which have the highest potential for ineffective or inefficient operation or loss of government resources. AMCRs may be conducted as separate reviews of the highest risk areas or through existing bureau review processes. Examples of AMCRs include bureau internal studies and management reviews, GAO and OIG audits, A-130 computer security and application reviews, and GPRA annual assessments.

*Annual Assurance Statement* – An annual statement that represents the Secretary’s informed judgment as to the overall adequacy and effectiveness of management controls within the Department. The statement reports the results of evaluations made on the Department’s systems of programs, accounting, and administrative controls including any material weaknesses and/or material accounting non-conformances identified during the fiscal year. Also, updates of corrective action progress made on existing material weaknesses and material non-conformances are included in the statement. The Department’s annual assurance statement is included in the Department’s Annual Accountability Report.

*Bureau Head’s Statement on Bureau’s System of Management Controls* – An annual statement summarizing a bureau’s compliance with the requirements of FMFIA which relates to management control systems. This statement is submitted through the bureau’s program assistant secretary to the Secretary.

*Component* – A major program, administrative activity, organization, or functional subdivision of a bureau or office that requires one or more separate systems of management controls. Examples of program components are the Federal Aid Program, Concessions Management, Wilderness Management, and Royalty Management Programs. Examples of administrative components are Acquisition Management, Property Management, Travel, Facilities Management, and Automated Information Systems Security.

*Control Objectives* – Established goals or standards for reducing or eliminating potential risks which should be met to ensure that a component’s mission and functions and GPRA goals and measures are accomplished. Control objectives also help identify and evaluate controls. Control objectives differ from overall component objectives in that they are directly related to the specific activities or processes necessary to achieve the component’s objectives. Examples of control objectives are: (1) assuring that Indian Child Welfare Assistance programs are effectively and efficiently managed; (2) protecting public lands from damage due to unauthorized use; and (3) assuring that research efforts focus on priority research needs.

*Control Systems* – The organizational structure, operational procedures and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out in accordance with the objectives of the FMFIA.

*Control Techniques* – The management processes and documents necessary to accomplish the control objectives or to reduce risks to acceptable levels. Control techniques tell us how we will accomplish the risk reduction or elimination. Examples of control techniques include passwords to limit access to data bases, written delegations of authority, documentation of processes and

procedures for carrying out program and administrative activities, periodic supervisory reviews, comparisons of actual results to planned results, and segregation of sensitive duties among several individuals.

*Department-wide Functional Reviews (DFRs)* – Evaluations of functional activities generic to bureaus and offices. Examples of DFRs include Property Management, Acquisition Management, Administrative Control of Funds, ADP Security, and Travel. Evaluation guidelines are issued by the responsible PMB office.

*Documentation* – Documentation is a written explanation that describes the subject so an independent third party can understand it. Documentation includes explanations of program mission and functions, component control techniques, summary of the steps taken in conducting a MCR, and the operation of a financial system.

*Event Cycle* – A series of related steps that constitute a distinct and separate process or activity within a component. These steps or processes are connected by significant starting and finishing points. Each cycle helps fulfill the goals of the component, such as the planning or budgeting event cycle for any program component.

*Management Controls* – The organization, policies, and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision-making.

*Management Control Reviews (MCRs)* – Evaluations of controls over all significant areas or activities of a component.

*Management Control Coordinator (MCC)* – The individual designated by each bureau head or program assistant secretary to coordinate and facilitate compliance with the FMFIA and relevant guidance issued by PFM, the Office of Property and Acquisition Management (PAM) and the Office of Information Resources Management (PIR).

*Material Weakness and Material Non-Conformance* – See 340 DM 2 F in Appendix 2 for a detailed description.

*Priority Risk Ranking* – An assigned risk value of high, medium, or low for a component that provides the basis for determining the appropriate nature, scope, and frequency of management control evaluations.

*Quality Control* – A system for verifying and maintaining a desired level of quality in a process by careful planning, continued inspection, and corrective action, when required.

*Reasonable Assurance* – A judgment based upon all available information that the systems of management controls are operating in accordance with the FMFIA.

*Testing* – Verifying the effectiveness of controls in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. Testing may take several forms including: document analysis, transaction testing, observation or interview.

## A D D E N D U M A

**CONDUCTING ALTERNATIVE MANAGEMENT CONTROL REVIEWS**

AMCRs usually are reviews that are narrow in scope and focus attention on controls over areas or activities of a component which have the highest potential for ineffective or inefficient operation or loss of government resources. Such reviews may be combined with other review processes (such as internal management or technical reviews) or may be conducted as a separate review. Where periodic reviews of programs, organizations, or functions are conducted by bureaus, PFM strongly encourages combining management control reviews, GPRA performance assessments, and other internal bureau reviews to avoid duplication of effort and to make them more acceptable to managers. ***Bureaus are also encouraged to use the DOI automated assessment approach to review a component's controls. The automated assessment incorporates eight management integrity measures based on OMB's and GAO's objectives and standards for internal controls in federal programs and administrative functions (see page M-55 in this addendum).*** Additionally, combining reviews will help institutionalize the management control process within the Department. Suggested steps for conducting AMCRs are listed below.

## I. Suggested Steps in Conducting AMCRS

## A. Starting the Evaluation

1. Plan the evaluation
2. Analyze general control environment
3. Analyze ADP function

## B. Define Control Systems

1. Identify and document high risk areas
2. Identify and document control techniques
3. Compare control systems to the GAO control standards

## C. Test the Control System

1. Select controls to be tested
2. Select test methods
3. Determine amount of testing
4. Plan data collection
5. Conduct the tests
6. Analyze test results, develop conclusions and plans for corrective action
7. Report the results
8. Document the evaluation

These steps are discussed in the following pages.

## **A. STARTING THE EVALUATION**

### **1. Planning the Evaluation**

The AMCR should be carefully planned to gain managerial support and to ensure that the objectives are accomplished. The planning process should include the following tasks:

- ▲ *Determine scope and objectives.* Consider whether the purpose of the AMCR is to perform a comprehensive review of controls over all the high risk areas or if it is to perform a limited review of one aspect of the component.
- ▲ *Assign staff.* The team members selected should be knowledgeable of the program area, have analytical skills, and be trained in conducting control evaluations. Ideally, team members should be selected from within the responsible program office and from an independent “program-evaluation” function. The number of reviewers should be based on the complexity and scope of review.
- ▲ *Allocate staff resources and establish time-frames.* It is helpful to allocate the minimum and maximum amount of staff resources to be used for completing each task. The final planned completion date should be set with interim planned completion dates for each review task.

### **2. Analysis of the General Control Environment**

The purpose of analyzing the general control environment is to determine if management’s attitude is conducive to a strong management control system. The analysis of the general control environment will provide the reviewer with a preliminary opinion about the effectiveness of specific controls. If an analysis has been previously completed, check to see if it is still accurate and update as necessary.

The factors that influence the general control environment are:

- ◆ Organization
- ◆ Delegation of authority
- ◆ Policies and procedures
- ◆ Personnel
- ◆ Planning, budgeting and accounting
- ◆ Reporting.

A worksheet for use in analyzing the general control environment is presented in Appendix 1.

### **3. Analysis of ADP**

If the component contains an ADP application, it should be analyzed to determine if ADP application controls should be reviewed. This review of ADP can be a separate review or part of the AMCR. An ADP application should be included if it contains any of the following characteristics:

- ◆ Processes information used for significant management decisions
- ◆ Calculates or records amounts owed by or to the Government
- ◆ Maintains balances or other records used to control government resources

- ◆ Maintains or processes information necessary for effective and efficient program operation
- ◆ Maintains or processes sensitive information

**NOTE:** Bureaus should use the Office of Information Resources Management's *Automated Application System Control Evaluation Guidelines* for reviewing ADP applications.

## **B. DEFINING CONTROL SYSTEMS**

### **1. Identify and Document High Risk Areas**

The reviewer should identify those risks which are high for the component as a whole. High risks are potential unwarranted occurrences which, if they occur, would prevent a component from reaching its objectives or would result in a significant loss of government resources. When identifying high risk areas, the reviewer should also consider the probability of the unwanted occurrence and the severity of the consequences. A worksheet for identifying and documenting high risks is shown in Appendix 1.

### **2. Identify and Document Control Techniques**

Control techniques are a series of carefully constructed checks and balances designed to provide reasonable assurance that the control objectives are met in an efficient and effective manner. Control techniques should be observable and cost effective. Examples of control techniques include passwords to limit access to databases, written delegations of authority, technical reports, documentation of processes and procedures for carrying out program and technical activities, periodic supervisory reviews, comparisons of actual results to planned results, and segregating sensitive duties among several individuals.

When developing control techniques, it is crucial to identify the relationship between the techniques and the risks within the event cycle. Control techniques are implemented to reduce risks and meet the control objectives.

Control techniques are the basis of testing. Testing verifies compliance with existing control techniques to determine if the controls are operating as intended and are sufficient to provide reasonable assurance of achieving the control objectives.

### **3. Compare Control Systems to the GAO Control Standards**

The GAO control standards (web site address [www.gao.gov](http://www.gao.gov)) define the minimum level of quality acceptable for an internal control system. The five GAO standards for internal control are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring. These standards define the minimum level of quality acceptable for internal control in government programs and administrative operations and provide the basis against which internal control is to be evaluated. Also, the standards apply to all aspects of an agency's operations: programmatic, financial, and compliance. *Please note that the term internal control as used in the GAO standards is synonymous with the term management control as used in OMB Circular A-123 and throughout this handbook.*

The GAO standards provide a general framework for internal controls. Agency/bureau management is responsible for developing the detailed policies, procedures, and practices to fit their operations and to ensure that internal controls are built into and an integral part of operations.

*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.

*Risk Assessment.* Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans developed under the GPRA, and forming a basis for determining how risks should be managed.

*Control Activities.* Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the Department's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They also help ensure actions are taken to address risks. Control activities include approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities along with supporting documentation. Examples of control activities include the following:

- ◆ Top level reviews of actual performance,
- ◆ Reviews by management at the functional or activity level,
- ◆ Management of human capital,
- ◆ Controls over information processing,
- ◆ Physical control over vulnerable assets,
- ◆ Establishment and review of performance measures and indicators,
- ◆ Segregation of duties,
- ◆ Proper execution of transactions and events,
- ◆ Accurate and timely recording of transactions and events,
- ◆ Access restrictions to and accountability for resources and records, and
- ◆ Appropriate documentation of transactions and internal control.

*Information and Communications.* Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

*Monitoring.* Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

## **C. TESTING THE CONTROL SYSTEM**

Testing verifies the effectiveness of control techniques in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. By testing, the responsible official can quickly validate whether:

- ◆ Prescribed procedures are performed in accordance with instructions
- ◆ Procedures are performed by personnel having no incompatible duties
- ◆ Actual transactions processed in the operation are in fact those authorized for the group
- ◆ Actual operations are conducted in accordance with the control objectives and techniques which have been devised for the component.

The focus of testing should be upon high risk areas and those areas of inadequate management control system design. Testing consists of the following steps:

### **1. Select Controls to be Tested**

It is both impractical and unnecessary to test all control techniques. The control techniques to be tested should be those that contribute most to achieving the control objectives or managing the risk. A control should be eliminated from testing when (1) the technique does not meet the control objective or manage the risk because it is poorly designed, unnecessary or duplicative or is not performed in a timely manner and (2) the cost of testing exceeds the value of the technique being tested. If a technique is excluded from testing, the reasons supporting this decision should be recorded.

### **2. Select Test Methods**

Testing methods include:

- ▲ *Document analysis* - reviewing existing records, completed forms, or other documentation.
- ▲ *Transaction testing* - entering and processing transaction data through the system or tracing transactions through the system.
- ▲ *Observation* - watching the performance of specific control techniques.
- ▲ *Interview* - eliciting information from the personnel who perform the control technique.

Tests should not be limited to information obtained through interviews, but interviews should be used to supplement document analyses and/or observation. One or more methods of testing may be combined during the test.

### **3. Determine Amount of Testing**

It is unrealistic to observe every control used or review 100% of the records at each location. The reviewer must select the organizations and locations where the tests will be conducted and select a sample for each control to be tested.

#### **4. *Plan Data Collection***

Accurate recording of test results is an extremely important part of the testing process. A data collection plan assists in determining how to record the test results. For example, interview guides should be used to ensure that all areas of concern are covered.

#### **5. *Conduct the Tests***

While conducting the tests, follow the sample plan unless a decision is made to review the scope or size of the sample based on the results of the initial sample. Consider increasing the sample size if the initial tests provide mixed results. When possible, retain copies of authorizing documents or other physical evidence that control techniques are working.

**NOTE:** Watch for compensating controls. Sometimes a control technique will appear to be weak or not operating. In such a case, determine if personnel are compensating for the shortcomings by using informal control mechanisms. If informal control mechanisms are being used, evaluate and document them during the testing.

#### **6. *Analyze Test Results and Develop Conclusions and Plans for Corrective Action***

▲ *Analyze test results and develop conclusions.* The tests of specific control techniques must be analyzed to determine if the degree of compliance with control techniques is adequate. It is important to remember that several control techniques are usually utilized to meet a control objective or manage a risk. Accordingly, the failure to substantially comply with one individual control technique does not necessarily result in a failure to meet the control objective or manage a risk.

The test results should then be discussed with managers responsible for operating the control techniques at the location or organization that was reviewed. These discussions will: (1) communicate the results of the tests and any conclusions drawn; (2) seek agreement on those conclusions; and (3) elicit from the managers, recommendations on any necessary corrective actions. Such discussions are best held as soon as the testing and related analysis of results are completed.

▲ *Develop plans for corrective action.* The primary purpose of the control evaluation process is to assist managers in identifying and correcting weaknesses. When a weakness is found, a decision must be made to institute new controls, improve existing controls, or accept the risk inherent in the weakness. In many cases the appropriate actions are apparent, but in other cases further analysis may be necessary before a plan for corrective action can be made. Selecting corrective actions involves creating a strategy for achieving the control objectives. The actions selected should use the least amount of dollar and personnel resources possible and ensure the achievement of the control objectives or results. The following five steps should be completed in selecting corrective actions: (1) identify possible actions; (2) analyze costs and benefits; (3) document corrective action; (4) identify reasonable completion dates; and (5) identify funding required for implementation.

#### **7. *Report the Results***

Control evaluation results for each component should be summarized in a report. The report should identify control weaknesses and describe plans for corrective action. Since the report forms the basis for the certification required by FMFIA, it must provide the bureau head and assistant secretary with sufficient assurance that the review was conscientiously performed and accurately reflects the condition of management controls.

The report should contain all control weaknesses which are significant to the next higher organizational level, regardless of the process through which the weaknesses were identified. All sources of information on the status of controls, such as audit reports, management reviews, and routine management reports, are to be considered in identifying control weaknesses. The transmittal memorandum should describe: (1) the risks that the evaluation focused on, and (2) testing conducted - locations, controls techniques tested, type and amount of testing.

The report should be submitted to the official designated as the responsible official for component controls and their evaluation. After review by the responsible official, the report is to be transmitted to the bureau MCC for approval by the bureau head. The report must be approved by the bureau head and appropriate program assistant secretary and submitted to PFM with a copy to the OIG.

### **8. Documenting the Evaluation**

Documentation is written material explaining the operation of the control system and the conduct of a management control assessment. All internal controls and all transactions and other significant events are to be clearly documented and the documentation is to be readily available for examination. In addition, responsible officials should prepare and maintain sufficient documentation to evidence the conduct of a management control assessment and the basis for the results and conclusions reached. This documentation should include written evidence concerning:

- ▶ the officials participating in the review;
- ▶ the risks reviewed;
- ▶ the control examined;
- ▶ the extent and type of control tests performed;
- ▶ the analysis of the tests conducted;
- ▶ a description of any weaknesses found; and
- ▶ the actions recommended to correct the weaknesses.

System documentation provides a means of communicating information on the operation of the control system. It serves as a standard to measure the operation of the control system. It further provides information necessary for supervisory or other review and serves as a basis for training new personnel. Assessment documentation provides evidence that a management control assessment was performed and provides support for the reasonable assurance determination. Also, it serves as the basis for supervisory review and quality control while assisting in subsequent evaluations.

How much documentation is enough? Keep it to a minimum. Sufficient system documentation answers the questions: why the system was designed, what the system does, and how the system operates. Sufficient evaluation documentation answers the questions: who did what, what were the results, and why were actions taken?

**NOTE:** Sufficient documentation should not involve an inordinate amount of paper. Keep documentation to a minimum by including only those records needed to answer the above questions.

### **C. AUTOMATED ASSESSMENT APPROACH**

As mentioned in Chapter 4, the automated assessment approach is considered an AMCR which can assist bureaus in reducing their costs for conducting reviews and reporting the results. The primary benefits of the automated assessment are that it provides: (a) a targeted and focused approach for control evaluations; (b) a concise and meaningful summary report for management; (c) an effective means of identifying and reporting best practices; (4) allows managers to view assessment results (strengths and weaknesses) for all measurement areas at one glance; and (5) an effective means of tracking and reporting trend information over time. The assessment is performed electronically using an off-the-shelf surveying and analytical software tool (Survey Tracker) that provides diagnostic and executive-level reporting. Bureaus have the discretion to determine how many of the eight management integrity measures will be tested. In addition, the survey assessment questionnaire is built around the eight integrity measures that support the general and specific management control standards delineated in OMB Circular A-123 and incorporated in GAO's "Standards for Internal Control in the Federal Government."

### **D. MANAGEMENT INTEGRITY MEASURES**

The eight management integrity measures are:

- 1. Organizational Control Environment.** The objective of this measure is to ensure that an organization's goals, objectives, policies, and procedures are conducive to achieving sound management controls, and that the organization places a high level of importance on management integrity and ethics. The organizational control environment sets the tone for and influences the management control consciousness of its employees. It also provides the foundation for the management control structure. Organizational control environment factors include the integrity, ethical values, and competence of employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; planning, budgeting, accounting and reporting; and the direction provided by senior management.
- 2. Risk Management.** The objective of the risk management measure is to ensure that an organization identifies, assesses, and considers the consequences of events that could prevent the achievement of its goals and objectives, and result in significant loss of resources. Every organization faces a variety of risks from external and internal sources and changes in its operating environment. These risks should be continuously monitored and assessed.
- 3. Program Effectiveness.** The objective of this measure is to ensure that management plans and allocates sufficient resources to programs to achieve intended results. Further, the program effectiveness measure embraces the idea that organizations have strategic planning systems that employ performance measurement systems to provide for comparisons of planned outcomes and results against actual outcomes and results.
- 4. Resource Stewardship.** The objective of this measure is to ensure resources are safeguarded and managed in a manner consistent with the mission of the organization. Access to resources should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

5. **Regulatory Compliance.** The objective of this measure is to ensure that laws and regulations are followed. Management and staff must be aware of and ensure that all programs, operations, obligations, and costs incurred comply with applicable laws, regulations, and executive orders.
6. **Audit Resolution.** The objective of the audit resolution measure is to ensure that organizations take prompt and responsive action on all audit findings and recommendations in order to improve program and organizational efficiency and effectiveness. Responsive action is that which corrects identified deficiencies. Where audit findings identify opportunities for improvement rather than cite deficiencies, responsive action is that which produces improvements.
7. **Management Information.** The objective of this measure is to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making at all levels. Information systems should produce reports containing program, operational, financial, and compliance related data, to effectively manage and control the programs and operations of an organization.
8. **Financial Systems and Data Integrity.** The objective of the financial systems and data integrity measure is to ensure that an organization's financial management system and related operations conform with Government-wide principles, standards and requirements, and that the process of managing information necessary to support program and financial managers, and assuring data captured and reported is complete, accurate, accessible, timely and usable.

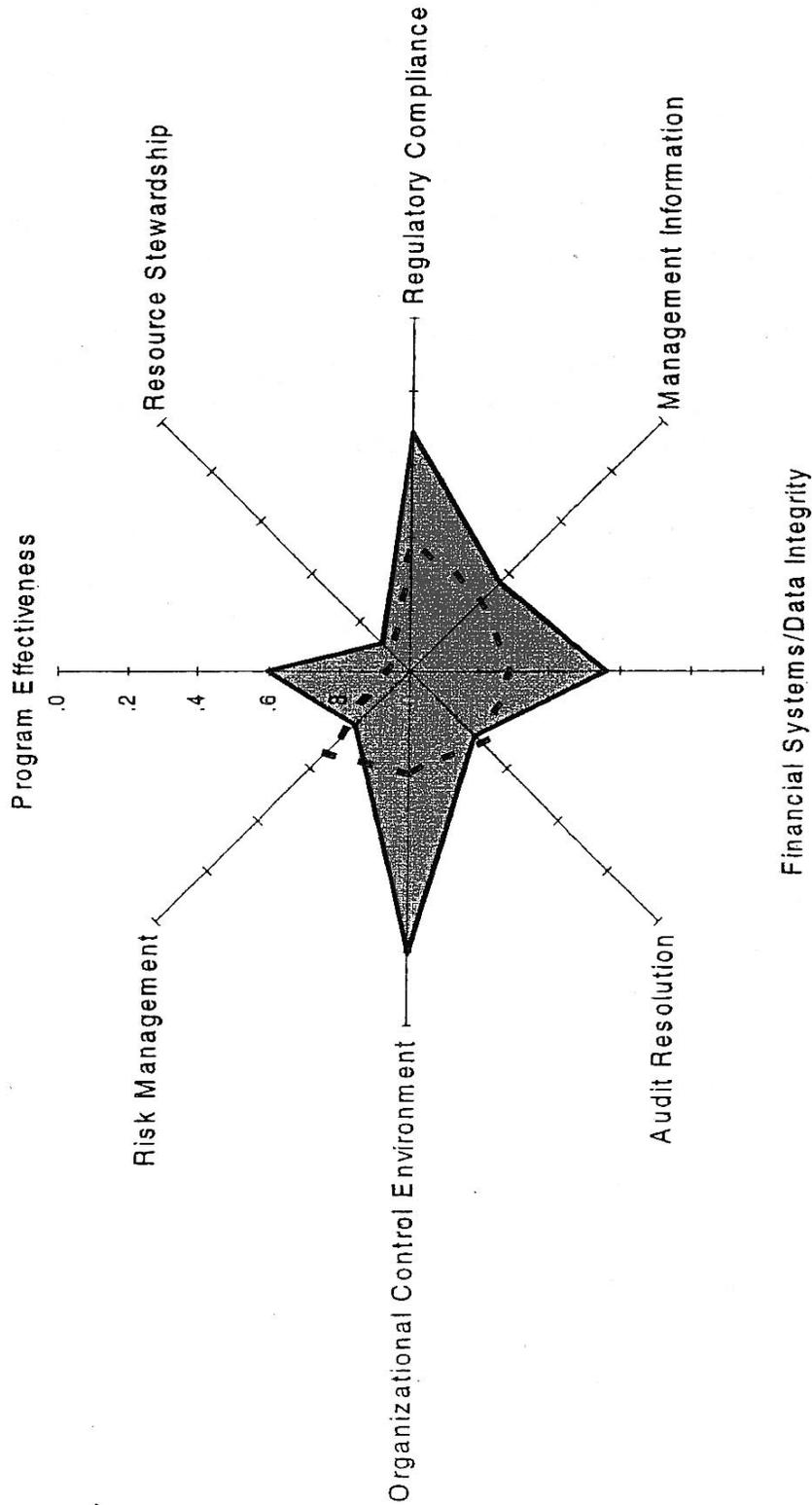
## **E. SURVEY RESULTS**

The results of the survey questionnaire (questions based around the eight management integrity measures and other program or administrative policies and procedures) and responses are analyzed by the Survey Tracker software and a graphical summary report, known as a spider diagram, is produced. The summary report presents the actual assessment against a Department or bureau defined standard for each management integrity measure. As shown in the spider diagram on page M-62. The closer the results of the actual assessment for each measure are to the defined minimum standard of each integrity measure or to the center of the spider diagram, sufficient management controls for the program or activity evaluated are in place and working. The further from the center the minimum standard set for each integrity measure, the weaker the management controls. Managers should use results to strengthen management controls where needed in their areas of responsibility or do additional targeted testing.

Each management integrity measure area is of equal importance and managers should use the spider diagram to determine the strong and weak management control areas. Managers should work toward achieving balance between the areas to foster continuous improvement through bench marking, training and outreach programs with emphasis on accountability.

**NOTE:** A sample survey assessment questionnaire is included in this appendix.

**MANAGEMENT INTEGRITY MEASURES  
 SPIDER CHART**



## OVERVIEW

### FY 2000 Departmental Management Control Assessment – SMARTPAY (CHARGE CARD) PROGRAM

#### BACKGROUND

You have been selected by the Office of Acquisition and Property Management (PAM) and the Office of Financial Management (PFM) to participate in an automated management control assessment of the Department's SMARTPAY (Charge Card) Program. The sample of Departmental employees selected to participate in this assessment include Cardholders, Agency/Organization Program Coordinators (A/OPC's), Reviewing Officials, Finance Officers staff and Fleet Management staff. This automated assessment approach has been pilot tested for other management control assessments in all bureaus over the last 2 years. It has been found to be an efficient and easy to use assessment alternative.

This assessment questionnaire pertains to FINANCE OFFICE STAFF only. You will be asked to respond to a series of multiple-choice statements about management controls in several areas of the SMARTPAY Program. Your response to the assessment questionnaire should take approximately 1 hour or less to complete. You will also be given an option to provide any narrative comments you wish to offer about your experience with the SMARTPAY Program management controls.

By responding to this questionnaire, you will assist PAM and PFM in performing an initial assessment of the existence and effectiveness of management controls in the SMARTPAY Program, and whether the controls meet the objectives and guidelines prescribed by the Office of Management and Budget (OMB) in Circular A-123, Management Accountability and Control, and Department management control guidance. The results of this assessment will be used to improve management controls in the SMARTPAY Program and to support conclusions in the Department's FY 2000 Annual Management Control Assurance Statement. Therefore, it is important that you take sufficient time to provide accurate and complete responses. All participants will be expected to submit their response to the questionnaire no later than July 31, 2000.

The responses to the assessment questionnaire will be compiled, and diagnostic reports will be produced using an existing software tool designed specifically for the Department's management control program. The results are expected to identify any potential material deficiencies in the controls which will be subject to further review, analysis and validation by PFM and PAM. The summary results of this assessment will be posted on the PFM web-site for your review and inspection by the end of FY 2000.

PAM and PFM want to assure participants that their responses to the assessment questionnaire will be maintained on a confidential basis throughout the assessment process. At the completion of the assessment process, all participant responses will be deleted from the PFM/PAM assessment data base.

#### ABOUT THE QUESTIONNAIRE

You will be asked to respond to each question by selecting one (1) of six (6) possible multiple choice answers. The six multiple choices for your answer to each question are:

1. Strongly Disagree
2. Disagree
3. Agree
4. Strongly Agree
5. Don't Know; and
6. Not Applicable

Completing the questionnaire can be accomplished by an easy "Point and Click" response. Use your PC

mouse to point and click the answer you select for each question. After you have responded to all of the questions (including any voluntary narrative comments you wish to add), please click on the "Submit" button at the end of the questionnaire to forward your response to PFM.

If you have any questions or concerns regarding this survey, please contact either Pete Horsley (PAM) at (202) 208-3347 or Wayne Howard (PFM) at (202) 208-4701.

## Section 1 - Purchase Process

### NOTE

#### Issuance of Charge Card with Purchase Authority

Written policies and procedures covering purchase card use (eligibility, use of card, record keeping, etc.) are in place.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Cardholders report individually billed charges that should have been billed to a centrally billed account when they review their statement.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Finance office reviews identify centrally billed charges that should have been individually billed.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

### NOTE

#### Cardholder Usage

Finance office staff perform reviews of user purchase documentation to verify validity of purchases.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

---

The Finance office staff routinely select Bank of America statements to review for improper and unauthorized purchases.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Receipt of Transaction Files from Bank of America

An electronic edit is performed on bureau invoices to compare invoice total with detailed transaction total balance.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Payment of Bank of America Invoice

A post payment review is performed on an invoice payment to determine that the proper and correct amount is paid.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A financial system status of funds, or equivalent report, is used to monitor purchase expenses.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Review of Transaction Data

Monthly card program reports are reviewed and adjustments, allocations, and reallocation of costs are performed.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A policy is in place for reviewing card transactions for proper charges, misuse, accounting code, BOC, and comparing charges on statements with receipts maintained by user on a sample basis.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written Bureau policies and procedures for identification and posting of adjustments between administrative and program offices.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Timely action is taken to correct the erroneous purchase transaction data.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

## Section 2 - Convenience Check Process

### NOTE

Issuance of Convenience Checks

There are written Bureau policies and procedures covering the issuance and use of convenience checks.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

All employees issued convenience checks are trained on related policies, procedures, and procurement regulations.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

The convenience check supply is located in a secure location.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

### NOTE

#### Checkwriter Usage

A review of check documentation as outlined in written policies and procedures is performed to verify validity of check transactions.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A periodic review of check supply, check register, documentation supporting issuance of the checks, and adherence to regulations is conducted.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

### NOTE

#### Charge Billed to Bureau by Bank of America

A review of check transactions is done at a designated organizational level.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

An accounting system cardholder transaction report, or equivalent, is compared to selected cardholder transactions.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

An electronic edit is performed of bureau card program invoices to compare invoice total with detailed transaction total balance.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Receipt of Transactions File from Bank of America

There are written policies and procedures to control the completeness of transaction data.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Payment of Bank of America Invoice

There is a post payment review of card program invoice payments to determine that the proper and correct amount is paid.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A financial system status of funds, or equivalent report, is reviewed to monitor convenience check expenses.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written Bureau policies and procedures to control the timely processing of payments.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

#### **NOTE**

##### Review of Transaction Data

Monthly financial reports are reviewed, and adjustments, allocations, and reallocation of costs are made.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Written policies and procedures include identification and posting of adjustments between administrative and program offices.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

### **Section 3 - Travel Process**

#### **NOTE**

##### Issuance of Credit Card

The Bureau has written policies and procedures covering the government charge card for travel (eligibility for travel card, use of card, statement review, record maintenance, etc.).

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

#### **NOTE**

Cardholder Usage for Travel Related Expenses: Transportation, Rental Vehicles, Lodging Expenses, and ATM Withdrawal

User travel charges are reviewed to verify the validity of tickets purchased.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are travel policies and procedures established to require use of the government charge card to obtain tickets for official travel.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Voucher examination can disclose use of other than government economy/coach class tickets.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Card statements are reviewed for improper and unauthorized ticket purchases.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Rental vehicle charges are validated by review officials.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

The traveler is required to use their Bank of America government charge card to obtain a rental vehicle for official travel.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Card transactions are reviewed to ensure proper and authorized vehicle use.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Cardholder transactions and receipts for rental vehicle and insurance charges are verified.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

The travel voucher is reviewed for rental vehicle receipts to verify rental dates and insurance charges.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

User lodging expenses are reviewed to verify the validity of the charges.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

The traveler is required to use a Bank of America government charge card to obtain lodging for official travel.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

EAGLS on-line transactions are reviewed for improper and unauthorized lodging charges.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

The travel voucher is reviewed for lodging receipts to verify lodging expenses and to identify unauthorized lodging charges.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Travel charges are reviewed to verify validity of ATM withdrawals.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

EAGLS exception reports are used to monitor authorized ATM withdrawals.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Charge billed to Bureau by Bank of America

The accounting system review of reports of transactions is at a designated organizational level.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

An accounting system cardholder transaction report, or equivalent, is compared to selected cardholder statements.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

An electronic edit is performed of card invoices to compare invoice total with detailed transaction total balance.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Receipt of Transaction File from Bank of America

An electronic edit is performed of bureau centrally billed invoices to compare invoice totals with detailed transaction total balance.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written policies and procedures for individuals to follow to assess the completeness of transaction data.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Payment of Bank of America Invoice

There is a post payment review of invoice payment to determine that the proper and correct amount is paid.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A status of funds reports, or equivalent, is used to monitor travel expenses.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written policies and procedures to control the timely processing of payments.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Review of Transaction Data

There are regular periodic reviews of travel transactions.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Adjustments, allocations, and reallocation of costs are performed after the travel transaction review.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There is a card transaction review for proper travel charges, misuse, accounting code, BOC, and charges comparing the statement with receipts maintained by users on a sample basis.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Written policies and procedures include identification and posting of adjustments between administrative and program offices.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**Section 4 - Fleet Process**

**NOTE**

Fleet Credit Card Usage

Random reviews of fleet purchase receipts are performed to verify the validity of purchases.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

Monthly reports are reviewed for transaction details.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Receipt of Transactions File from Bank of America

An electronic edit is performed of bureau centrally billed invoices to compare invoice totals with detailed transaction total balance.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written policies and procedures to control the completeness of transaction data.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**NOTE**

Payment of Bank of America for fleet transactions

There is a post payment review of invoice payments to determine that the proper and correct amount is paid.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

A financial system status of funds report, or equivalent is used to monitor fleet expenses.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There are written policies and procedures to control the timely processing of payments.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

### NOTE

#### Review of Transaction Data

There are regular periodic reviews of fleet transactions.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

After fleet transaction review, adjustments, allocations, and reallocations of costs are performed.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

There is a review of selected fleet credit card statements for proper charges, misuse, accounting code, BOC, and to compare charges on statements with receipts maintained by the user.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

---

There are written policies and procedures which include identification and posting of adjustments between administrative and program offices.

- Strongly Disagree
- Disagree
- Agree
- Strongly Agree
- Don't Know
- Not Applicable

**Section 5 - Comments:**

Are there any comments you wish to make concerning the SMARTPAY Program internal controls.

---

## A D D E N D U M B

---

**CONDUCTING MANAGEMENT CONTROL REVIEWS**

Management Control Reviews (MCRs) include all high risk areas in each event cycle. They are usually much more time-consuming and paper-intensive than AMCRs. Therefore, they are to be used sparingly. The suggested steps for conducting MCRs are listed below.

**I. *Steps in Conducting MCRS*****A. Starting the Assessment**

1. Planning the assessment
2. Component survey
3. Analysis of general control environment
4. Analysis of ADP

**B. Defining Control Systems**

1. Identify and document event cycles
2. Identify and document all risks
3. Identify and document control objectives
4. Identify and document control techniques
5. Compare control systems to the GAO control standards

**C. Reviewing the System Design****D. Testing the Control System**

1. Select controls to be tested
2. Select test methods
3. Determine amount of testing
4. Plan data collection
5. Conduct the tests
6. Analyze test results, develop conclusions and plans for corrective action
7. Report the results
8. Document the evaluation

These steps are discussed in the following pages.

## **A. STARTING THE ASSESSMENT**

### **1. Planning the Evaluation**

The MCR should be carefully planned to gain managerial support and to ensure that objectives are accomplished. The planning process should include the following tasks:

- ▲ *Assign staff.* The team members selected should be knowledgeable of the program area, have analytical skills, and be trained in conducting control evaluations. Ideally, team members should be selected from within the responsible program office or from an independent “program-evaluation” office. The number of reviewers should be based on the complexity and scope of the review.
- ▲ *Allocate staff resources and establish time frames.* It is helpful to allocate the minimum and maximum amount of staff resources to be used for completing each task. The final planned completion date should be set with interim planned completion dates for each review task.

### **2. Component Survey**

The next step in the assessment process is to survey the component to be reviewed. The survey is primarily a fact-finding and data-gathering exercise to establish the framework in which the component operates. It includes reviewing authorizing legislation, implementing regulations, policies and procedures, planning and budget documents, organizational charts, and other pertinent documents and records. It also includes reviewing audit reports, results of internal reviews, and similar evaluations. The survey provides the input for the steps that follow. If a survey has been previously conducted, the reviewer should check to see if the survey is still accurate.

### **3. Analysis of the General Control Environment**

The purpose of analyzing the general control environment is to determine if management’s attitude is conducive to a strong management control system. The analysis of the general control environment will provide the reviewer with a preliminary opinion about the effectiveness of specific controls. If an analysis has been previously completed, check to see if it is still accurate and update as necessary (Use Worksheet in Appendix 1 for this analysis).

The factors that influence the general control environment are:

- organization
- delegation of authority
- policies and procedures
- personnel
- planning, budgeting, and accounting
- reporting

#### **4. *Analysis of ADP***

If the component contains an ADP application, it should be analyzed to determine if ADP application controls should be reviewed. This review of ADP can be a separate review. An ADP application should be included if it contains any of the following characteristics:

- ◆ Processes information used for significant management decisions
- ◆ Calculates or records amounts owed by or to the Government
- ◆ Maintains balances or other records used to control government resources
- ◆ Maintains or processes information necessary for effective and efficient program operation
- ◆ Maintains or processes sensitive information.

**NOTE:** Bureaus should use the Office of Information Resources Management’s guidelines for reviewing ADP applications.

### **B. *DEFINING CONTROL SYSTEMS***

#### **1. *Identify and Document Event Cycles***

An event cycle is a series of related steps that constitute a distinct and separate process or activity within a component. Each program or administrative component of a bureau contains one or more event cycles that help achieve the goals of the component.

In general, components can be comprised of either process-related sets of event cycles, as in administrative-type components, or program sets of event cycles. For example, the cash management administrative component of a bureau normally includes billing, collecting, depositing, procuring, and disbursing event cycles. By contrast, most program components normally include planning, budgeting, executing, reporting, and administrative event cycles. Some components, such as concessions management, may be described as either an administrative or program component and, accordingly, may be segmented into administrative or program event cycles. It is up to the reviewer to determine which type best fits the component being reviewed.

An important step in the review process is to first identify and then list all the event cycles of the component. The next step is to develop a thorough understanding of how each event cycle functions. If a detailed description of the event cycle does not already exist, then documentation should be prepared using flowcharts and/or narrative descriptions. This detailed description should be retained as part of the MCR documentation.

Background information necessary for creating such documentation may be obtained through interview, observation, or existing records such as mission and function statements. Documentation of the event cycle should be sufficient to provide an in-depth understanding of the objectives and operations of every cycle.

#### **2. *Identify and Document All Risks***

After listing the event cycles, the potential risks involved within each event cycle must be identified. The reviewer should categorize the identified risks within each cycle as high, medium, or low. The impact of each risk (the probability of its occurrence and the severity

of its consequences) should be considered. High risks are those which could prevent the event cycle from achieving its objective or result in substantial loss of government resources.

The reviewer would then determine, based upon knowledge of the activity and the objective of the event cycle, which risks are high.

### **3. *Identify and Document Control Objectives***

Control objectives are what you want to achieve. Specifically, control objectives are the desired goals for a specific event cycle that reduce the potential for fraud, waste, and abuse or ensure the efficiency, effectiveness, and economy of operations within the event cycle. They should correspond to the risks identified for the event cycle and set forth the specific goals the control system is to meet.

Setting control objectives involves turning the potential risk into a goal. To identify a control objective, the question should be asked “in order to avoid a specific risk, what needs to happen?” The reviewer should state what the objective will achieve and how it will be known whether the objective was achieved.

If the component being reviewed does not have control objectives, the reviewer should develop the control objectives during the review in order to proceed to identifying and documenting the control techniques.

### **4. *Identify and Document Control Techniques***

Control techniques are a series of carefully constructed checks and balances designed to provide reasonable assurance that the control objectives are met in an efficient and effective manner. Control techniques should be observable and cost effective. Examples of control techniques include passwords to limit access to data bases, written delegations of authority, technical reports, documentation of processes and procedures for carrying out program and administrative activities, periodic supervisory review, comparisons of actual results to planned results, and segregating sensitive duties among several individuals.

When developing control techniques, it is crucial to identify the relationship between the techniques to determine if the controls are operating as planned and are sufficient to provide reasonable assurance of achieving the control objectives.

### **5. *Compare Control Systems to the GAO Control Standards***

The GAO control standards define the minimum level of quality acceptable for an internal control system. The five GAO standards for internal control are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring. These standards define the minimum level of quality acceptable for internal control in government programs and administrative operations and provide the basis against which internal control is to be evaluated. Also, the standards apply to all aspects of an agency’s operations: programmatic, financial, and compliance. *Please note that the term internal control as used in the GAO standards is synonymous with the term management control as used in OMB Circular A-123 and throughout this handbook.*

The GAO standards provide a general framework for internal controls. Agency/bureau management is responsible for developing the detailed policies, procedures, and practices to fit their operations and to ensure that internal controls are built into and an integral part of operations.

*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.

*Risk Assessment.* Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans developed under the GPRA, and forming a basis for determining how risks should be managed.

*Control Activities.* Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the Department's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They also help ensure actions are taken to address risks. Control activities include approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities along with supporting documentation. Examples of control activities include the following:

- ◆ Top level reviews of actual performance,
- ◆ Reviews by management at the functional or activity level,
- ◆ Management of human capital,
- ◆ Controls over information processing,
- ◆ Physical control over vulnerable assets,
- ◆ Establishment and review of performance measures and indicators,
- ◆ Segregation of duties,
- ◆ Proper execution of transactions and events,
- ◆ Accurate and timely recording of transactions and events,
- ◆ Access restrictions to and accountability for resources and records, and
- ◆ Appropriate documentation of transactions and internal control.

*Information and Communications.* Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

*Monitoring.* Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

### **C. REVIEWING THE SYSTEM DESIGN**

An assessment of a system of internal controls is based on a documented understanding of the system. Information obtained during the survey of the component and documentation of the control system should be studied. This part of the MCR should focus on the adequacy of the control objectives and the design of the control techniques. During this process, the reviewer should answer at least the following questions:

1. Have complete, logical and applicable control objectives been established?
2. Do existing controls appear sufficient to manage the risks and satisfy the control objectives?
3. Do existing controls appear excessive for the risks and control objectives specified?
4. Can or should other controls be used to either reduce risk or improve the efficiency of the system?

The answers to these questions will lead the reviewer to a judgment about the system's theoretical strengths and weaknesses. This, in turn, enables the reviewer to focus on the appropriate areas to be examined during the testing phase.

### **D. TESTING THE CONTROL SYSTEM**

Testing verifies the effectiveness of control techniques in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. By testing, the responsible official can quickly validate whether:

- ◆ Prescribed procedures are performed in accordance with instructions
- ◆ Procedures are performed by personnel having no incompatible duties
- ◆ Actual transactions processed in the operation are in fact those authorized for the group
- ◆ Actual operations are conducted in accordance with the control objectives and techniques which have been devised for the component

The focus of testing should be upon high risk areas and those areas of inadequate management control system design. Testing consists of the following steps:

#### **1. *Select Controls to be Tested***

It is both impractical and unnecessary to test all control techniques. The control techniques to be tested should be those that contribute most to achieving the control objectives or managing the risk. A control should be eliminated from testing when (1) the technique does not meet the control objective or manage the risk because it is poorly designed, unnecessary or duplicative or is not performed in a timely manner and (2) the cost of testing exceeds the value of the technique being tested. If a technique is excluded from testing, the reasons supporting this decision should be recorded.

## **2. *Select Test Methods***

Testing methods include:

- ▲ *Document analysis* – reviewing existing records, completed forms, or other documentation
- ▲ *Transaction testing* – entering and processing transaction data through the system or by tracing transactions through the system
- ▲ *Observation* -- watching the performance of specific control technique
- ▲ *Interview* – eliciting information from the personnel who perform the control technique

Tests should not be limited to information obtained through interviews, but interviews should be used to supplement document analyses and/or observation. One or more methods of testing may be combined during the test.

## **3. *Determine Amount of Testing***

It is unrealistic to observe every time a control is used or review 100% of the records at all locations. The reviewer must select the organizations and locations where the tests will be conducted and select a sample for each control to be tested.

## **4. *Plan Data Collection***

Accurate recording of test results is an extremely important part of the testing process. A data collection plan assists in determining how to record the test results. For example, interview guides should be used to ensure that all areas of concerns are discussed.

## **5. *Conduct the Tests***

While conducting the tests, the sample plan should be followed unless it is determined that it is necessary to revise the scope or size of the sample based on the results of your initial sample. Consider increasing the sample size if the initial tests provide mixed results. When possible, retain copies of authorizing documents or other physical evidence that control techniques are working.

**NOTE:** Watch for compensating controls. Sometimes a control technique will appear to be weak or not operating. In such a case, determine if personnel are compensating for the shortcomings by using informal control mechanisms. If informal control mechanisms are being used, evaluate and document them during the testing.

## **6. *Analyze Test Results and Develop Conclusions and Plans for Corrective Action***

*Analyze test results and develop conclusions.* The tests of specific control techniques must be analyzed to determine if the degree of compliance with control techniques is adequate. It is important to remember that usually several control techniques are utilized to meet a control objective or manage a risk. Accordingly, the failure to substantially comply with one individual control technique does not necessarily result in a failure to meet the control objective or manage a risk.

The test results should then be discussed with managers responsible for operating the control techniques at the location or organization that was reviewed. These discussions will: (1) communicate the results of the tests and any conclusions drawn; (2) seek

agreement on those conclusions, and (3) elicit from the managers recommendations on any necessary corrective actions. Such discussions are best held as soon as the testing and related analysis of results are completed.

*Develop plans for corrective action.* The primary purpose of the control assessment process is to assist managers in identifying and correcting weaknesses. When a weakness is found, a decision must be made to institute new controls, improve existing controls, or accept the risk inherent in the weakness. In many cases the appropriate action is apparent but in other cases further analysis may be necessary before a plan for corrective action can be made. Selecting corrective actions involves creating a strategy for achieving the control objectives. The actions selected should use the least amount of dollar and personnel resources possible and ensure the achievement of the control objectives or results. The following five steps should be completed in selecting corrective actions: (1) identify possible actions; (2) analyze costs and benefits; (3) document corrective action, (4) identify reasonable completion dates; and (5) identify funding required for implementation.

## **7. Report the Results**

Control assessment results for each component should be summarized in a report. The report should identify control weaknesses and describe plans for corrective action. Since the report forms the basis for the certification required by FMFIA, it should provide the bureau head and program assistant secretary with sufficient assurance that the review was conscientiously performed and accurately reflects the condition of management controls.

The report should contain all control weaknesses which are significant to the next higher organizational level, regardless of the process through which the weaknesses were identified. All sources of information on the status of controls, such as audit reports, management reviews, and routine management reports, are to be considered in identifying control weaknesses. The transmittal memorandum should describe: (1) risks that the evaluation focused on; and (2) testing conducted, locations, controls techniques tested, and type and amount of testing.

The report should be submitted to the official designated as responsible for component controls and their evaluation. After review by the responsible official, the report is to be transmitted to the bureau MCC for approval by the bureau head. The report must be approved by the bureau head and appropriate program assistant secretary and submitted to PFM with a copy to the OIG.

## **8. Documenting the Evaluation**

Documentation is written material explaining the operation of the control system and the conduct of a management control assessment, and the documentation is to be readily available for examination. In addition, responsible officials should prepare and maintain sufficient documentation to evidence the conduct of a management control assessment and the basis for the results and conclusions reached. This documentation should include written evidence concerning:

- the officials participating in the review
- the risks reviewed
- the controls examined
- the extent and type of control tests performed

- the analysis of the tests conducted
- a description of any weaknesses found
- the actions recommended to correct the weaknesses

System documentation provides a means of communicating information on the operation of the control system and it serves as a standard to measure the operation of the control system. It further provides information necessary for supervisory or other review and serves as a basis for training new personnel. Evaluation documentation provides evidence that a management control assessment was performed and provides support for the reasonable assurance determination. It serves as the basis for supervisory review and quality control while assisting in subsequent assessments.

How much documentation is enough? Keep it to a minimum. Sufficient system documentation answers the questions: why the system was designed, what the system does, and how the system operates. Sufficient evaluation documentation answers the questions: who did what, what were the results, and why were actions taken.

**NOTE:** Sufficient documentation should not involve an inordinate amount of paper. Keep documentation to a minimum by including only those records needed to answer the above questions.

## A D D E N D U M C

---

**INTERNET REFERENCES FOR OMB CIRCULARS**

The following OMB circulars applicable to management controls and referenced in this Handbook can be obtained from the OMB Web-site: [www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars).

**OMB Circular A-123, Management Accountability and Control,  
Revised June 21, 1995**

This circular provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on management controls. Management controls are the organization, policies, and procedures used to reasonably ensure that: (a) programs achieve their intended results; (b) resources are used consistent with agency mission; (c) programs and resources are protected from waste, fraud, and mismanagement; (d) laws and regulations are followed; and (e) reliable and timely information is obtained, maintained, reported, and used for decision making.

**OMB Circular A-127, Financial Systems,  
Revised June 10, 1999**

This circular prescribes policies and standards for executive departments and agencies to follow in developing, operating, and reporting on financial management systems. A financial system is an information system (automated or manual) comprised of one or more applications, that is used for either: (a) collecting, processing, maintaining, transmitting, and reporting data about financial events; (b) supporting financial planning or budgeting activities; (c) accumulating and reporting cost information; or, (d) supporting the preparation of financial statements.

**OMB Circular A-130, Management of Federal Information Resources,  
Revised February 8, 1996**

This circular establishes uniform government-wide policies for the management of federal information resources required by the Paperwork Reduction Act of 1980, as amended by the Paperwork Reduction Act of 1995. The Paperwork Reduction Act mandates that agencies perform their information resources management activities in an efficient, effective, and economical manner. Agencies are to evaluate their information resources management practices to determine the adequacy, efficiency, and compliance with information resources management policies, principles, standards, and guidelines promulgated by the Director, OMB.

**WORKSHEET FOR  
 ANALYSIS OF GENERAL CONTROL ENVIRONMENT  
 COMPONENT - \_\_\_\_\_  
 FY \_\_\_\_\_**

FACTOR	QUESTIONS	RESPONSE YES NO	COMMENTS
A. Organization	1. Does/do the organizational unit(s) operating the component have a. clearly written goals and objectives? b. authority and responsibility to pursue the goals and objectives ?		
	2. Is/are the organization unit(s) operating the component a. sufficiently flexible to accommodate changes? b. held accountable for resources entrusted to it? c. held accountable for the results of its operations?		
B. Delegation of Authority	1. Do delegations of authority a. exist in writing? b. clearly delineate duties and responsibilities? c. prevent overlapping, duplication, and conflicts of duties and responsibilities? d. grant sufficient authority to officials to carry out their responsibilities? e. divide responsibility so that no single official controls all phases of a critical transaction?		

**WORKSHEET FOR  
 ANALYSIS OF GENERAL CONTROL ENVIRONMENT  
 COMPONENT - \_\_\_\_\_  
 FY \_\_\_\_\_**

<p>C. Policies and Procedure</p>	<p>1. Are policies and procedures</p> <ul style="list-style-type: none"> <li>a. clearly stated in writing and systematically organized in manuals, handbooks or other publications?</li> <li>b. systematically communicated throughout the organization?</li> <li>c. consistent with applicable laws, regulations, and policies prescribed by higher levels?</li> <li>d. simple and easy to understand?</li> <li>e. structured to avoid overlap, confusion, conflict, or duplication?</li> <li>f. revised and updated as necessary?</li> <li>g. flexible enough to allow routine handling of unusual events?</li> <li>h. structured to provide for adequate separation of duties?</li> </ul>		
<p>D. Personnel</p>	<p>1. Do personnel practices include</p> <ul style="list-style-type: none"> <li>a. a code of conduct?</li> <li>b. provisions for conflict of interest disclosures?</li> <li>c. accurate and up-to-date position descriptions?</li> <li>d. periodic performance review (appraisal) of all employees?</li> <li>e. a reward system based on performance?</li> <li>f. sufficient training opportunities to improve competency and update employees on new policies and procedures?</li> </ul>		

**WORKSHEET FOR  
 ANALYSIS OF GENERAL CONTROL ENVIRONMENT  
 COMPONENT - \_\_\_\_\_  
 FY \_\_\_\_\_**

E. Planning, Budgeting and Accounting	1. Is there a long-range planning process?		
	2. Is the budgeting system integrated with the planning process?		
	3. Is the accounting system integrated with the budgeting system?		
	4. Are plans and budgets effectively communicated throughout the organization?		
	5. Does the approved budget become the operating plan and the standard against which performance can be measured?		
	6. Are there clearly established levels of operational and financial accountability?		

**WORKSHEET FOR  
 ANALYSIS OF GENERAL CONTROL ENVIRONMENT**  
 COMPONENT - \_\_\_\_\_  
 FY \_\_\_\_\_

F. Reporting	1. Are reports made in accordance with assigned responsibilities?		
	2. Are individuals or units required to report only on those matters within their control?		
	3. Do progress or performance reports show comparisons with <ul style="list-style-type: none"> <li>a. planned performance?</li> <li>b. budget allowances?</li> <li>c. past performance?</li> </ul>		
	4. Are reports <ul style="list-style-type: none"> <li>a. relevant?</li> <li>b. timely?</li> <li>c. accurate?</li> <li>d. distributed to appropriate levels?</li> </ul>		



**SUMMARY OF  
 ANALYSIS OF GENERAL CONTROL ENVIRONMENT  
 COMPONENT - \_\_\_\_\_  
 FY \_\_\_\_\_**

FACTORS	ANALYSIS SATISFACTORY	ANALYSIS UNSATISFACTORY	COMMENTS
A. Organization			
B. Delegation of Authority			
C. Policies and Procedures			
D. Personnel			
E. Planning, Budgeting, and Accounting			
F. Reporting			

**IDENTIFYING RISKS  
 COMPONENT - \_\_\_\_\_**

What is the component's objective?

	WHAT COULD GO WRONG?	CHANCE			IMPACT		
		HIGH	MED	LOW	HIGH	MED	LOW
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							

## Department of the Interior Departmental Manual

---

**Effective Date:** 2/7/00

**Series:** Financial Management

**Part 340:** Management Accountability and Control

**Chapter 1:** General Policy and Responsibilities

**Originating Office:** Office of Financial Management

---

### 340 DM 1

#### 1.1 Purpose.

A. **Objective.** This Chapter provides Department of the Interior (Department) policies and guidelines for bureaus and offices in complying with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This policy, for internal use only, is designed to assist bureaus in improving the accountability and effectiveness of their programs and operations management controls. The major focus of the policies is the establishment, assessment, correction, and reporting on management controls. Bureaus have the discretion, where necessary, to supplement this policy guidance by developing additional bureau-specific instructions for use within the bureau.

Policy provided in this Part is intended to serve as a general framework for the Department's Management Control Program. Periodically the Office of Financial Management (PFM) issues specific guidance regarding the Department's Management Control Program.

B. **Scope.** All bureaus and Departmental offices with program and functional activities are to comply with this policy, except offices whose primary function is the issuance of policy. The subject of management control of funds is governed by another DM Chapter, 328 DM 1-3.

#### 1.2 Authority and Background.

A. **General.** The Congress, Office of Management and Budget (OMB), and General Accounting Office (GAO) have directed attention to the need for agencies to establish and maintain sound management control systems as a primary means of providing greater accountability, effectiveness and efficiency in achieving program goals and objectives and in preventing fraud, waste, and mismanagement. The Department promotes the continuous monitoring of management controls as a part of daily program and operation management, as a means of strengthening management accountability, enhancing and improving program performance and operations.

The FMFIA and OMB Circular A-123 require the agency head to conduct an ongoing review process of controls and to report annually on the adequacy of agency management and accounting control systems. Under authority provided by the Government Management Reform Act (GMRA), the Department's annual assurance on compliance with the FMFIA is incorporated into the Department's Accountability Report. The Chief Financial Officers (CFO) Act and Government Performance and Results Act (GPRA) reinforce the need for effective management controls. These Acts also call for the development of program performance indicators to monitor management's success in reaching program goals and desired outcomes. Department managers are to establish environments where management controls are understood, encouraged, practiced, and implemented.

B. **Authority.** The basic authority for establishing and maintaining agency controls is vested in the Accounting and Auditing Act of 1950 (31 U.S.C. 3512), as amended by the FMFIA. Section 113 of the Accounting and Auditing Act of 1950 requires the head of each agency to establish and maintain systems of management controls for all agency programs, organizations, and functions. The Act also stipulates that accounting systems should conform to Federal accounting standards and related requirements. The CFO Act identifies management control related activities as a primary responsibility of the Department's CFO.

The following four statutes, two OMB Circulars, and GAO Internal Control Standards were used to prepare this policy:

- (1) Federal Managers' Financial Integrity Act of 1982,
- (2) Federal Financial Management Improvement Act of 1996 (FFMIA),
- (3) Government Performance and Results Act of 1993,
- (4) Chief Financial Officers Act of 1990,
- (5) OMB Circular A-123 Revised, Management Accountability and Control,
- (6) OMB Circular A-127 Financial Management Systems, and
- (7) GAO Standards for Internal Control in the Federal Government.

### 1.3 Policy.

A. General. Bureaus will establish, maintain, evaluate, improve, and report on their systems of program and operation controls. These systems of control should constitute the full range of controls necessary to assist managers in reaching program goals and objectives, and in using Government resources efficiently and effectively. All levels of management will involve themselves in assuring the effectiveness and adequacy of controls. Also, all systems of management and accounting controls will be evaluated on an ongoing basis, and deficiencies, when detected, will be promptly corrected. The results of evaluations must be documented, maintained and made available upon request to the Office of Inspector General (OIG), GAO or PFM.

B. Control Environment. Each bureau should establish a control-conscious environment. This environment should provide a disciplined atmosphere in which managers are aware of the need to establish systematic controls, monitor their application, and review periodically their effectiveness. The control environment should encourage employee awareness of the existence of controls and their individual responsibilities in the development and implementation of controls.

### 1.4 Responsibilities.

A. General. All managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas. Effective execution of management controls requires the utmost coordination and cooperation from all segments of the Department.

B. Department.

(1) The Department's Management Control and Audit Follow-up Council (Council) comprised of the Assistant Secretary - Policy, Management and Budget/Chief Financial Officer (Chair), Inspector General (ex officio), Solicitor, and Program Assistant Secretaries, is responsible for the following:

- (a) overseeing Departmental FMFIA policy and reporting processes,
- (b) establishing priorities in the correction and reporting of program and operation material weaknesses and accounting material non-conformances,
- (c) ensuring that appropriate funding for correction of the identified material weaknesses and material non-conformances is requested in the budget process, and
- (d) emphasizing the early warning of potential management control deficiencies.

The Council meets periodically (usually semiannually) with bureau and office heads to discuss their respective management control program and plans, identification and correction of program and operation material weaknesses and accounting non-conformances.

(2) The Assistant Secretary - Policy, Management and Budget/CFO has the primary responsibility for managing the Department's compliance with OMB Circulars A-123 and A-127, the FMFIA, the CFO Act, the FFMIA, and the GPRA.

(3) PFM is responsible for: (a) providing staff assistance to the Council; (b) recommending management control policies and procedures; (c) providing oversight and guidance to the bureaus concerning the review, evaluation, and maintenance of effective controls; (d) managing, directing, and evaluating the Department's reporting under OMB Circulars A-123 and A-127, the FMFIA, the FFMIA, and the CFO Act.

(4) The Office of Acquisition and Property Management (PAM) is responsible for developing and issuing control evaluation guidelines for the acquisition, Federal assistance and property management functional areas, assessing the results of bureau control evaluations in these areas, and providing to PFM annually a summary assessment of the adequacy of bureau controls in these functional areas. PAM is also responsible for overseeing, monitoring, and assessing and recommending for approval to PFM the completion of bureau corrective action plans addressing acquisition and property management material weaknesses.

(5) The Office of Information Resources Management (PIR) is responsible for developing and issuing control evaluation guidelines for conducting reviews of information technology general support systems and major applications; assessing the results of bureau control evaluations in these areas; and providing to PFM annually a summary assessment of the adequacy of bureau controls in these areas.

(6) The Department's Office of Environmental Policy and Compliance, Office of Personnel Policy, Office of Managing Risk and Public Safety, Office for Equal Opportunity, Office of Budget, and PFM are responsible for issuing guidance to assist bureaus in conducting control evaluations of their respective functional areas.

(7) The Office of Planning and Performance Management (PPP) is responsible for developing and issuing guidelines on the preparation of strategic plans, annual performance plans, and annual performance reports. Guidelines include using management control reviews to fulfill GPRA requirements for program evaluations and data verification and validation. PPP also is responsible for review and clearance of GPRA documents prior to publication, and collaborates with PFM on the selection of GPRA goals and measures for the accountability report.

(8) The OIG is responsible for performing routine evaluations of management controls within the scope of internal audits, as part of the OIG overall program of audits and investigations, and reporting the results in its audit reports. In addition, the OIG annually reviews bureaus' administrative and accounting controls as part of its financial statement audits.

C. The Solicitor (SOL), Inspector General, and Program Assistant Secretaries. The Department's Council has proven to be an effective oversight forum for addressing and resolving management control and audit follow-up program issues. The SOL, OIG, and Program Assistant Secretaries are encouraged to establish similar management control and audit follow-up councils or oversight groups in their respective offices to coordinate and monitor the management control and audit follow-up programs. Such councils or oversight groups at a minimum should be responsible for: (1) institutionalizing the management control process within their organizations, (2) establishing priorities in identifying, correcting and reporting of management control material weaknesses and accounting non-conformances, (3) ensuring that funding to correct identified deficiencies is requested in the budget process, and (4) establishing a quality assurance process that permits the responsible official to provide reasonable assurance to the Secretary of the Interior (Secretary) that the objectives of the FMFIA are being achieved.

D. Bureau Heads. Bureau heads and/or senior-level management officials are responsible for establishing and maintaining the system of management control within their bureaus. This includes determining that the system of control is consistent with standards prescribed in OMB Circular A-123, which are drawn in large part from GAO's Standards for Internal Control in the Federal Government. This also includes determining that the systems

of control are functioning as intended; properly documented, modifying the control systems, as appropriate, for changes required; and ensuring that the type, number and quality of control evaluations conducted are sufficient to provide assurance in disclosing the existence of any management control weakness and/or accounting systems non-conformance.

Bureau heads are also responsible for:

- (1) determining on an annual basis which programs or administrative functions should be subject to a formal review in order to supplement management's judgment as to the adequacy of management controls;
- (2) allocating adequate resources to evaluate their systems of control;
- (3) developing detailed procedures, documentation, training, and reporting requirements necessary to review, establish, maintain, test, improve, and report on control systems within their bureau programs and operations;
- (4) reporting to the Council, in consultation with their Assistant Secretary, management control deficiencies identified in audit reports, internal reviews, and from other sources that have the potential of meeting the Departmental material weakness criteria;
- (5) ensuring timely correction and validation of all identified program and operation deficiencies whether material and/or nonmaterial; and
- (6) ensuring management control guidelines issued by PAM and PIR are implemented.

Bureau heads should also specify employee accountability. Program specific management control elements and standards are to be included in all managers' performance evaluations.

E. Program and Other Managers. These management officials are responsible for the establishment and evaluation of management controls within their respective assigned program (s) or operation area(s).

F. Management Control Coordinators. Management control coordinators (MCCs) are the individuals designated by each bureau head or assistant secretary to coordinate and facilitate compliance with the FMFIA and relevant guidance issued by PFM, PAM and PIR. Each bureau MCC or alternate is responsible for coordinating and directing the bureau control evaluation process, advising the bureau head on the operation of the bureau's management control program, the status of planned actions to correct deficiencies, and ensuring adherence to the Departmental management control program guidance. Bureau MCCs also have the discretion to develop any supplemental procedures required to evaluate the effectiveness of bureau control systems and to validate the completion of corrective actions through testing or other means.

G. Dissemination of Information. PFM's home-page for Management Accountability and Control includes (1) a current year schedule of management control program key action dates, (2) current year guidelines, and (3) management control summary information from the Department's Accountability Report such as a listing of open material weaknesses and material accounting non-conformances, and scheduled completion dates. This information is updated periodically. The web site address for accessing the PFM's home-page is [www.doi.gov/pfm](http://www.doi.gov/pfm).

2/7/00 #3294

Replaces 6/7/93 #2976

## Department of the Interior Departmental Manual

---

**Effective Date:** 2/7/00

**Series:** Financial Management

**Part 340:** Management Accountability and Control

**Chapter 2:** Standards, Guidelines, and Reporting

**Originating Office:** Office of Financial Management

---

### 340 DM 2

**2.1 Purpose.** This Chapter provides policy and guidance to bureaus on: (a) the management control standards to be employed; (b) the performance of control reviews; (c) the corrective action process for deficiencies; and (d) the Departmental reporting system to be used in complying with OMB Circular A-123.

#### 2.2 Definitions.

A. General. Most of the terms used in this Chapter have been previously defined in relevant guidelines issued by OMB, GAO, or PFM.

B. Accounting System Non-conformance. A situation in which the design procedures and/or the degree of operational compliance does not provide reasonable assurance that the accounting system conforms to Federal Accounting Standards Advisory Board issued accounting standard(s) and other related requirements.

C. Bureau Component. A major organization, program, Automated Data Processing (ADP) system, or functional subdivision requiring one or more separate systems of management control to: (1) safeguard resources; (2) assure the accuracy and reliability of timely reports and information; (3) assure adherence to applicable laws, regulations, and policies; and (4) promote operational economy and efficiency.

D. Management Controls. Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that: (1) programs achieve their intended results; (2) resources are used consistent with an agency mission and appropriated purpose; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making. For additional information regarding the establishment of management controls refer to OMB Circular A-123, "Management Accountability and Control," dated June 21, 1995.

**2.3 Management Control Standards.** GAO's control standards are used in establishing and maintaining systems of management control. The control standards define the minimum level of quality acceptable for control systems in operation and constitute the criteria against which systems are to be evaluated. When properly applied in conducting reviews of controls, these standards will assist managers in determining the adequacy of management controls in place. A general explanation of the control standards is contained in OMB Circular A-123. Detailed explanations of the control standards are contained in GAO's "Standards for Internal Control in the Federal Government" or can be obtained from GAO's web site at [www.gao.gov](http://www.gao.gov).

**2.4 Management Control Assessment Process.** Each bureau is to establish an ongoing process to evaluate controls in accordance with the policies, standards and procedures issued by the bureau, GAO, OMB, PAM, PIR, PFM, and Office of Budget. An effective management control assessment process should at least include: (1) developing and maintaining a priority review plan and monitoring the progress of control evaluations; (2) conducting a sufficient number of evaluations to provide a basis for reasonable assurance conclusions on bureau control systems; (3) providing the necessary training to conduct evaluations; (4) reviewing the quality of evaluations conducted; (5) monitoring and validating actions taken to correct control deficiencies; and (6) managing the bureau management control reporting process. Bureaus are encouraged to use the automated

assessment approach developed by the Management Control Reengineering Lab Team and validated by three years of pilot testing in multiple programs in all bureaus. The automated assessment approach streamlines and improves the efficiency of the review process as well as providing substantial resource savings. Information regarding the automated assessment can be obtained from PFM.

## 2.5 Guidelines for Developing Priority Review Plans.

A. General. Each bureau is to develop a priority review plan annually. The senior-level managers are expected to participate actively in developing bureau priority review plans.

B. Review Component. Bureaus are encouraged to define review component activities along budget line items or other similar segmentation such as GPRA-defined activities for performance assessment and reporting purposes. This will help facilitate the integration of the two statutory reporting requirements within the Department. The responsible official for each activity or review component is also to be identified.

C. Scheduling Activities for Control Evaluation. Bureaus will schedule and perform a sufficient number of control evaluations which in conjunction with audits of controls by GAO and OIG, program evaluations, GPRA assessments, management studies, and management's judgment will provide an adequate basis for the annual assurance statement conclusion issued by the Bureau head. High risk activities should also be given priority in the planning and scheduling of reviews. Emphasis should be placed on using the type of evaluation that is the most efficient and cost-effective in reviewing an activity's system of controls. Bureaus are encouraged to use a variety of information sources to assess the effectiveness of an activity's management controls and not rely solely upon formal management control evaluations for providing assurance. The different of sources of information referred to in OMB Circular A-123 include the following: management knowledge gained from the daily operation of agency programs and systems; management reviews; OIG and GAO audit reports; program evaluations; audits of financial statements; reviews of financial systems and applications; annual performance plans and reports issued under GPRA; Congressional reports, and other bureau reviews and studies relating to bureau operations. When considering such information, it should be determined whether an assessment was made of program or operation controls, if the information is used as a basis for providing assurance.

## 2.6 Guidance for Conducting Control Evaluations.

A. General. Bureaus have the discretion to determine the methodology used to conduct an evaluation.

(1) An effective review of management controls begins with the recognition of the responsibilities and characteristics of each bureau component. The focus must, therefore, be on management's responsibility to provide reasonable assurance that:

- (a) programs are efficiently and effectively carried out in accordance with applicable law and management policy;
- (b) obligations and costs are in compliance with applicable law and Congressional direction;
- (c) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (d) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of complete, reliable budgetary, financial and statistical reports.

B. Control Tests. All control evaluations require appropriate tests of controls in operation. Testing consists of verifying compliance with existing control procedures to determine if the controls are operating as intended. Methods used to test controls may include reviewing records, observing the performance of a control, tracing transactions through the control system, and interviewing the individuals responsible for operation of the controls. Tests should not be limited to information obtained through interviews, but to the extent practicable, bureaus should also rely upon reviews of records, tracing transactions, and other similar methods. The test results

should be considered along with other sources of information to form a conclusion on the adequacy of the controls in operation.

C. Quality Assurance. Each bureau will establish a quality assurance process to ensure that control systems are properly defined, control evaluations are properly performed and the results accurately reported.

D. Evaluation Documentation. Each bureau is to prepare and maintain sufficient documentation to evidence the conduct of an evaluation and the basis for the results and conclusions reached. Documentation may include written evidence which sets forth: (1) the officials participating in the review, (2) the risks reviewed, (3) the controls examined, (4) the extent and type of control tests performed, (5) the analyses of the tests conducted, (6) a description of any weaknesses found, and (7) the actions recommended to correct identified weaknesses. All evaluation documentation needs to be retained and made available for review by parties both inside and outside the Department. Minimum records retention guidelines are outlined in the General Records Schedule 16, item 14 and Financial Systems Memorandum No. 90-1 (a) dated April 30, 1990.

## 2.7 Reporting Systems.

A. General. The Secretary, under the FMFIA, reports to the President, the Congress, and OMB annually on: (1) the results of evaluations made on the Department's systems of management controls including any Section 2 FMFIA material management control weakness identified, and (2) whether the Department's accounting systems conform to accounting principles, standards, and related requirements (Section 4 FMFIA and FFMIA).

B. Tracking and Validating Material Weaknesses and/or Material Non-conformances. Bureaus should establish and maintain a follow-up system to record and track material weaknesses or material non-conformances corrective actions, and monitor related progress against scheduled completion dates. Bureaus, however, have the discretion to determine how to track and validate correction of identified material weaknesses or material non-conformances and other deficiencies.

On a selected basis PFM will periodically validate the correction of any material weakness or material non-conformance a year after the correction of the item is reported in a bureau's assurance statement. PFM also will review supporting documentation to ensure actions indicated as corrected have been implemented.

C. Assessment Reports. The management control assessment process is a continuous cycle within the Department from one fiscal year to the next. Bureaus will prepare a summary of each control evaluation conducted of component activities during the fiscal year identifying review component, scope of review, date, location, reviewer or responsible official and results to PFM. Departmental functional reviews are submitted in accordance with procedures established by PAM and PIR.

D. Accounting Systems Review Reports. To the extent appropriate, the results of the OIG or other independent audits of bureaus' financial statements and other financial system information will be used to determine whether a bureau's accounting system conforms to Federal accounting standards and related requirements (Section 4 certification). Where necessary, PFM and the OIG may require supplemental procedures to be performed to support compliance review work performed in conjunction with the annual financial statement audit process. When supplemental procedures are required, PFM and the OIG will communicate the procedures to bureaus as soon as possible. Where appropriate, PFM will provide a standard questionnaire/template of the supplemental procedures to assist in this task.

E. Annual Assurance Statement Reporting. An annual assurance statement is required to be submitted by the Bureau heads through their Assistant Secretary to the Secretary to PFM. Also, bureaus' assurance statements are to include an attachment listing current fiscal year completed reviews, program evaluations, GAO and OIG audit reports, reviews of financial systems and applications, GPRA annual performance report, other internal studies and/or other reviews related to bureau operations. The bureaus' assurance statements form the basis for the Departmental annual assurance statement, which is submitted by the Secretary to the President and the Congress as part of the annual Accountability Report required by the GPRA. Section 2 FMFIA material weaknesses and Section 4 FMFIA material accounting system non-conformances will be reported in the format specified by PFM. The plans and schedules for correcting reported weaknesses must show target dates for completing corrective actions.

F. Material Weaknesses (Section 2 FMFIA).

(1) Bureau heads will report annually their FMFIA Section 2 material weaknesses through their responsible Assistant Secretary to PFM. In determining what weaknesses should be included in assurance statements to the Secretary, Bureau Heads should report only those deficiencies that would be of significance to the Secretary in accordance with the revised Department material weakness criteria. Bureau Heads, in coordination with senior-level management officials should also highlight the most critical management control weaknesses affecting their missions. OMB has advised that weaknesses of significance to the President and the Congress are considered material and are to be included in the Secretary's annual Accountability Report. In applying the Department's revised materiality criteria detailed in this section, bureaus must consider all the known deficiencies, irrespective of the process through which they were identified. This includes considering all OIG and GAO audit report findings issued during the current fiscal year, and the results of all management reviews or studies completed during the current fiscal year. Section 2 FMFIA material weaknesses should be reported by activity in the format specified by PFM. The plans and schedules for correcting reported weaknesses must show target dates for completing corrective actions.

(2) Deficiencies Identified in Day-to-Day Operations. Management control deficiencies identified in the course of daily operations or from other sources should be reported through the chain of command to the person responsible for the function or activity involved, and to the management level immediately above that person. The early reporting of a weakness permits management to focus attention on correcting the problem in a timely manner. Overall responsibility for corrective action should be placed only with the office having authority to correct the deficiency. Where findings cut across organizational boundaries, the reporting of deficiencies should also cross over as well and be directed to a sufficiently high management level to ensure appropriate action will be taken. Once responsibility for correcting the deficiency has been established, the next management level determines whether the weakness is of sufficient seriousness to warrant further reporting to responsible bureau senior management officials and/or Assistant Secretary. The final determination in classifying deficiencies as material weaknesses to be reported outside the Department is made by the Council. The following questions should be considered by organizational personnel in making a decision to report identified deficiencies to the next management level:

- (a) Could this problem lead to a serious injury or loss of life?
- (b) If the problem is fixed in my part of the organization, is there a good possibility that the same problem may exist in other parts of the organization (the office, the area, the region, the bureau, the Department)?
- (c) Is there a likelihood that higher levels of management may get questions from Congress or the media about the problem?
- (d) Is it going to take more than three months to correct the deficiency (deficiencies that take longer to correct should be reported to the next management level)?
- (e) Was there a significant loss of government resources? Is there a potential for significant resource loss?
- (f) Was there a significant financial loss either through misuse of appropriated funds or under collection of revenues? Is there a potential for a significant financial loss?
- (g) Were laws broken or regulations ignored?
- (h) Could the Department have any potential liability to employees or to third parties as a result of the deficiency?
- (i) Were there ethical violations by organizational personnel?

(j) Was inaccurate information reported upon which management or third parties based decisions?

(k) Could this problem lead to an audit qualification on a financial statement?

(3) Classification of Deficiencies as Material Weaknesses. The following describes the criteria used by the Council in determining identified deficiencies deemed material weaknesses that should be reported to OMB and the Congress:

(a) Conditions which could endanger the health or safety of employees or the public.

(b) Conditions which could lead to substantial damage or loss of a significant public asset or natural, biological, cultural or historical resource.

(c) Conditions which significantly impair the fulfillment of the Department's or Bureau's mission.

(d) Conditions which indicate systemic deficiencies across bureaus or in the Department's central support systems.

(e) Conditions that could lead to inaccurate or incomplete information being provided in areas of major importance to operations or policy.

(f) Conditions which result in an audit qualification on a financial statement.

G. Material Accounting System Non-conformance (Section 4 FMFIA). The annual report on accounting systems, included as a part of the Section 2 FMFIA report, will include all Section 4 FMFIA situations in which the system design procedures and/or the degree of operational compliance does not provide reasonable assurance that the accounting system generally conforms to Federal accounting standards and related requirements, and the FMFIA. In addition, the annual assurance statement will indicate whether the Department's accounting system(s) meets the Core Financial System Requirements adopted by GAO, OMB, and Treasury. Bureau heads will report annually their material accounting non-conforming functional accounting areas through their responsible Assistant Secretary to the Secretary to PFM in the annual assurance statement. Section 4 FMFIA material accounting non-conformances will be reported in the format specified by PFM with corrective action plans and target completion dates.

2/7/00 #3295

Replaces 6/7/93 #2976

**P.L. 97-255 – (H.R. 1526)**

**Federal Managers Financial Integrity Act of 1982**

**September 8, 1982**

An Act to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**Sec.1. This Act may be cited as the “Federal Managers’ Financial Integrity Act of 1982”.**

**Sec.2. Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C.66a) is amended by adding at the end thereof the following new subsection:**

(d) –

(1) –

(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that –

(i) obligations and costs are in compliance with applicable law

(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

(2) By December 31, 1982 the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems’ compliance with the requirements of paragraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.

(3) By December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement –

(A) that the agency’s systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or

(B) that such systems do not fully comply with such requirements.

(4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency’s systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

(5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is –

(A) specifically prohibited from disclosure by any provision of law; or

(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs, such information shall be deleted prior to the report or statement being made available to the public”.

**Sec.3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C.11), is amended by adding at the end thereof the following new subsection:**

(k) –

(1) The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1993, a separate statement, with respect to each department and establishment, of the amounts of appropriations requested by the President for the Office of Inspector General, if any, of each such establishment or department.

(2) At the request of a committee of the Congress, additional information concerning the amount of appropriations originally requested by any office of Inspector General, shall be submitted to such committee”.

**Sec.4. Section 113(b) of the Accounting and Auditing Act of 1950 (31 U.S.C.66a(b)), is amended by adding at the end thereof the following new sentence:**

**“Each annual statement prepared pursuant to subsection (d) of this section shall include a separate report on whether the agency’s accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of this Act.”**

Approved September 8, 1982.



# SECTION 2 – AUDIT FOLLOW-UP PROGRAM

## C H A P T E R I

### OVERVIEW OF THE AUDIT FOLLOW-UP PROGRAM

Audit Follow-up is the process of ensuring that audit recommendations are implemented in a timely manner and that disagreements regarding audit findings and corrective actions between management and the Office of Inspector General (OIG) and the General Accounting Office (GAO) are resolved. Office of Management and Budget (OMB) Circular A-50, "Audit Follow-up," directs each federal agency to "establish systems to assure the prompt and proper resolution and implementation of audit recommendations."

The Department firmly believes that timely implementation of OIG and GAO audit recommendations is essential to improving the efficiency and effectiveness of its programs and operations, as well as achieving integrity and accountability goals. To demonstrate the importance of the Department's commitment to the timely implementation of OIG and GAO audit recommendations, the Department has established an annual GPRA performance goal of implementing 75 percent of all OIG and GAO audit recommendations within one year of the referral of those recommendations to the Department for tracking of implementation.

The Department has established a comprehensive audit follow-up program to ensure that policy and direction regarding the resolution and implementation of audit recommendations is promulgated for the Department's managers, that audit recommendations are implemented in a timely and cost-effective manner, and that audit-related debt and other funds due the federal government from contractors and grantees are collected, offset, or written-off, as appropriate.

This section of the handbook discusses the roles and responsibilities of all components of the audit follow-up process, procedures for responding to audit reports, the Department's audit follow-up tracking system, reporting, and references to key OMB, GAO, and Departmental guidance pertaining to the Audit Follow-up Program.

#### **ROLES AND RESPONSIBILITIES**

The Department's Audit Follow-up program provides for the clear responsibility of all components involved in reviewing, responding to, and implementing audit recommendations in a timely and effective manner. These roles and responsibilities are outlined below and in Section 1.3A of Departmental Chapter 361 DM 1.

#### ***The Office of Inspector General***

The OIG, under the general supervision of the Secretary, is responsible for conducting, supervising, and issuing audit reports of programs, operations, activities and functions conducted by the Department as well as programs funded by the Department. The OIG is also responsible for conducting or supervising audits of insular area governments' programs and operations. It determines when audits can be carried out by organizations outside the OIG, such as state and local auditors. In addition, the OIG issues audit reports that it has conducted or that have been conducted by other audit organizations.

### ***General Accounting Office***

The General Accounting Office (GAO) is the investigative arm of Congress. GAO supports the Congress in meeting its Constitutional responsibilities and assists in improving the performance and accountability of the federal government.

### ***Assistant Secretary – Policy, Management and Budget***

The Assistant Secretary - Policy, Management and Budget (PMB) is the Department's Chief Financial Officer (CFO), and, as such, discharges the authority of the Secretary for all phases of management and administrative activities and serves as a principal policy advisor to the Secretary. The Assistant Secretary - PMB is also the Chair, Management Control and Audit Follow-up Council and Audit Follow-up Official. In this capacity, the Assistant Secretary is responsible for overseeing the Department's Audit Follow-up Program, including the resolution of disputed audit recommendations and corrective actions.

### ***Office of Financial Management***

The Assistant Secretary - Policy, Management and Budget has delegated day-to-day responsibility for carrying out the responsibilities of the Audit Follow-up Program to the Office of Financial Management (PFM). PFM is responsible for establishing Departmental policy regarding the Departmental Audit Follow-up Program, for assisting the Audit Follow-up Official in resolving disputed audit recommendations, for establishing and maintaining the Departmental audit follow-up tracking system, and for providing training and technical assistance to bureaus and offices regarding the Department's Audit Follow-up Program.

### ***Departmental Management (Program Assistant Secretaries and Bureau and Office Directors)***

Assistant Secretaries and bureau and office directors are primarily responsible for responding to and ensuring the implementation of audit recommendations. They are responsible for designating an audit liaison officer to be responsible for day-to-day audit and audit follow-up functions, and for ensuring that systems are in place that provide for the prompt and thorough response to audit recommendations and for the implementation of audit recommendations.

### ***Audit Liaison Officers***

Audit Liaison Officers, appointed by program assistant secretaries or bureau or office directors, serve as points of contact for all audit activities for their organizational component.

## C H A P T E R 2

**ACCOUNTABILITY AND REPORTING**

The Department places a high priority on improving and promoting accountability and integrity in the Departmental Audit Follow-up Program and in achieving GPRA performance goals. In order to evaluate the effectiveness of the Audit Follow-up Program and of Department managers and program officers in implementing audit recommendations, PFM works in partnership with bureaus, PMB offices, the OIG, and the GAO to monitor and track activities to ensure that audit recommendations are implemented, and to reduce any backlog of implemented audit recommendations. Periodic reporting and progress meetings are several means of monitoring the effectiveness of the Audit Follow-up Program.

***Quarterly Status Reports on Audit Recommendation Implementation Progress***

In order to reduce backlogs of unimplemented audit recommendations, to ensure the accuracy of the Departmental Audit Follow-up tracking system, and to achieve the annual GPRA performance goal for the Audit Follow-up Program, bureaus and offices are required to provide detailed status reports on implementation progress for each pending OIG, GAO, and financial statement audit within 15-days after the end of each calendar quarter. Bureau/office status reports should include a summary of audits closed and recommendations implemented during the reporting period and the disposition of disallowed costs. Appropriate closure documentation should be forwarded to PFM at the same time. Where targeted implementation dates for pending audit recommendations have slipped, a concise statement of the reasons for the slippage and the revised target dates should be included. Quarterly updates must be signed by a bureau/office director or Assistant Director for Administration, as appropriate.

**NOTE:** Bureaus are not confined to providing notice of closure of audit reports/recommendations via quarterly reports; bureaus are encouraged to notify PFM of closure throughout the year, as appropriate.

***Mid-Year Progress Meetings***

Bureaus/offices are required to participate in a mid-year progress meeting with PFM, PMB and OIG; this meeting is usually held in May. The purpose of the meeting is to review program status and discuss and resolve other pertinent audit follow-up issues. Additional progress meetings will be scheduled as necessary by PFM. A bureau senior management official who can make decisions regarding policy issues that affect audit recommendations should be in attendance.

***Mid-Year Department Audit Follow-up Status Report***

Based on the data obtained from the second fiscal quarter bureau status reports, and decisions and other information from the mid-year progress meetings, PFM will publish a comprehensive Audit Follow-up Status Report. The report will provide summary data on bureau progress in implementing OIG and GAO recommendations and the collection and offset of disallowed costs; bureau-specific contributions to the achievement of the annual GPRA audit follow-up performance goal; and brief narrative summaries of each pending audit. The report will be shared with the Secretary, AS-PMB, the OIG, the GAO, and bureau and office heads.

### ***Quarterly Calculation of the Audit Follow-up GPRA Performance Goal***

In addition to the interim calculation in the Mid-Year Department Audit Follow-up Status Report, PFM will prepare quarterly calculations of bureau progress in achieving the annual GPRA audit follow-up performance goal. This calculation will be included in the quarterly program progress report to the AS-PMB.

### ***Management Control and Audit Follow-up Council Meetings***

If issues arise at the mid-year progress meetings that cannot be resolved during the meetings, PFM determines whether these issues should be elevated to the Management Control and Audit Follow-up (MCAF) Council for final decision. If PFM determines that audit issues need to be elevated to the Council, it will prepare a list of the issues for which agreement/resolution could not be achieved at the issue resolution meetings and will schedule the MCAF Council meeting. The Council is responsible for determining what actions are required to resolve disputed issues or whether further action is required. The Council is composed of:

- ◆ Assistant Secretary - Policy, Management and Budget (Chair)
- ◆ Each Program Assistant Secretary
- ◆ Solicitor
- ◆ Inspector General (Ex-Officio)

### ***Annual Accountability Report***

One of the purposes of the Chief Financial Officers (CFO) Act of 1990 is to ensure the production of reliable and timely financial information for use in the management and evaluation of federal programs. The Government Management Reform Act (GMRA) of 1994 furthered the objectives of the CFO Act by requiring all federal agencies to prepare and publish annual financial reports.

The GMRA also authorized the OMB to implement a pilot program to streamline and consolidate certain statutory financial management and performance reports into a single, annual accountability report.

The objective of the Annual Accountability Report is to provide complete and concise financial and performance information concerning the effectiveness of the Department in achieving its financial program objectives. The information previously reported in the Secretary's FMFIA Annual Report, the Secretary's Semi-Annual Report on Audit Follow-up, the CFO Act Annual Report, and Civil Monetary Penalties and Prompt Payment Act Reports are condensed into the Accountability Report. A component of the Report is a section that discusses the Management Control and Audit Follow-up Programs and provides performance data and statistics regarding the effectiveness of bureaus and offices in meeting the requirements of pertinent laws and regulations pertaining to the Management Control and Audit Follow-up Programs.

The Accountability Report also includes key performance measurement data in accordance with the Government Performance and Results Act (GPRA). The GPRA Act requires that all federal agencies: (1) define long-term goals; (2) set specific annual performance targets; and (3) annually report actual performance compared to targets. In accordance with the GPRA Act, the Department has established an objective to resolve audit findings in a timely manner. The FY 2002 annual performance goal is to complete implementation of 75 percent of OIG and GAO audit

recommendations within one year of referral. The Department will work to increase the first-year implementation of audit recommendations five percent each year until an annual implementation rate of 90 percent is achieved.

Tools such as the quarterly updates, the issue resolution meetings, MCAF Council meetings, the Annual Accountability Report, as well as the Departmental Audit Follow-up Tracking System, provide tools to measure the Department's effectiveness in meeting the GPRA goals for the Audit Follow-up Program.

### ***Time Frames for Responses to OIG and GAO Reports***

The appropriate response times for OIG and GAO audits are:

OIG Reports	45 days for draft reports	30 days for final reports
GAO Reports	15-30 days (as directed by GAO)	60 days for final reports

A D D E N D U M A

---

**INTERNET REFERNECES FOR OMB CIRCULARS**

The following OMB circulars applicable to OIG audits and referenced in this section may be obtained from the OMB Web-site: *[www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars)*.

**OMB Circular A-50, Audit Follow-up**

This circular provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General, other executive branch audit organizations, the General Accounting Office, and non-Federal auditors where follow-up is necessary.

**OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations**

This circular sets forth standards for obtaining consistency and uniformity among federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations.

**OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**

This circular, issued pursuant to the Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments, Public Law 104-156, sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, local governments, and non-profit organizations expending federal awards.

## Department of the Interior Departmental Manual

---

**Effective Date:** 1/9/01

**Series:** Audit

**Part 361:** Audit Followup

**Chapter 1:** General Audit Follow-up Responsibilities

**Originating Office:** Office of Financial Management

---

### 361 DM 1

1.1 **Purpose.** The purpose of Part 361 is to provide policies and procedures for use by Departmental and bureau management when responding to and implementing recommendations in audit reports issued by the Office of Inspector General (OIG) and the General Accounting Office (GAO). The audit follow-up program is an integral part of sound program management. Timely responses and implementation of corrective action in response to audit recommendations are essential to improving the effectiveness and efficiency of Departmental operations. Part 361 identifies and implements pertinent statutes, regulations, and directives that apply to audit follow-up to OIG and GAO-issued reports and defines terms normally used in the audit follow-up process.

1.2 **Policy.** It is the policy of the Department that timely action be taken in response to audit findings and recommendations included in audit reports issued by the OIG and the GAO, or other outside parties conducting audits authorized by Federal government regulations.

#### 1.3 **Roles and Responsibilities.**

A. Assistant Secretary - Policy, Management and Budget (A/S-PMB). The A/S-PMB is designated as audit follow-up official for the Department of the Interior. The designation is recorded in 109 DM 4. The A/S-PMB:

(1) Ensures that systems and procedures for audit follow-up are in place and properly documented and maintained.

(2) Makes the final determination regarding audit recommendations that have been referred to the audit follow-up official for resolution.

(3) Ensures that the Office of Financial Management carries out its delegated responsibilities regarding audit follow-up activities.

B. Office of Financial Management (PFM).

(1) Carries out audit follow-up responsibilities that were delegated by the Departmental audit follow-up official.

(2) Maintains the Departmental tracking system for audits referred to the A/S-PMB for tracking or resolution, and monitors implementation progress on a regular basis.

C. Audit Liaison Officers (ALO)

(1) Each program Assistant Secretary, bureau director, and director of Secretarial level offices, will appoint an ALO who serves as the point of contact for all Departmental audit activities.

(2) The employee designated as ALO should be a senior level staff member who has sufficient access to management so that the ALO may keep senior management apprised of and involved with audit activities affecting the audited entity. The ALO may designate an audit liaison coordinator to assist in day-to-day activities.

(3) Assistant Secretary level ALOs should monitor audit activity within bureaus reporting to the Assistant Secretary.

(4) Bureau level ALOs should keep the Assistant Secretary ALO apprised of significant audit issues/activities affecting the bureau.

(5) ALOs will ensure full cooperation with the OIG and GAO in the conduct of audits and with the audit follow-up official and PFM in all audit follow-up activities.

1.4 **Time Frames For Response.** As a convenience to readers, the appropriate response times for OIG and GAO audits are summarized below.

<u>Organization</u>	<u>Time Frames For Comment</u>	
	<u>Draft Reports</u>	<u>Final Reports</u>
GAO Reports	15-30 days (as directed)	60 days
OIG Reports	45 days	30 days
Performance Audits	45 days	30 days
Financial Statement Audits	14 days	30 days
External Audits	N/A	90 days

1.5 **Definitions.**

A. Audit Follow-up Official means the Assistant Secretary - Policy, Management and Budget (A/S-PMB).

B. Audit Initiation Memorandum means the OIG’s official notification of the initiation of an audit. The memorandum specifies the audit subject, scope, objective, and when the audit will start.

C. Audit Liaison Officer (ALO) means the person designated by management as the point of contact for all activities pertaining to the conduct of audits and audit follow-up in their organization.

D. Cognizant Agency means the Federal awarding agency that provides a predominant amount of direct funding to a recipient unless OMB makes a specific cognizant agency for audit assignment.

E. Corrective Action Plan means management’s plan for addressing and implementing recommendations contained in audit reports and will include actions necessary to implement the recommendation, target completion dates, and officials responsible for completing required actions.

F. Disallowed Cost means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

G. External Audit means a grant audit, a preaward audit of contractor’s proposed future costs, a concessions audit, a lease audit, or a contractor claim audit.

H. Financial Statement Audit means an audit conducted by the OIG or an independent public accounting firm in accordance with the Chief Financial Officers Act (CFO) of 1990, the purpose of which is to obtain reasonable assurance that the financial statements of a bureau/office are free of material misstatement. A financial statement audit also means an Indian Trust Funds audit that is required by the CFO Act and that is contracted to an independent public accounting firm.

I. Final Action means the completion of all actions regarding a specific audit recommendation(s) that management, in a management decision, has concluded are necessary with respect to the findings and recommendations contained in an audit report.

J. Follow-up is the process of ensuring that audit recommendations are implemented and that disagreements between management and the OIG regarding corrective action are resolved.

K. GAO Audit means an audit or review conducted by the GAO at the request of Congress or for other purposes determined by GAO to be in the best interest of the Federal government.

L. Internal Audit means a performance audit or a financial statement audit.

M. Management means the agency official to whom an audit report, or the OIG memorandum which transmits an audit report, is addressed. For internal audits, the agency official is usually the cognizant program Assistant Secretary. For external audits, the agency official is usually the contracting officer or grants awarding official within whose purview the subject matter of the audit falls.

N. Management Decision (Internal Audits) means the determination by management, with OIG concurrence, of action(s) required to implement audit recommendation.

O. Management Decision for single and external audits is management's assessment of the adequacy of the audited entity's response to each audit recommendation and/or questioned costs included in a single or external audit report.

P. Offset means the collection of audit-related debt from other monies due from the United States government.

Q. Performance Audit means an audit of an organization, program, activity, or function of the Department or an insular area government. Performance audits include economy and efficiency audits and program audits that evaluate the achievement of desired results, effectiveness, and compliance with laws and regulations.

R. Potential Additional, Lost or Underpaid Revenues represent monetary amounts from revenue generating functions such as rent, leases, mineral royalties, or fees that were underpaid or not realized because policies, procedures, agreements, or requirements were lacking or were not followed. For example, this category may be used in audit reports involving concessions, grants, royalties, reimbursable services and fees.

S. Questioned Cost means a cost that is questioned by the OIG or another audit entity, because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, the cost was not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose was unnecessary or unreasonable.

T. Reinstated Cost means a cost questioned by auditors that management, in a management decision, has agreed should be charged to the Government and is, therefore, not owed by the audited entity.

U. Recommendations that Funds Be Put to Better Use (FBU) means a recommendation by the OIG that quantifies a specific dollar value of funds that would be generated if management took actions to implement and complete the audit recommendations, including reductions in outlays, deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified, i.e., the opportunity cost associated with an audit finding

V. Resolution means the process of reaching a management decision or, in the case of external audits, resolution means responding to audit recommendations within established time frames.

W. Single Audit means an audit completed by an independent audit organization in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," specifically, an audit which includes both the audited entity's financial statements and Federal awards.

X. Time-barred means, the provision of the 1988 Amendments to the Indian Self-Determination and Education Assistance Act which precludes the government from recovering disallowed/sustained costs if notice of disallowance has not been given to the contractor/grantee within 365 days of the issuance of a single audit report.

Y. Sustained Cost means the same as Disallowed Cost (see paragraph 1.5F).

Z. Unsupported Cost means a cost that is questioned by the auditor because, at the time of the audit, such cost was not supported by adequate documentation.

AA. Written Off means a decision by management that collection action is not in the best interest of the Federal government

1/9/01 #3352

Replaces 5/10/91 #2913

## Department of the Interior Departmental Manual

---

**Effective Date:** 1/9/01

**Series:** Audit

**Part 361:** Audit Followup

**Chapter 2:** Followup to Inspector General Audits

**Originating Office:** Office of Financial Management

---

### 361 DM 2

#### 2.1 Purpose.

A. Objectives. These instructions provide policies and authorities for follow-up to OIG-issued audit reports.

B. Scope. This chapter applies to performance, single, external and financial statement audit reports that are issued by the OIG, including audits conducted by other Federal audit agencies, and audits conducted by state and local government auditors and independent public accountants under cognizance assignment of the OIG.

2.2 **Policy.** It is the policy of the Department that timely actions be taken in response to audit findings and recommendations contained in audit reports issued by the OIG. Audit reports will be given careful attention by those officials responsible for programs or activities covered by the reports and such action will be taken as may be necessary to promptly correct conditions that are shown to be deficient. Information, advice, and guidance from OIG-issued reports will be used for the maximum benefit to the Department. This requires:

A. Full cooperation with the OIG in the conduct of its audits.

B. Timely, objective consideration by appropriate management officials of the findings and recommendations contained in audit reports.

C. Development and submission of responses to audit recommendations within the required time frames specified in 361 DM 1.4.

D. Timely implementation of audit recommendations.

#### 2.3 Authority.

A. Office of Management and Budget (OMB) Circular A-50 (Audit Follow-up), dated September 29, 1982. Circular A-50 sets forth policies and procedures for management's use when considering OIG audit reports. It establishes the role of the audit follow-up official, management officials, and the OIG with regard to audit follow-up. Circular A-50 also establishes policy for resolving audits, and action requirements for audit follow-up systems.

B. OMB Circular A-102 (Common Rule), Grants and Cooperative Agreements with State and Local Governments, dated October 7, 1994, amended August 29, 1997. Circular A-102 establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, local and Federally-recognized Indian tribal governments.

C. OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, dated November 19, 1993. Circular A-110 promulgates standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and other agreements with, public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations.

D. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, dated June 24, 1997. Circular A-133 sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and nonprofit organizations expending Federal awards.

**These circulars are available on the OMB Home Page at the following Website: ([HTTP://WWW.Whitehouse.gov/WH/EOP/OMB/HTML/OMBHOME](http://www.whitehouse.gov/WH/EOP/OMB/HTML/OMBHOME)). Information on grants management may be found at [HTTP://WWW.Whitehouse.Gov/OMB/Grants/Index.html](http://www.whitehouse.gov/OMB/Grants/Index.html).**

## 2.4 Roles and Responsibilities.

### A. Office of Inspector General.

- (1) Notifies the cognizant Assistant Secretary and bureau/office director of the initiation of an Office of Inspector General audit to be conducted in the Department of the Interior or operations related to the Department of the Interior.
- (2) Provides the results of each audit to the organization being audited following the policies and procedures established by the Office of Inspector General.
- (3) Provides both hard and electronic copies of all audit initiation memoranda and draft and final internal audit reports to the audit follow-up official, PFM, the cognizant Assistant Secretary and bureau/office director.
- (4) In instances where management and the OIG are unable to reach agreement (management decision) for recommendations contained in an internal audit, the OIG will refer the audit report to the audit follow-up official, with a copy to PFM, for resolution within 90 days following the report's issue date. Referrals will include a copy of the audit report and will identify the issue(s) under disagreement, the respective positions of management and the OIG on the matter, and a statement of efforts that have been taken to reach agreement. If the OIG does not agree with the final determination of the audit follow-up official, the OIG may report the disagreement in its semiannual report to the Congress.
- (5) In instances where resolution has been achieved, but final action on a recommendation(s) is incomplete or has not been taken, the OIG will refer the audit report containing the recommendation(s) to the audit follow-up official, with a copy to PFM, for tracking through final action. Referrals for tracking will include a copy of the audit report, a copy of management's response to the final audit report and will identify actions to be taken, target dates for accomplishment of all necessary actions, names of responsible officials, and management's agreement or disagreement with monetary amounts identified for each recommendation. The referral will identify those recommendations for which final action was taken prior to referral.
- (6) When a response has not been received from management within 120 days from the issuance of an external audit report (except for preaward contract award audits), the OIG will refer the audit report to the audit follow-up official, with a copy to PFM. The referral will include the recommendations and questioned costs, if any, being referred, and a copy of the audit report and related correspondence.
- (7) Conducts periodic evaluations of the effectiveness of the audit follow-up system.
- (8) Conducts follow-up reviews and audits to ensure that actions reported by management have, in fact, been taken.

### B. Office of Financial Management.

- (1) Ensures that management is promptly notified of referrals of audit reports from the OIG.
- (2) Ensures that disagreements between the OIG and management concerning audit recommendations are promptly negotiated or subsequently resolved by the audit follow-up official. As part of this

process, notifies OIG of planned meetings with bureau and Department officials and provides OIG an opportunity to participate in the resolution process.

- (3) Ensures that actions agreed to be taken in a management decision are tracked through final action.
- (4) Ensures that the OIG is notified when a management decision has been achieved on any audit report referred for resolution.
- (5) Ensures that the OIG is notified upon concurrence with management's request to change target dates for implementing audit recommendations.
- (6) Ensures that there is coordination with management and the OIG on any deviations, other than target date changes, to a management decision on an audit.
- (7) Ensures that management and the OIG receive notification upon the closure of recommendations and/or reports referred by the OIG.
- (8) Ensures that the Departmental audit follow-up tracking database is accurate and up-to-date.
- (9) Provides information on the status of audits that have been referred to the audit follow-up official for the OIG's Semi-Annual Report to Congress.
- (10) Functions as ALO for the Audit Follow-up Official.

C. Each Program Assistant Secretary.

- (1) Appoints and oversees the activities of an ALO who will be responsible for the conduct of audit coordination and follow-up activities identified in 361 DM 1.3C. Provides notice of the appointment to the audit follow-up official, PFM, OIG, and Bureau or Office Directors.
- (2) Ensures that timely responses are made to all audit reports within the cognizance or direct responsibility of the Assistant Secretary.
- (3) Ensures that corrective actions agreed to be taken in a management decision are completed.
- (4) Upon receipt of a request by management for a change of target implementation dates, or other deviation from a management decision, concurs or non-concurs in the request and forward the decision to the audit follow-up official for appropriate action.
- (5) Ensures that performance appraisals of appropriate management official include effectiveness in responding to and implementing audit recommendations.

D. Each Bureau and Office Director.

- (1) Appoints and oversees the activities of an ALO who will be responsible for the conduct of audit coordination and follow-up activities. Provides notice of the appointment to the audit follow-up official, PFM, OIG, and the cognizant program Assistant Secretary.
- (2) Implements corrective actions agreed upon in a management decision within established time frames.
- (3) Notifies the audit follow-up official, with a copy to PFM, upon completion of final action for each recommendation/audit report referred by the OIG for tracking through implementation, including final action on disallowed/sustained costs. Provides PFM with supporting documentation showing actions taken for each recommendation, including documentation of the disposition of audit-related debt, as appropriate.

(4) Notifies the audit follow-up official, with a copy to PFM, when a contractor or grantee appeals a contracting officer's decision. Notice will include the identification of the audit report, the date issued, the date of the contracting officer's decision on the claim and the amount of money appealed, and identification of the board or court to which the claim was made along with the docket number. Subsequent notice will be given to the audit follow-up official with a copy to PFM, upon the board or court's final disposition of the claim.

## 2.5 Other Reporting Requirements.

A. Classification of Monetary Amounts. OIG internal audit reports of agency operations and programs, and external audit reports involving audits of pre-award contracts and post-award claims, grants, and concessions and single audits, will routinely classify monetary amounts associated with audit findings as "questioned costs", "funds recommended for better use," or "potential additional, lost or underpaid revenues". The Departmental Accountability Report will report on final action taken by management for those reports containing disallowed costs and funds recommended for better use. Audit reports containing potential additional revenues will be classified and reported separately.

B. Application to Insular Governments. Public Law 97-357 (96 Stat. 1705) empowers the OIG to audit expenditures of Federal and local funds received by the governments of Guam, American Samoa, the United States Virgin Islands, and the Commonwealth of the Northern Mariana Islands, and to report findings and recommendations to the Secretary. The Director, Office of Insular Affairs will, as needed, seek the cooperation of these governments in obtaining responses and in implementing recommendations agreed to be taken resulting from audit reports. The OIG will refer to the audit follow-up official for tracking or resolution, only those audit reports involving Federal funds/issues.

C. Accounting and Collection Controls. In order to ensure effective recovery action of audit-related debt, each bureau will establish accounting and collection controls for amounts due the Government as a result of an audit to include providing notice to the audit follow-up official upon establishing and collecting audit-related receivables. Unless otherwise required by statute, debts arising from disallowed costs shall be collected in accordance with the Federal Claims Collection Standards (4 CFR, Parts 101-105) and the Departmental Manual (344 DM "Debt Collection").

## 2.6 Financial Statement Audits

A. Preparation of Financial Statements. Financial statements for the Department and the bureaus will be prepared and audited on an annual basis. Final financial statements, including the auditor's opinion on the financial statements, will be issued on or before the statutory due date of March 1 each year.

The financial statements will be prepared in compliance with OMB's Form and Content of Agency Financial Statements (OMB Bulletin No. 97-01 or its successor documents).

B. Audit Opinions on Financial Statements. The audit opinions will be issued in compliance with OMB's "Audit Requirements for Federal Financial Statements" (OMB Bulletin No. 98-08 or its successor documents). The audit opinion will include the following:

- (1) An opinion as to whether the reporting entity's Principal Statements is fairly presented in all material respects, in conformity with Federal Accounting Standards.
- (2) A report on internal controls.
- (3) A report on the reporting entities compliance with applicable laws, regulations, and government-wide policy requirements.

C. Reporting Entity Responses to Audit Opinion Findings. As required by OMB’s audit guidance, the reporting entity shall provide comments on the auditor’s findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective action taken on prior findings. To the extent practical, these comments shall be included in the audit report on internal controls or report on compliance. Departmental and bureau responses to audit findings shall be provided to the OIG within 14 calendar days of the issuance of the draft audit report to allow for the timely publication of the audited financial statements.

D. Correction of Material Weaknesses and Reportable Conditions. Material weaknesses and reportable conditions reported in the auditors opinion, report on internal controls, and or report on compliance, will be tracked in the Department Audit Follow-up Tracking System in a similar manner as other OIG, GAO or other audit recommendations. Corrective action plans with appropriate interim milestones and target dates will be developed by Bureau Chief Financial Officers, ALO’s and other cognizant offices, and updated on a regular basis. The audited entity should seek to complete corrective action plans before the next annual financial statement audit. The Department will monitor implementation progress to ensure completion of corrective actions by original target dates.

E. Non-Compliance with Federal Financial Management Improvement Act (FFMIA). The Department will comply with policies and guidance on reporting of FFMIA non-compliance. Required corrective action plans related to FFMIA non-compliance will be provided to OMB following OMB requirements. The Department will use the Audit Follow-up Tracking System and implementation progress information to monitor corrective action plans to bring the Department or individual bureaus into compliance with the FFMIA.

1/9/01 #3353

Replaces 5/10/91 #2913

## Department of the Interior Departmental Manual

---

**Effective Date:** 1/9/01

**Series:** Audit

**Part 361:** Audit Followup

**Chapter 3:** Followup to GAO Audit Reports

**Originating Office:** Office of Financial Management

---

### 361 DM 3

#### 3.1 Purpose.

A. Objective. These instructions provide procedures and responsibilities for processing General Accounting Office (GAO) reports and the Department's response.

B. Scope. This chapter applies to all audit reports issued by the General Accounting Office to the Department of the Interior.

3.2 **Policy.** It is the policy of the Department that prompt, objective consideration be given to the findings and recommendations contained in GAO audit reports. The reports will be given careful attention by those officials responsible for programs or activities covered by the reports, and such action will be taken as may be necessary to correct conditions that are shown to be deficient. Information, advice, and guidance from GAO reviews will be used for the maximum benefit to the Department as quickly as possible. This requires:

A. Full cooperation with GAO in the conduct of its audits.

B. Timely, objective consideration of GAO findings and recommendations, by Departmental officials who collectively have substantive knowledge and policy responsibility.

C. Coordination with all organizational elements materially affected by the GAO recommendations. This always requires coordination between bureaus and offices within the Office of the Secretary, and as required with other Federal agencies and the Office of Management and Budget.

D. Development and submission of responses within required time frames, as specified by GAO, for draft reports and as required by legislation for final reports.

3.3 **Authority.** This directive is issued pursuant to the provisions of the Budget and Accounting Procedures Act of 1950, 94 Stat. 311(31 USC sec. 3524); the Government Corporation Control Act, 95 Stat. 440, 441 (31 USC sec. 9101, 9107, 9108) Section 236 of the Legislative Reorganization Act of 1970, (31 USC Sec. 720(b)), and OMB Circular No. A-50 of 1982.

#### 3.4 Roles and Responsibilities.

A. General Accounting Office (GAO).

(1) Properly notifies the Department of the Interior of all pending studies, reviews or audits to be conducted on operations under the responsibility of the Department of the Interior or requiring participation by or information from the Department of the Interior.

(2) Conducts studies, reviews or audits following appropriate Federal Government or other applicable standards, regulations or procedures.

(3) Provides the Department of the Interior with the results of studies, reviews or audits involving or referring to the Department of the Interior and allows for appropriate responses to any findings or conclusions.

B. Departmental GAO Audit Liaison Officer (ALO).

(1) Serves as the primary point of contact for all Department GAO audit activity, including audit notification letters, entrance and exit conferences scheduling for multi-bureau audits, receipt of draft and final reports, and coordination of review, comments and official response to all draft and final reports.

(2) Monitors Department audit follow-up activities for GAO audits and updates the Departmental audit follow-up tracking system on a frequent basis.

(3) Apprises the A/S-PMB, Director of Financial Management and cognizant bureau and office heads of audit recommendation implementation progress and other significant audit issues.

C. Each Program Assistant Secretary, and Bureau/Office Director

(1) Monitors GAO activity in their respective area of operation, and ensures that GAO receives the proper support and cooperation.

(2) Ensures that responses to GAO findings or recommendations are provided on a timely basis following established procedures of the Department and GAO.

D. Each Audit Liaison Officer (ALO).

(1) Ensures that full cooperation is provided to the GAO in the conduct of audits and to the audit follow-up official and the Office of Financial Management (PFM) in all audit follow-up activities.

(2) Keeps management apprised of significant audit issues/activities affecting the bureau.

**3.5 Initiating GAO Work at the Department.** GAO initiates all work at the Department by first contacting the Departmental GAO Liaison in PFM. GAO provides the Department's GAO Liaison with a notification letter giving a brief description of planned work, the name of the requestor, the primary location where work is expected to be carried out, the GAO division performing the assignment, the job code assigned to the proposed work, and the name and telephone number of the GAO point of contact.

A. The Departmental GAO liaison will transmit the notification letter electronically to the ALO in the Program Assistant Secretary's office, and to the ALO in the affected bureau. A copy will also be provided to the Department's Budget Office, and other Departmental offices with program oversight responsibility. This transmission will usually occur within one day of receipt from GAO.

B. The Departmental GAO Liaison is responsible for scheduling an entrance conference with GAO when GAO's proposed work will involve more than one bureau or office. When GAO's work involves only one program area, the ALO for the affected bureau is responsible for scheduling the entrance conference with GAO, and communicating the date and time of the entrance conference to the Departmental GAO Liaison, and the ALO in their Assistant Secretary's office.

C. GAO's requests for "One-Time Contact" are cleared by the Department GAO Liaison, and communicated to the Bureau ALO. These "One-Time Contact" requests from GAO are exactly as stated, requests from GAO to contact the Department one time regarding a specific program area. These One-Time Contact requests are approved based on GAO's assurance that the information being requested is not related to Interior's mission or programs; will not result in formal report for the Department, and the information being requested will not require a significant amount of staff time. GAO usually makes this type of request to make comparisons of how programs are managed in other federal other agencies, with similar programs. If it is determined that the information being requested by GAO will require significant staff time, the Department Audit Liaison will be responsible for requesting a formal notification letter from GAO.

D. It is important that no information or documentation be provided or entrance conference scheduled without receiving notification from the PFM that GAO’s proposed work has been properly initiated in the Department.

3.6 **Monitoring the GAO Audit.** Bureau ALO’s should monitor the progress of ongoing audits on a semi-annual basis, and advise the Departmental GAO Liaison of any changes in the scope of the audit work or other significant changes. The Bureau ALO should also ensure that GAO concludes its audit work with an exit conference with program officials. Senior management officials should be advised by the Bureau ALO of the results of the exit conference and of any significant issues presented by GAO at the exit conference.

3.7 **Draft Reports.** The GAO normally issues draft reports to agencies for review and comment so that final reports may incorporate agency views. In accordance with 31 U.S.C. 718(b)(1), agencies will provide comments on draft GAO reports within 15 to 30 **calendar days** of issuance. However, the law provides that, if an agency cannot respond to a report within the specified time frame, the agency may request additional time from GAO to comment.

A. PFM, as the organization delegated with the responsibility for audit follow up activity related to General Accounting Office audits, receives all draft reports from GAO on behalf of the Department.

B. PFM designates an organization to prepare the response to the report. The designation will establish time requirements in order to allow time for necessary coordination of the proposed response within the Department and with other Federal agencies when necessary. Bureaus and Departmental offices responsible for commenting or surmising the response to GAO will also be provided with a copy of the draft report within one day of GAO’s issuance, and will be expected to meet established time requirements. If an unavoidable problem arises that precludes a timely response, it is the responsibility of the ALO for the designated organization to advise PFM within a reasonable time prior to the due date, and provide a valid reason for the delay and request an extension. The extension will depend upon GAO, OMB, and Congressional requirements, and the nature of the report. It is the responsibility of GAO to determine whether a request for an extension will be granted, extensions will not always be granted by GAO. Examples where extensions from GAO might not be possible are: 1) information being requested is necessary to provide testimony at Congressional hearings, and 2) the Congressional requester has given GAO a specific time frame to provide information.

C. Upon receipt of a GAO draft report, the responsible bureau or office will, within established time frames, prepare detailed comments, appropriately coordinated, expressing views on each finding and recommendation in the report. The responsible bureau or office should assure that the comments are concise, fully responsive to the matters discussed, and in a format suitable for transmission to the GAO without extensive editing. Although specific bureaus and offices may be responsible for preparing the response to GAO reports, they should keep in mind that it is a Departmental response and should be prepared in a manner consistent with Departmental policy.

D. The program Assistant Secretary normally signs responses to draft reports following review and approval of the response by affected organizations of the Department as identified by PFM. The response should contain a cover letter and an enclosure to the cover letter, as described below.

(1) The cover letter should be an overview or background position statement. The position statement provides perspective or general background for the specific comments that follow. It is appropriate to use this section to reflect fundamental disagreement with major facts reported or conclusions drawn by GAO, or pertinent comments on the overall thrust of the GAO report. The statement is normally incorporated into the cover letter.

(2) The enclosure should be a full or paraphrased description of each GAO recommendation followed by the Department’s concurrence or nonconcurrence, and our response. Several recommendations addressed by a single response should be grouped together. The response to each recommendation or group of recommendations should clearly show one of the following:

(a) Concurrence with the recommendation should include the actions necessary to carry out the recommendation, the estimated completion dates; and the name of the program office responsible for implementation. This may include concurrences in the objective of the recommendation but an alternate course of action to accomplish this objective. In such instances, the reason(s) for the alternative should be shown. In either event, the response should be as specific as possible; generalities and vague promises are to be avoided.

(b) Nonconcurrence and the specific reasons for such nonconcurrence.

(c) A deferral of a decision, if it is decided that additional information is needed before a decision can be made. In this event, the response should state the type of additional information to be gathered, and the date such information will be available and a decision made. Note: In the event of this type of response, it is important to attempt to gather the additional information during the interim period between response to the draft and issuance of the final report so that responsive comments may be made to the final report.

The enclosure, if necessary, should set forth disagreements with specific factors or conclusions of the report, provide updated and clarifying information, and point out other pertinent editorial changes needed. The purpose of this enclosure is to seek appropriate changes to the GAO report.

D. Comments prepared by the designated organization will be transmitted to PFM, which is responsible for:

(1) Reviewing the proposed comments to determine whether: (a) they are fully responsive to the matters commented on by GAO; and (b) ensuring that the views expressed appear reasonable, constructive, and consistent with other Department responses/positions on similar matters.

(2) Returning the proposed response to the program office for clarification in the event that it is not sufficiently responsive or if modifications are required to assure consistency with Departmental policy.

(3) Obtaining concurrence and surnames from Departmental offices who have oversight responsibility for the program.

(4) Transmitting the reply to the program Assistant Secretary for signature.

(5) Ensuring that the signed responses are transmitted to GAO within the specified time frames and providing a copy of the signed response to the originating bureau/office and interested organizations.

### 3.8 Official Oral Comments.

A. Consistent with published operating procedures, GAO Division directors determine whether to request oral or written comments on draft reports resulting from work done pursuant to GAO's basic statutes. If GAO requests oral comments on a draft report, the decision to respond will be made by an appropriate official. **While GAO might request oral comments, it should be noted that the Department's preference is to provide written comments.**

B. Official oral comments can be provided only by the program Assistant Secretary, a Deputy Assistant Secretary or a Bureau head. Official oral comments to GAO should have the concurrence of Departmental offices that would normally provide concurrence. This can be accomplished by providing surnaming offices with written comments for their review and concurrence prior to being presented orally. The GAO Liaison for the Department should specifically request a Comment Memorandum from GAO to ensure that the Department comments have been accurately and appropriately captured. The official responsible for providing the Department's oral comments to GAO should initial GAO's writeup of those comments. If GAO declines to provide a Comment Memorandum, **official oral comments will not be provided to GAO.**

### 3.9 Final Reports.

A. Section 236 of the Legislative Reorganization Act of 1970 (84 Stat. 1140, 1171) and Office of Management and Budget (OMB) Circular A-50 provide that whenever a GAO report contains recommendations to the head of any Federal agency, the agency will:

(1) Not later than 60 calendar days after the date of the report, submit a written statement to the House of Representatives, Committee on Government Reform and Oversight, and to the Senate, Committee on Governmental Affairs of the action taken with respect to the recommendations; and

(2) In connection with the first request for appropriations for the agency submitted to the Congress more than 60 days after the date of such report, submit a written statement to the Committees on Appropriations of the House of Representatives and the Senate on the action taken with regard to the recommendations.

B. OMB Circular A-50 requires that a Departmental response be submitted to the Director, OMB, within 60 calendar days after formal transmittal of a GAO report to the Department when one or more of the following apply:

(1) The report contains a specific recommendation for the Secretary.

(2) The report contains financial statements accompanied by either a qualified audit opinion or a disclaimer of opinion.

(3) The report claims a violation of the Antideficiency Act that has not been reported to the appropriate authorities.

(4) The report indicates a violation of other laws.

(5) When requested to comment by OMB.

C. Assistant Secretaries, bureaus and offices whose programs are affected by the report should place a high priority on preparation of a timely and responsive statement to final GAO reports. Extensions of time for such responses are not allowed.

(1) Departmental Responses.

(a) The response to final GAO reports must concisely express the Department's views on the findings and recommendations in the report. It must identify those actions taken or planned in response to each recommendation. In those cases where there is no substantial difference between the draft and final reports, and the Department's views are accurately and adequately stated in the report, a statement reaffirming and updating those views will be sufficient as the official response to the final report.

(b) Upon receipt of a GAO final report, PFM will designate the appropriate organization for originating the response. Normally, the designation will be made to the same organization that prepared the response to the GAO draft report. The designation will be communicated through a memorandum of instruction which will identify due dates for processing the response and notification of those Departmental offices responsible for concurring with the proposed response.

(2) Format and Content of Response to Final Reports. Comments to GAO reports should take the form of an enclosure to a cover letter which briefly summarizes Departmental views on the findings, suggestions, and recommendations in the report and specifically references the report by number and date of issue. The enclosure should state each GAO recommendation and then follow with "Concurrence or Nonconcurrence" and the Departmental comment. Comments should be specific and detailed, reflect actions accomplished, and provide a precise agenda of actions remaining, and indicate the program official responsible for implementation.

(a) Since a 2-6 month time lapse may occur between the draft and final reports, it is not uncommon for the findings, recommendations, and Departmental response to change. With the additional time for study, decision and action, the response to the final report should be more specific, reflect actions accomplished in the interim, and provide a precise agenda for actions remaining.

(b) For nonconcurrency responses to the draft report, GAO will either have withdrawn the recommendation or will have provided further support for its position. If GAO retains the recommendation, it should be restudied and a final decision made whether to accept and act on the recommendation or to continue to disagree. In either event, the response should clearly indicate the decision and provide the basis for any remaining nonconcurrency.

(c) Generally, the Program Assistant Secretary or the Assistant Secretary - PMB will sign the Departmental response to final GAO reports.

(3) Recipients of the Departmental Response. Responses to published reports are transmitted to the addressees listed in Appendix 1. Addressees listed in Appendix 1 may be supplemented as considered appropriate by the Departmental Office of Congressional and Legislative Affairs. Supplemental addressees are normally those Congressional committees or subcommittees exercising oversight of Department programs.

(a) The Comptroller General and Director, Office of Management and Budget will each be provided with a copy of the Departmental response.

(b) The originating office will prepare a single letter addressed to the Chairman, Committee on Government Reform and Oversight, House of Representatives, without preparing copies to other addressees. The proposed response should be forwarded to the Program Assistant Secretary for surname to indicate concurrence with the proposed response contents prior to being forwarded to PFM for placement in the Departmental surname process. Once the initial letter has completed the surname process, the remaining letters should be prepared, and transmitted to the program Assistant Secretary for signature. The surname copy of the Government Reform and Oversight Committee letter should include the phrase: "Identical letters sent to: \_\_\_\_\_." Individual surname copies are not required for the other identical letters listed on the Government Reform and Oversight Committee copy.

(4) Additional Requirements. If the Departmental response to a draft GAO report accurately and adequately reflects its current views, transmittal of a copy of those comments under a separate cover letter will be sufficient. When corrective action is incomplete, still under review, or planned, the response will include a statement of when the Department expects action to be completed.

(5) Advance Clearance and/or Coordination Requirements . Agency statements to Congressional committees, individual Members of Congress or the GAO, will be subject to advance coordination and/or clearance by OMB when the statement:

(a) Expresses views on proposed or pending legislation. (See Circular A-19, "Legislative coordination and clearance.")

(b) Deals with other agencies or with executive branch budget policies.

Requests for advance clearance and/or coordination will be prepared by the organization which originates the response, addressed to the Director, OMB, and forwarded in duplicate to the Assistant Secretary - Policy, Management and Budget for signature. Clearance action will be completed prior to release of the statement from the Department. If GAO recommends a legislative change, DOI concurrence or non-concurrence triggers OMB Circular A-19. Clearance of GAO responses that trigger A-19 should be coordinated with OMB through the Office of Congressional and Legislative Affairs, Legislative Counsel. The Departmental Manual designates Legislative Counsel as the clearinghouse for all such items.

3.10 **Implementation of Corrective Actions.** Originating organizations must consider and take appropriate action on the findings and recommendations addressed to the Department in GAO reports. A corrective action plan should be initiated promptly for both draft and final report recommendations where the Department concurs with GAO's recommendation. PFM will maintain Departmental records and receive information from the Bureau Audit Liaison Officer regarding the implementation of corrective actions. The report will be prepared by the originating organization and submitted through the cognizant Assistant Secretary to the Assistant Secretary - PMB. Upon completion of the implementing action, the originating organization will notify PFM, who will, at that time, review the corrective action and, if there is concurrence seek additional concurrence from GAO that full implementation has been achieved. Once GAO concurs that full implementation has been achieved the corrective action plan will be removed from the audit followup tracking system.

---

Appendix 1

### ADDRESSEES FOR DEPARTMENTAL RESPONSES TO FINAL GAO REPORTS

Chairman, Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Chairman, Committee on Governmental Affairs  
United States Senate  
Washington, D.C. 20510

Chairman, Committee on Appropriations  
U.S. States Senate  
Washington, D.C. 20510

Chairman, Committee on Appropriations  
U.S. House of Representatives  
Washington, D.C. 20515

Director, Office of Management and Budget  
Washington, D.C. 20503

Comptroller General of the United States  
Washington, D.C. 20548

1/9/01 #3354

Replaces 6/1/84 #2578  
ED

## SECTION 3 – OFFICE OF INSPECTOR GENERAL AUDIT REPORTS

### C H A P T E R I

#### **A PARTNERSHIP – THE OFFICE OF INSPECTOR GENERAL AND THE OFFICE OF FINANCIAL MANAGEMENT**

The Inspector General Act of 1978 established the Office of Inspector General (OIG) in federal departments and agencies. The objective of the IG Act was to create independent and objective offices to provide policy direction for conducting, supervising, and coordinating audits, investigations, and other activities to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, abuse and mismanagement in programs and operations. The Department of the Interior OIG reports directly to the Secretary of the Interior and the Congress on problems and deficiencies relating to the administration of Departmental programs and operations identified during audits including making recommendations to correct deficiencies.

The Inspector General Act requires the OIG to report semiannually (no later than April 30 and October 31) to the Secretary and the Congress on significant problems, abuses, and deficiencies found in programs and operations during each reporting period. The reporting periods cover the periods from October 1 to March 31 and from April 1 to September 30. PFM assists the OIG in the preparation of its semi-annual reports by providing updated information on the status of audits that the OIG has referred to PFM for resolution and/or tracking.

The OIG and PFM work cooperatively throughout the year to resolve, track, and monitor the impact of audit recommendations on the programs and operations of the Department and to report on the progress Departmental management is making to correct deficiencies cited in OIG audit report recommendations.

While the OIG conducts and issues audit reports, the Departmental Audit Follow-up Official, who has delegated day-to-day responsibility for the Audit Follow-up Program to the Office of Financial Management (PFM), resolves impasses between the OIG and management, and tracks, monitors, and reports on the audits that have been referred to it by the OIG. The smooth transition from audits under the purview of the OIG to audits that have been referred by the OIG to PFM, enables the Departmental Audit/Audit Follow-up Programs to operate efficiently and effectively. The additional components of audit liaison officers and management, working together to identify, respond to, resolve, track, and close audit recommendations and reports ensures that all levels of the Department are working cooperatively to make the entire Audit/Audit Follow-up Programs work for maximum efficiency and also allows the Department to meet its GPRA goals.

**A D D E N D U M A**

**KEY TERMS RELATED TO  
OFFICE OF INSPECTOR GENERAL AUDIT REPORTS**

*Audit Follow-up Official* - The official responsible for ensuring (1) systems of audit follow-up, resolution, and corrective action are documented and in place; (2) timely responses are made to audit reports; (3) disagreements are resolved; and (4) corrective actions are actually taken. The Assistant Secretary - Policy, Management and Budget is the Departmental Audit Follow-up Official.

*Audit Liaison Officer* - The person designated by management, either at the assistant secretary or bureau/office level, as the principal point of contact for all activities pertaining to the conduct of audits and audit follow-up in their organization.

*Cognizant Agency* - A federal agency which represents other agencies in dealing with grantees in common areas.

*Corrective Action* - Measures taken to implement resolved findings and recommendations.

*Disallowed Cost* - An incurred cost questioned by the audit organization that management has agreed should not be charged to the Government. Also known as a sustained cost.

*External Audit* - A single or grant audit, a pre-award audit of contractor proposed future costs, a concessions audit, or a contractor claim audit.

*Federal Audit Clearinghouse* - An organization, which is part of the U.S. Census Bureau, that disseminates audit information to the public and federal agencies. The Clearinghouse receives single audit reports from grantees and forwards reports with recommendations to the appropriate federal agency.

*Final Action* - The completion of all actions regarding audit recommendations that management, in a management decision, has concluded are necessary with respect to the findings and recommendations contained in an audit report.

*Funds to be Put to Better Use* - A recommendation by the Office of Inspector General that quantifies a specific dollar value of funds that could be used more efficiently if management took action to implement and complete the recommendation.

*Management* - Agency officials who are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking necessary corrective actions.

*Management Decision* - The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning management's plan for corrective action.

*Potential Additional, Lost, or Underpaid Revenues* - Monetary amounts from revenue generating functions such as rent, leases, mineral royalties, or fees that were underpaid or not realized because policies, procedures, agreements, or requirements were lacking or were not followed.

*PFM* - The Office of Financial Management, which has been delegated day-to-day responsibility for the Audit Follow-up Program by the Audit Follow-up Official.

*Referral* - The process by which the OIG sends audit reports to the Audit Follow-up Official for resolution and/or tracking action.

*Resolution* - The point at which the audit organization and management agree on actions to be taken on findings and recommendations or, in the event of disagreement, the point at which the audit follow-up official determines the matter(a) resolved. The term “resolved” does not necessarily mean closed. Resolved means agreement; closed means that all corrective actions have been completed.

*Single Audit* - An entity-wide audit comprised of an audit of the entity’s financial statements and an audit of the entity’s major federal and state award programs, conducted by a state or local auditor and authorized by OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.”

*Questioned Cost* - A cost that is questioned by auditors because the cost is not supported by adequate documentation.

## C H A P T E R 2

---

# INTERNAL AUDIT REPORTS

The objectives of an internal audit (also referred to as a program audit) include determining: (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (2) the effectiveness of organizations, programs, activities, or functions; and, (3) whether the audited entity has complied with laws and regulations applicable to the program. The Office of Inspector General (OIG) conducts and issues internal audits of a Departmental program or operation or an audit of an insular area or tribal government.

The internal audit process (see flowchart at end of chapter) begins with a memorandum from the OIG to the appropriate management official (either an assistant secretary or a bureau/office director) announcing the start of an audit. After an entrance conference, during which the OIG discusses the scope and objectives of the audit, the actual audit work begins. After the audit work has been completed, the OIG normally holds an exit conference with program officials. It is during the exit conference that the OIG discusses preliminary audit findings. Management and program officials are encouraged to use the exit conference as an opportunity to thoroughly review and discuss preliminary findings with the auditors, to voice objections or concerns with the preliminary audit findings; and to consider issues that may impact the implementation of audit recommendations such as, the availability of funds needed to implement audit recommendations or the need to publish regulations.

Factors that impact the implementation of audit recommendations should also be taken into consideration when establishing target implementation dates. Management should establish target implementation dates that are both *reasonable* and *achievable*. Target dates should allow sufficient time for completion of all required actions so that slippage of target implementation dates may be kept to a minimum. If it is necessary to establish long-term corrective action dates, an interim corrective action plan should be established and provided to PFM that describes continuing actions that will be taken so that the impact of a deficiency on affected programs and operations may be kept to a minimum.

After all audit work has been completed, the OIG will issue a draft audit report to which management normally has 45 days to respond. Draft reports allow management the opportunity to review audit findings and provide comments that are incorporated into the final report. If, after management has responded to the recommendations in an internal audit report, the OIG and management cannot agree on management's proposed corrective actions, or if management disagrees with the OIG's findings, the OIG will refer the report to PFM (through the Assistant Secretary - PMB), for resolution within 90 days of the report's issuance. OMB Circular A-50, "Audit Follow-up," directs that resolution should be made within a maximum of six months after issuance of a final report.

### ***Internal Audit Reports Referred for Resolution***

Because the audit follow-up official has delegated responsibility for audit follow-up to PFM, the OIG refers internal reports directly to PFM for resolution action (see flow chart at end of chapter). Upon receipt of the referral, PFM enters the report and its recommendations into Departmental tracking and notifies management and the appropriate audit liaison officer of the referral.

PFM will review the issues in dispute and discuss these issues with management and the OIG in an informal attempt to reach agreement on audit findings and/or corrective actions. If PFM is unable

to achieve resolution at this point, PFM will present the disputed issues to the Assistant Secretary - PMB with a suggested resolution plan. Upon the Assistant Secretary-PMB's determination of the resolution of the recommendations (known as the management decision), management and the OIG are notified and the report is closed unless there are uncompleted corrective actions which must be tracked through final action.

The OIG also refers to PFM for resolution, audit reports for which management has not responded within the specified time frame (30 days for a final internal report). PFM then assumes responsibility for requesting and receiving management's response and making the final determination of the adequacy of the response. If all corrective actions have been taken when management responds, PFM closes the report and notifies management, the ALO, and the OIG of closure. If all corrective actions have not been taken, the report is entered into Departmental tracking through final action.

### ***Internal Audit Reports Referred for Tracking***

After management officials have reviewed the recommendations contained in an internal audit report and all corrective actions have been taken at this point, the audit report is closed by the OIG. If, however, there are any incomplete or unimplemented corrective actions, the OIG refers the report to PFM for Departmental tracking (see flowchart at end of chapter). The date of the referral of the report to PFM for tracking is considered the date of the management decision. **Once the OIG has referred a report to PFM for tracking, the OIG closes the audit out in its tracking system and all tracking action becomes the responsibility of PFM.** All correspondence pertaining to the referred report should be provided to the Focus Leader, Management Accountability and Control, PFM.

Upon receipt of a referral for tracking, PFM enters the report into Departmental tracking and notifies the appropriate management official and audit liaison officer of the referral. PFM will continue to track unimplemented recommendations until sufficient documentation has been provided by management that all recommendations have been implemented and PFM makes a determination that the report may be closed.

### ***Slippage of Target Implementation Dates***

Slippage of target implementation dates occurs when final implementation action has not occurred by the target date established by management. The Department considers slippage of target dates to have a negative impact on programs and operations affected by the OIG recommendation. An indication of the importance the Department places on the timely implementation of audit recommendations is the establishment of an annual GPRA performance goal.

As soon as management becomes aware that an unimplemented recommendation will not be completed by the established target, PFM should be notified. Management's notification should provide an explanation for the slippage, a new target date, and the name(s) of the official(s) responsible for implementation. Audit liaison officers should stay abreast of target dates so that they may notify the appropriate officials of the impending date and should coordinate with PFM, new information regarding corrective action target dates. It is imperative that PFM is informed of slippage and revised target dates so that the Departmental audit follow-up tracking system is current and up-to-date.

### ***Closure of Audit Reports and Documentation of Final Action***

An internal audit report that has been referred to PFM for tracking may be closed when all unimplemented recommendations have been completed. Management is responsible for notifying PFM of the implementation of each recommendation until all unimplemented recommendations have been completed. Management's notification must be complete, i.e., the notification should describe the OIG's recommendation and should discuss, in detail, all actions that were taken to implement the recommendation and how the implementation actions relate to the audit recommendation.

The determination by PFM to close a recommendation is based upon the content of OIG's recommendation and management's description and support for the actions that have been taken in response to the recommendation. For example, if the recommendation was for management to hire a computer analyst, the notification of implementation of the recommendation should provide the employee's name, date of hire, and, if appropriate, a copy of the position description. If the recommendation was to prepare a specific directive, the notification of final action should state when the directive was issued and a copy of the directive should be provided. If the OIG recommends that a specific rule be developed and management provides documentation, in the form of a copy of the proposed rule, this action meets the intent of the recommendation and may be closed. If, however, the OIG recommends that a rule be published in the Federal Register, the recommendation cannot be closed until the rule has, in fact, been published in the Federal Register, either as a proposed or final rule. Management's notification to PFM should include a copy of the proposed or final rule.

Examples of appropriate supporting documentation include, but are not limited to:

- ◆ Bureau/office manual chapters
- ◆ Departmental manual chapters
- ◆ New or revised policies and/or operating procedures
- ◆ Code of Federal Regulation or Federal Register chapters

In those instances where supporting documentation may be too voluminous to reasonably provide to PFM, such as bureau policy manuals, an appropriate citation or reference is acceptable as long as the original documentation is available upon request by PFM.

The OIG often performs follow-up audits of issues that were previously reported by PFM as having been closed. Follow-up audit reports will usually discuss recommendations made in previous reports and whether, during the follow-up audit process, the OIG has determined that recommendations made in earlier reports have been implemented. PFM will close those recommendations made in earlier reports that the OIG says have been implemented. All other recommendations will remain unimplemented until management requests closure from PFM.

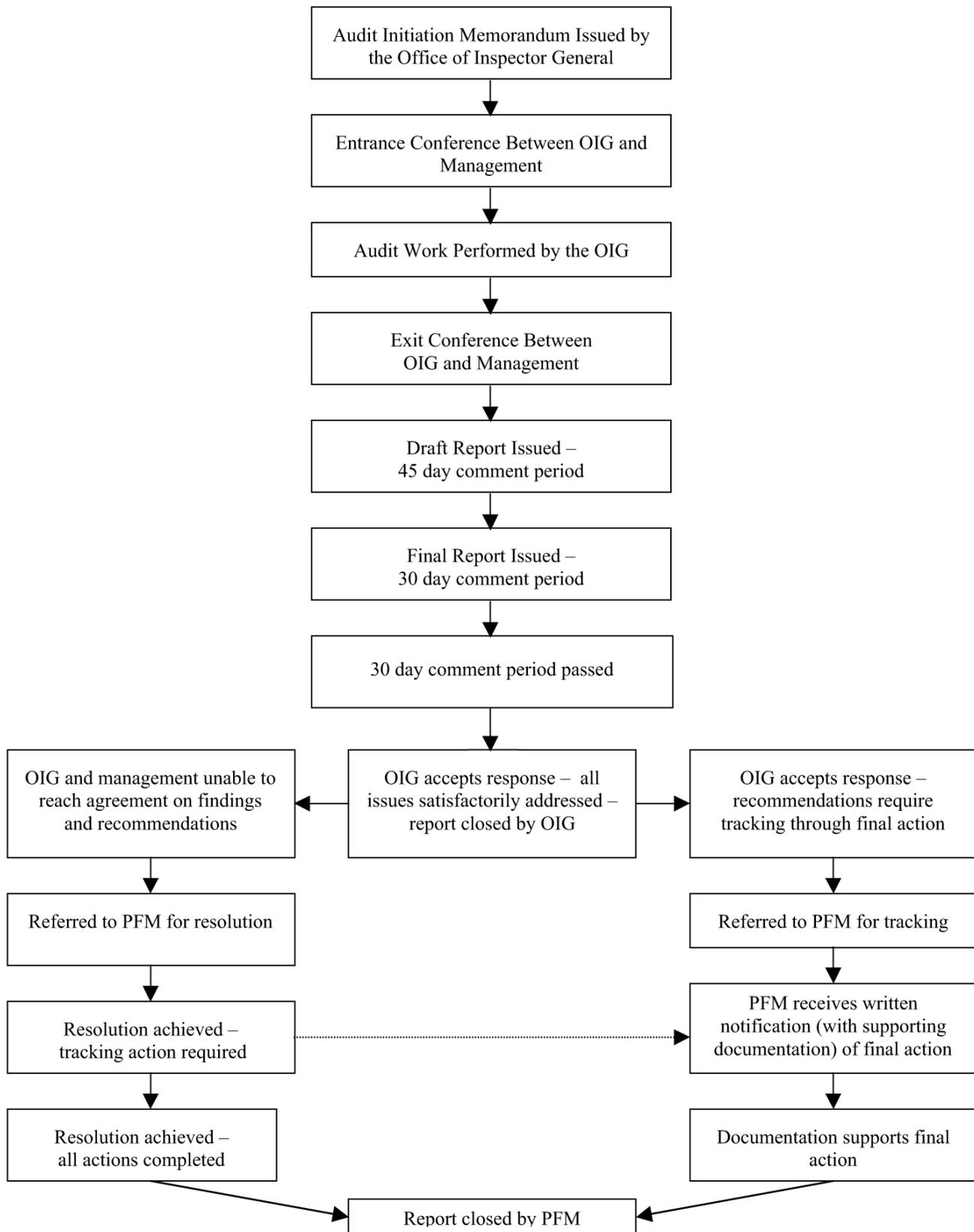
### ***Internal Audits with Monetary Findings***

For internal audit reports that contain OIG’s assessment of the monetary impact of findings, such as funds to be put to better use or potential additional or unpaid revenue, management is expected to indicate agreement or disagreement with the OIG’s assessment of the monetary impact of the findings in its response to the audit report. If management has not indicated agreement with the monetary impact findings at the time of referral, the monetary finding(s) will not be entered into the Departmental tracking system.

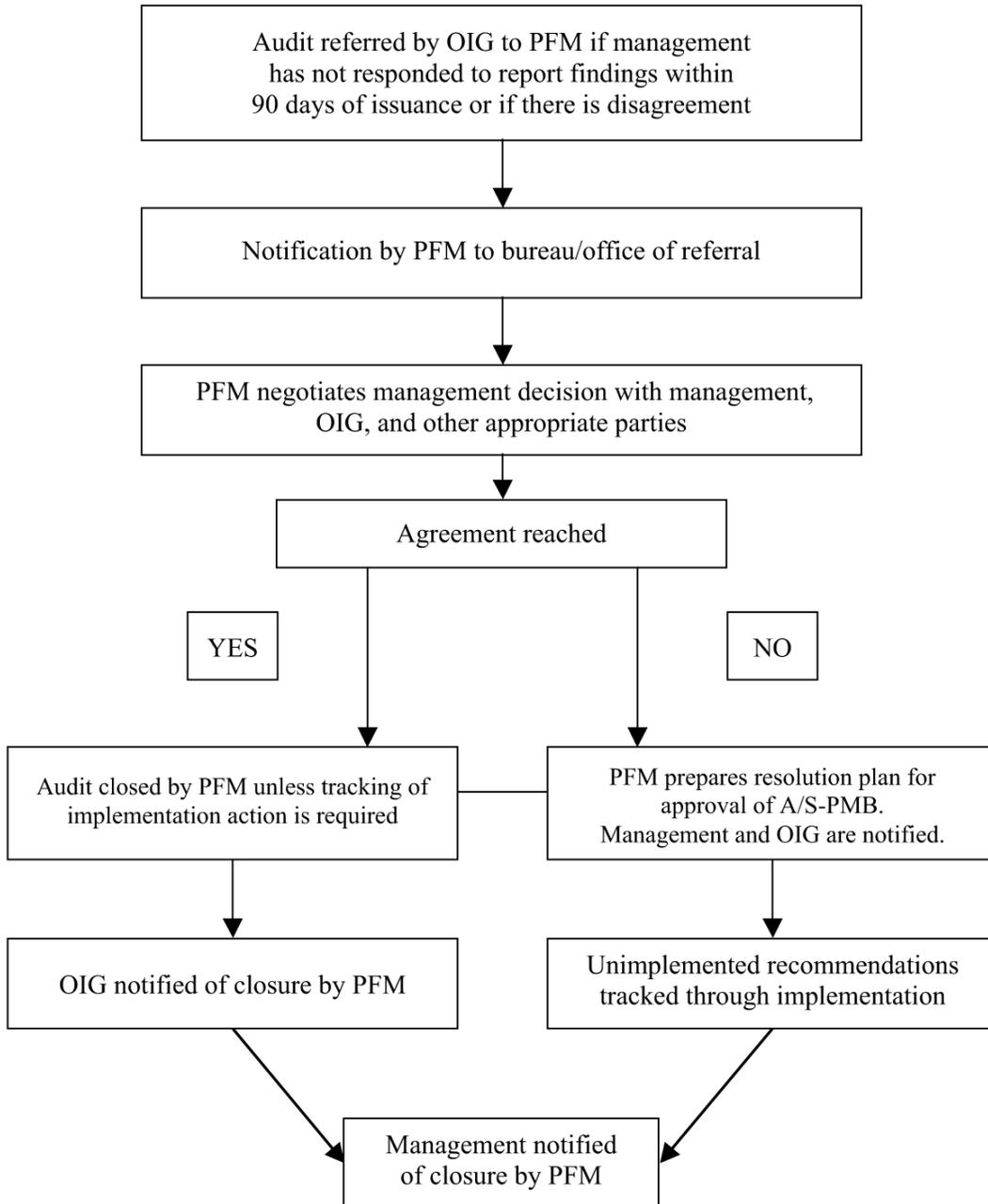
### ***Insular Area Audits***

The Department has administrative responsibility for coordinating federal policy in the territories of American Samoa, Guam, the U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands, and oversight of federal program funds in the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The OIG has responsibility for conducting audits of insular area governments. The scope of the audits of insular areas conducted by the OIG include federal funds received by insular area governments and of local funds and issues. The OIG refers and PFM tracks, however, only those audits of insular area governments that involve federal funds and programs.

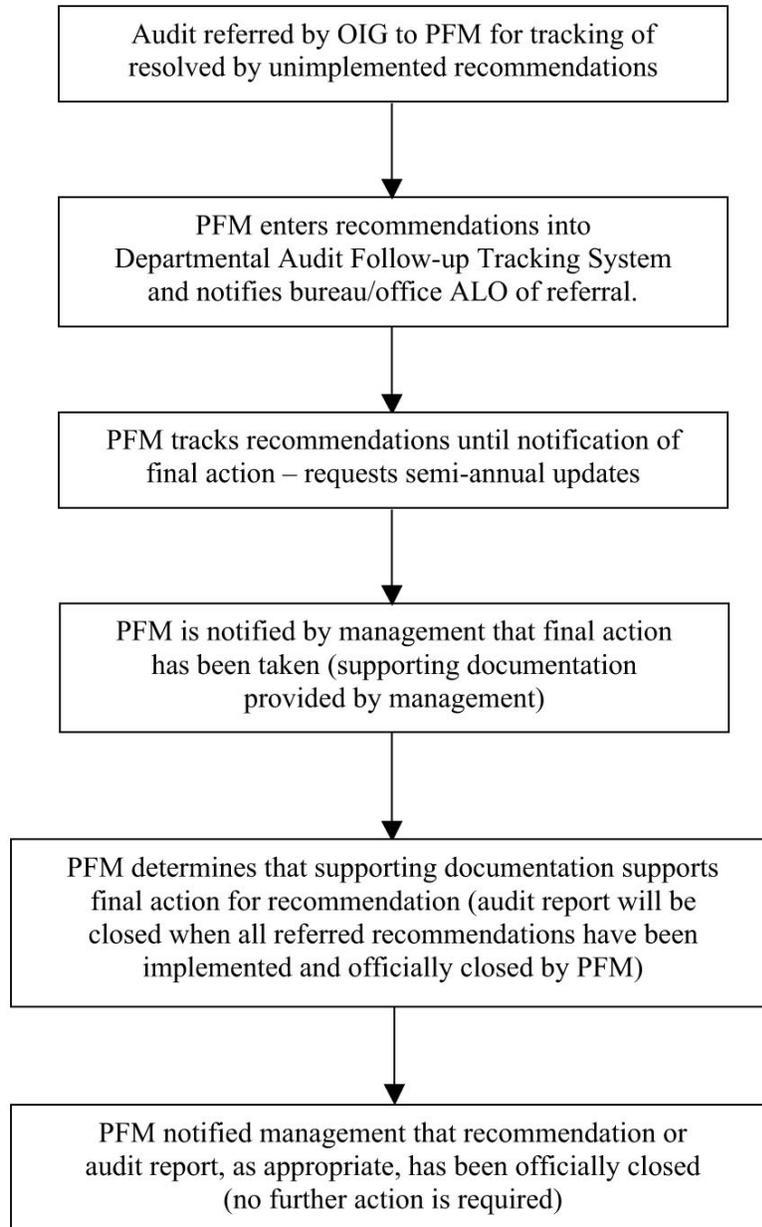
**INTERNAL AUDIT PROCESS –  
 OFFICE OF INSPECTOR GENERAL AUDIT REPORTS**



**RESOLUTION OF INTERNAL AUDITS  
ISSUED BY THE OFFICE OF INSPECTOR GENERAL**



**PROCESS FOR TRACKING INTERNAL AUDIT REPORTS  
REFERRED BY THE OFFICE OF INSPECTOR GENERAL**



## C H A P T E R 3

---

# EXTERNAL AUDIT REPORTS

An external audit is defined as a single audit, a grant audit, a pre-award audit of contractor proposed future costs, a concessions audit, or a contractor claim audit. External audits may be conducted by the OIG, a state or local auditor, or the Defense Contract Agency. The audit reports most frequently referred to the Audit Follow-up Official for action by the OIG are single, grant, and contractor claim audits.

### ***Single Audits***

The Single Audit Act of 1984 (Public Law 98-502), authorizes the conduct of single audits of state and local governments that are recipients of federal funds. OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” provides policies and procedures for federal agencies to use when conducting or supervising single audits. Audits performed under the Single Audit Act are intended to satisfy all federal agencies providing assistance to the entity. Non-federal organizations that expend \$300,000 or more in federal awards are subject to the requirements of the Single Audit Act and OMB Circular A-133. Single audits are conducted by auditors that are usually local certified public accountants. Non-federal auditors retained by state and local governments follow federal guidelines in performing single audits.

### ***Referrals of Single Audits for Tracking***

Single audit reports are most frequently referred to PFM by the OIG for the tracking of final action on audit-related costs. Once the OIG has referred a single audit report to PFM for tracking, the OIG closes the audit in their tracking system and all tracking actions become the responsibility of PFM.

During the audit, an auditor will question a cost:

- ◆ Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds;
- ◆ Where the cost, at the time of the audit, is not supported by adequate documentation; or
- ◆ Where the costs incurred appear unreasonable.

The OIG refers to PFM for tracking, disallowed costs of \$1,000 or more. While the Department does not track disallowed costs less than \$1,000, bureaus and offices, however, continue to have the authority and are encouraged to monitor, track, and collect all debts owed the Department.

Management is responsible for reviewing all costs questioned by auditors and determining if the costs are disallowed (management agrees with the auditors questioning of the costs and the costs must be repaid by the auditee) or if the costs may be reinstated (management determines that the cost is allowable and does not have to be repaid). Awarding officials may also determine that a cost is not authorized under the terms of the contract, compact, or grant, even if the costs were not identified by the auditor as a questioned cost.

When audits with disallowed costs have been referred by the OIG to PFM, the costs are tracked through final action. PFM is responsible for determining that appropriate documentation to support the accomplishment of final action has been furnished and that an audit may be closed.

Final action on disallowed costs may include:

- ◆ Collection - which occurs when the auditee remits payment of disallowed costs to the Department;
- ◆ Offset - which means the collection of audit-related debt by means of offsets against other monies due from the federal government;
- ◆ Write-off - which means a decision by management that collection action is not in the best interest of the federal government;
- ◆ Reinstatement - which means a determination by an awarding official that the auditee has, subsequent to the decision to disallow, provided sufficient documentation to support the expenditure of funds, and
- ◆ Transfer of disallowed costs to the Department of the Treasury for collection action.

### ***Closure of External Audit Reports in Tracking***

PFM is responsible for making the determination that sufficient actions have been taken and documented to close an external report in tracking. Managements' notification to PFM must be specific and detailed, i.e., what action was required and what action has been taken. Specific documentation must accompany management's notification of final action. Documentation may include, but is not limited to:

For disallowed costs that have been collected:

- ◆ A copy of a payment check;
- ◆ A copy of a bill for collection that has been annotated with information concerning payment (date and form of payment, check number, and the official accepting payment);
- ◆ A memorandum signed by an appropriate official (assistant secretary, bureau/office director, or awarding official) certifying that payment has been made or that disallowed costs have been referred to the Department of the Treasury for collection action.

For disallowed costs that have been offset or written-off:

- ◆ A memorandum signed by the appropriate official in accordance with Department Manual Chapter 344 (Debt Collection).

In order to ensure effective recovery of audit-related debt, bureaus and offices are expected to establish adequate accounting and collection controls and systems to ensure that audit-related debt is tracked, recovered, and reported. Disallowed costs should be collected in accordance with the Federal Claims Collection Standards, unless otherwise required by statute.

Collection of disallowed costs for grants issued under the authority of the Indian Self-Determination and Education Assistance Act, as amended (Public Law 93-638) is time-barred if an appealable notice of disallowance has not been provided to the grantee within 365 days of the issuance of the audit report (Section 106(f)). Awarding officials should be aware of this provision so that tribes are promptly notified of a decision to disallow questioned costs.

### ***Referral of Audit Reports to the Department of the Treasury***

The Debt Collection Improvement Act of 1966 makes the Department of the Treasury responsible for collecting delinquent debts Government wide. The Act requires agencies to transfer the delinquent, non-tax debt over 180 days delinquent to Treasury; the Act also applies to audit-related debt such as disallowed costs. In order to effectively collect the debts that agencies refer, Treasury issues demand letters, conducts telephone follow-up, refers debts for administrative offsets, and refers debts to private collection agencies. Audit-related debt that is in litigation or has been appealed by a grantee, is exempt from transfer to Treasury.

Bureaus/offices must notify PFM when audit-related debt has been referred to Treasury for OIG audits that PFM is tracking. A memorandum to the Audit Follow-up Official (through PFM), signed by an appropriate level official, should be prepared when audit-related debt has been referred to Treasury for collection action. If the disposition of sustained costs is the only outstanding issue regarding audit reports that are being tracked by PFM, the report will be officially closed by PFM upon notice from management that the costs have been referred to Treasury for collection action.

### ***Contract/Grant Audits***

The OIG is responsible for conducting awards of funds expended under the authority of OMB Circular A-110, “Uniform Administrative Requirements of Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations” as it applies to grants and contracts awarded by the Department to recipients and, through recipients, to sub-recipients. A contract audit is an audit of a government contract for goods and services with profit as well as non-profit organizations.

A contract or grant audit may be referred to PFM by the OIG for resolution or tracking. A grant audit is similar to a single audit with the exception that the audit involves only a specific grant award and does not include an entity’s financial statements. A contract or grant award that has been referred to PFM for resolution or tracking, will be handled in the same manner as a single audit that has been referred to PFM.

### ***External Audits Referred for Resolution***

When management has not responded to a single audit within 120 days of issuance of the report, the report is referred to PFM for resolution. When PFM has received a referral for resolution, PFM will contact management and request their response to the audit report. Once the response has been received, PFM will review the response for adequacy (does the response adequately address all findings). If the response is incomplete, PFM will request additional information. If the response adequately addresses all findings and if all required corrective actions have been taken, the report is closed by PFM and management, the ALO, and the OIG are notified. If the response adequately addresses all findings but one or more recommendations have not been implemented, for instance if there are disallowed costs that have not been collected, PFM enters the report into the Departmental tracking system and tracks the audit until final action has been achieved and the report is closed by PFM.

### ***Audits on Official Appeal***

As previously stated, once a single or external audit report has been issued, management officials are responsible for reviewing the auditee response to determine the adequacy of the response. In cases where management has made a finding of disallowance of questioned costs, and has requested that the costs be repaid, an auditee has the right to appeal the finding of disallowance. An official appeal must be filed with the Interior Board of Contract Appeals or, in some instances, with a local or state court. PFM must be notified by management when an auditee has appealed any aspect of management's findings; PFM continues to track audits on appeal until it has been notified by management of an official determination on the merits of the appeal. The notification to PFM should include what body is viewing the appeal, a docket number in the case of appeals filed with the Interior Board of Contract Appeals, or a case number for an appeal filed with another body. When the appeal has been resolved, PFM is to be notified of the disposition of the finding and whether further tracking is required.

In cases where a contractor has submitted a claim for reimbursement for services rendered, or if the contractor requests additional funds, an awarding official may request that the OIG perform an audit of the contractor's claim. If OIG questions a submitted claim and management agrees with the OIG's finding, a contractor may file an appeal of the finding of disallowance. In these situations, PFM will track the audit through disposition of the appeal. If all issues have been resolved at this point, PFM will close the audit; if there are incomplete issues, they will be tracked by PFM through final action. The report will remain open until PFM has been notified by management that all issues on appeal have been addressed and will continue to be reported by PFM to the OIG as open even though management cannot take action to close the report until the appeal is decided.

## C H A P T E R 4

---

# FINANCIAL STATEMENT AUDITS

The Chief Financial Officers Act of 1990 (Public Law 101-576), directs that each federal agency shall prepare and submit to the Office of Management Budget (OMB), a financial statement for the preceding fiscal year, covering:

- (1) each revolving fund and trust fund of the agency; and,
- (2) to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year. [“Commercial function” includes providing a service or thing of value for which a fee, royalty, or other charge is imposed by an agency for services...]

The Act further specifies that each financial statement of an executive agency shall reflect:

- (1) the overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;
- (2) results of operations of those revolving funds, trust funds, offices, bureaus, and activities;
- (3) cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
- (4) a reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.

### ***Preparation of Financial Statements***

Financial statements for the Department and the bureaus will be prepared and audited on an annual basis. Final financial statements, including the auditor’s opinion on the financial statements, will be issued on or before the statutory due date. If the financial statements for the Department cannot be completed by the statutory due date, the Department will provide OMB with a written explanation of the reason for the delay and the expected date of completion.

The financial statements will be prepared in compliance with OMB’s Form and Content of Agency Financial Statements (OMB Bulletin No. 97-01 or its successor documents).

### ***Audit Opinion on Financial Statements***

The audit opinions will be issued in compliance with OMB’s “Audit Requirements for Federal Financial Statements” (OMB Bulletin 98-08 or its successor documents). The audit opinion will include the following:

- (1) An opinion as to whether the reporting entity’s Principal Statements and Required Supplementary Information is fairly presented in all material respects, in conformity with Federal Accounting Standards;
- (2) A report on internal controls; and
- (3) A report on the reporting entities compliance with applicable laws, regulations, and government wide policy requirements.

### ***Reporting Entity Responses to Audit Opinion Findings***

As required by OMB’s audit guidance, the reporting entity shall provide comments on the auditor’s findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken or planned and comments on the status of corrective action taken on prior findings. To the extent practical, these comments shall be included in the audit report on internal controls or report on compliance. Departmental response to audit findings shall be provided to the Office of Inspector General within 14 calendar days of the issuance of the draft report to allow for the timely publication of the audited financial statements.

### ***Correction of Material Weaknesses and Reportable Conditions***

Material weaknesses and reportable conditions reported in the auditors opinion, report on internal controls, and/or report on compliance, will be tracked in the Department Audit Follow-up Tracking system in a similar manner as other OIG or GAO audit recommendations. Corrective action plans with appropriate interim milestones and target dates will be developed by Bureau Chief Financial Officers, ALOs and other cognizant offices, and updated on a regular basis. The audited entity should seek to complete corrective action plans before the next annual financial statement audit. The Department will monitor implementation progress to ensure completion of corrective actions by original target dates.

### ***Non-Compliance with Federal Financial Management Improvement Act (FFMIA)***

The Department will comply with policies and guidance on reporting of FFMIA non-compliance. Required corrective action plans related to FFMIA non-compliance will be provided to OMB following OMB requirements. The Department will use the Audit Follow-up Tracking System and implementation progress information to monitor corrective action plans to bring the Department or individual bureaus into compliance with the FFMIA.

## SECTION 4 – GENERAL ACCOUNTING OFFICE AUDIT REPORTS

### C H A P T E R I

## AUDIT REPORTS ISSUED BY THE GENERAL ACCOUNTING OFFICE

This chapter will discuss the responsibilities associated with audit follow-up in connection with audits issued by the General Accounting Office (GAO). The chapter will provide information on the types of audits issued by GAO, the Department's role, the function of the Departmental Audit Follow-up Official, the responsibility of the Office of Financial Management (PFM), the program assistant secretary's responsibility, the function of the audit liaison officer (ALO) at the program assistant secretary level, the responsibility of the audit liaison officer at the bureau level, and the responsibility of program staff.

### ***Types of GAO Audits***

The General Accounting Office conducts the following types of audits:

- ◆ *Financial Audits* - Financial audits include a review of financial statements and financial related information;
- ◆ *Performance Audits* - Performance audits are objective and systematic examinations which provide an independent assessment of the performance of a government function.

The GAO also uses its auditors to develop questions for use at Congressional hearings, perform investigative work, and develop methods or approaches which are applied in evaluating new and proposed programs. Additionally, GAO conducts a wide range of governmentwide surveys.

## C H A P T E R 2

---

### ROLES AND RESPONSIBILITIES

*Department of the Interior Responsibility* – The Department is responsible for providing full cooperation with GAO in the conduct of its audits and ensuring that information, advice, and guidance from GAO reviews are used for the maximum benefit of the Department.

*Assistant Secretary – Policy, Management and Budget and Designated Agency Audit Follow-up Official* – The Assistant Secretary serves as the Audit Follow-up Official for the Department. The Assistant Secretary is responsible for the overall audit follow-up function, which includes reviews issued by the GAO. The Assistant Secretary is responsible for ensuring all GAO draft and final audit reports are acknowledged within the Department and that any recommendations agreed to by the Department are tracked through full implementation of the corrective action(s).

*Office of Financial Management (PFM)* – The Office of Financial Management has been delegated the responsibility for program management of the audit follow-up function. PFM is responsible for:

- ◆ Receiving all correspondence from GAO initiating work within the Department;
- ◆ Transmitting GAO’s correspondence initiating new work electronically within one day, when possible, to the affected program assistant secretary, the assistant secretary level ALO, the bureau ALO, the Department Budget Office, and to Departmental offices with program oversight;
- ◆ Ensuring that an entrance conference is scheduled with GAO when the work will involve more than one bureau ( If GAO’s work involves one program area, PFM is responsible for ensuring that the ALO for the affected bureau has scheduled an entrance conference and communicated the date and time to Departmental offices with program oversight);
- ◆ Monitoring the progress of ongoing audit activity on a semiannual basis;
- ◆ Ensuring that GAO concludes its audit activity with an exit conference with program officials;
- ◆ Receiving the draft report for the Department; designating an organization to respond, transmitting the report, and establishing reasonable deadlines for the Department’s response;
- ◆ Receiving the final report for the agency; designating an organization to respond; transmitting the report; establishing reasonable deadlines for the Department’s response, reviewing the proposed response for content, and ensuring that the Department is responsive to all recommendations contained in the report (PFM is also responsible for ensuring that all Departmental offices with program oversight have reviewed and surmised the proposed Departmental response);
- ◆ Tracking agreed to corrective actions through full implementation and providing GAO with the information necessary to complete its closure of the recommendation; and
- ◆ Notifying the program assistant secretary and bureau ALO’s of Departmental closure and GAO concurrence.

*Program Assistant Secretary* – A program assistant secretary is responsible for designating a senior management official to function as the audit liaison officer at the assistant secretary level. It is preferable that the program assistant secretary level ALO is a senior management official within the immediate office of the program assistant secretary.

*Assistant Secretary Audit Liaison Officer* – The ALO for the program assistant secretary’s office has been delegated responsibility for program management of the audit follow-up function for the assistant secretary’s office. The ALO is responsible for:

- ◆ Receiving all audit information pertaining to the program assistant secretary’s area of responsibility;
- ◆ Keeping the assistant secretary and senior program management informed of audit issues related to their specific program area;
- ◆ Providing information and direction to bureau ALO’s under their program area; and
- ◆ Ensuring that responses to both GAO draft and final reports are coordinated within the assistant secretary’s office to ensure senior management concurrence with responses developed by program staff.

*Bureau Audit Liaison Officer* – The ALO is responsible for program management of the audit follow-up function at the bureau/office level. The bureau ALO is responsible for:

- ◆ Coordinating audit activity at the bureau and program office level;
- ◆ Scheduling entrance/exit conferences with GAO;
- ◆ Receiving both draft and final reports for the bureau;
- ◆ Coordinating internal bureau surnames;
- ◆ Providing proposed response to the assistant secretary ALO; and
- ◆ Maintaining a current status of corrective actions on open recommendations; providing a status update to PFM semiannually; and, providing closure memoranda to PFM.

## C H A P T E R 3

---

# GAO AUDIT PROCESS

### **Notification Letters**

The Department is notified by letter addressed to the Director of PFM of the initiation of GAO audits. The PFM GAO desk officer notifies the program assistant secretary, the assistant secretary ALO, the bureau/office ALO, the Department Budget Office, and other Departmental offices with program oversight, of the pending audit. GAO's notification letter provides the scope and objectives of the proposed review, the requester's name, additional information if the review is mandated by legislation, and the name of the team within GAO assigned to perform the review. GAO's notification letter usually also provides the name of the GAO Assistant Director and Evaluator-in-Charge responsible for conducting the review (see flow chart of the GAO audit process at the end of this chapter).

### **Entrance Conferences**

Entrance conferences are held to formally acquaint Departmental staff with the GAO team assigned to conduct the review. At the entrance conference, the GAO team summarizes what the Congressional requester has asked GAO to provide, furnishes an outline of the proposed work, time frames involved, scheduled site visitations, any questions or requests for documentation GAO requires, and responds to any questions by Departmental staff regarding the conduct of the review. Entrance conferences ensure that Departmental staff fully understand the scope of the proposed review.

Entrance conferences are scheduled by the bureau/office ALO, unless they involve more than one program area. If reviews involve more than one program area, the PFM GAO desk officer will schedule the entrance conference and notify the affected bureau ALO's and Departmental offices.

### **Actual GAO Review**

The actual GAO review period is usually twelve to sixteen months. GAO initiates its work with the notification letter, followed by an entrance conference, the survey phase (which is the work development stage), and the actual review. GAO concludes their assignment with an exit conference with program staff prior to issuance of the draft report.

### **Exit Conferences**

An exit conference is held between GAO and program staff at the conclusion of its work. *It is important for ALO's to ensure that appropriate senior management officials attend the exit conference* or are provided with a summary of the exit conference. The exit conference is where the GAO team provides the Department with its findings and summarizes possible report recommendations, if any. Departmental officials have the opportunity at the exit conference to offer clarifying information or provide GAO with updated information. Departmental staff also have the opportunity after the exit conference to begin preparing for the issuance of the draft report. ALOs ensure that senior management are aware of the exit conference results and possible draft report recommendations, provide both management and program staff with the opportunity to discuss GAO's findings and recommendations, and concur on possible corrective actions prior

to the actual issuance of the draft report. This is important because it eliminates last minute coordination between the assistant secretary's office and program staff and ensures that the Department will be able to respond to GAO within prescribed time frames.

### ***Issuance of Draft Report***

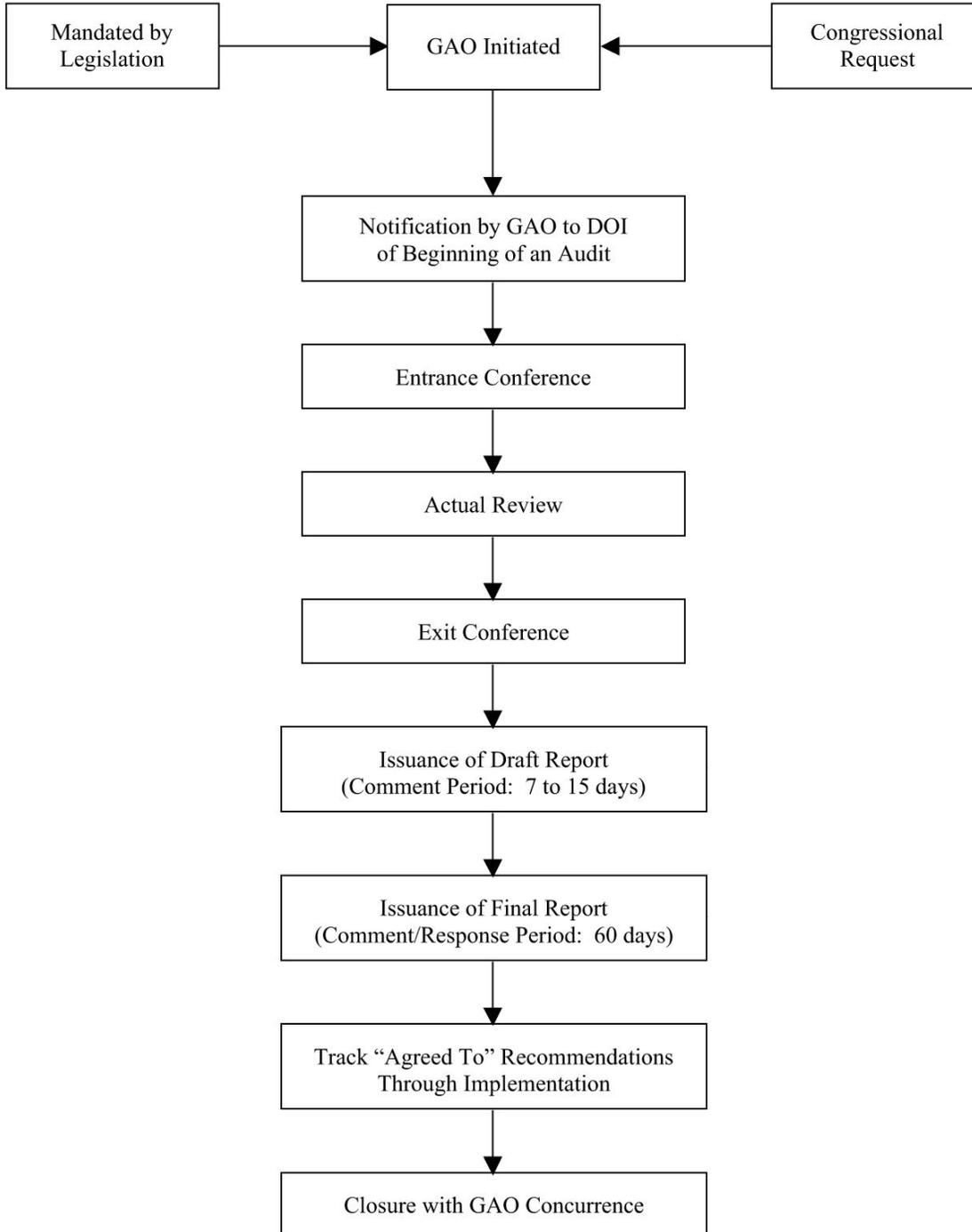
When the GAO draft report is issued to the agency, it is formally transmitted to the Department for review and comment. PFM receives all draft reports for the Department and transmits draft reports to the assistant secretary-level ALO, the bureau/office ALO, the Department's Budget Office, and Departmental offices with program oversight, along with guidance for preparing the Department's response. Draft reports usually have a response turnaround period of *7 to 15 calendar days*. The Department's policy is to provide ***written comments on all GAO products with recommendations*** unless otherwise requested by GAO. When GAO has requested that comments be provided orally, the comments must be developed in writing and shared with Departmental offices with program oversight in the same manner as the coordination of written responses. It is the responsibility of the PFM GAO desk officer to ensure that GAO captures the oral comments as presented.

Responses to GAO draft reports are prepared by program staff for the program assistant secretary's signature, and are transmitted to the bureau/office ALO for content review. Bureau/office ALO's should ensure that each draft report's recommendations have been addressed in the proposed response. If a draft report involves more than one bureau/office within the Department, the PFM GAO desk officer will either assign responsibility for coordinating each bureau's comments into one consolidated Departmental response to a specific bureau/office ALO, or the PFM GAO desk officer will request comments from each involved bureau/office. At this point, the PFM GAO desk officer will consolidate the comments into one Departmental response, which will be signed by the Department's Agency Audit Follow-up Official.

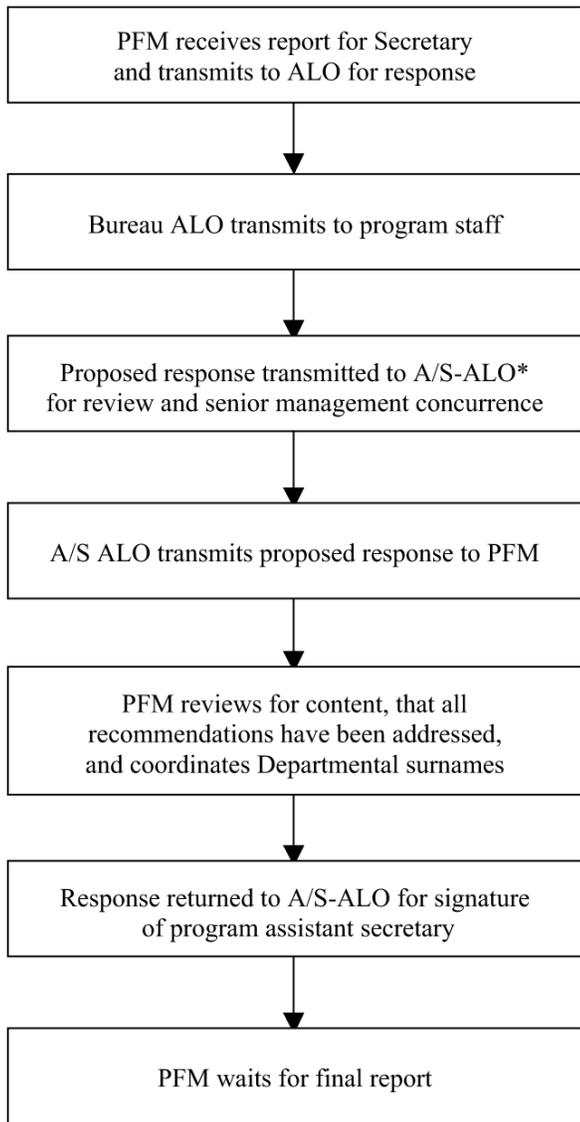
### ***Issuance of Final Report***

The GAO final report is issued to the Secretary of the Interior and received in PFM on behalf of the Secretary. PFM provides copies of the final report to the program assistant secretary ALO, the involved bureau/office ALO, the Departmental Budget Office, and all other Departmental offices with program oversight. If GAO's final report contains recommendations to the Secretary of the Interior, the Department is required by 31 U.S.C. 720 to prepare, within 60 calendar days of receipt, a written statement of actions that have been or will be taken on GAO's recommendations. The PFM GAO desk officer assigns responsibility for the response to the appropriate program assistant secretary.

## PROCESSING OF GENERAL ACCOUNTING OFFICE (GAO) AUDIT REPORTS

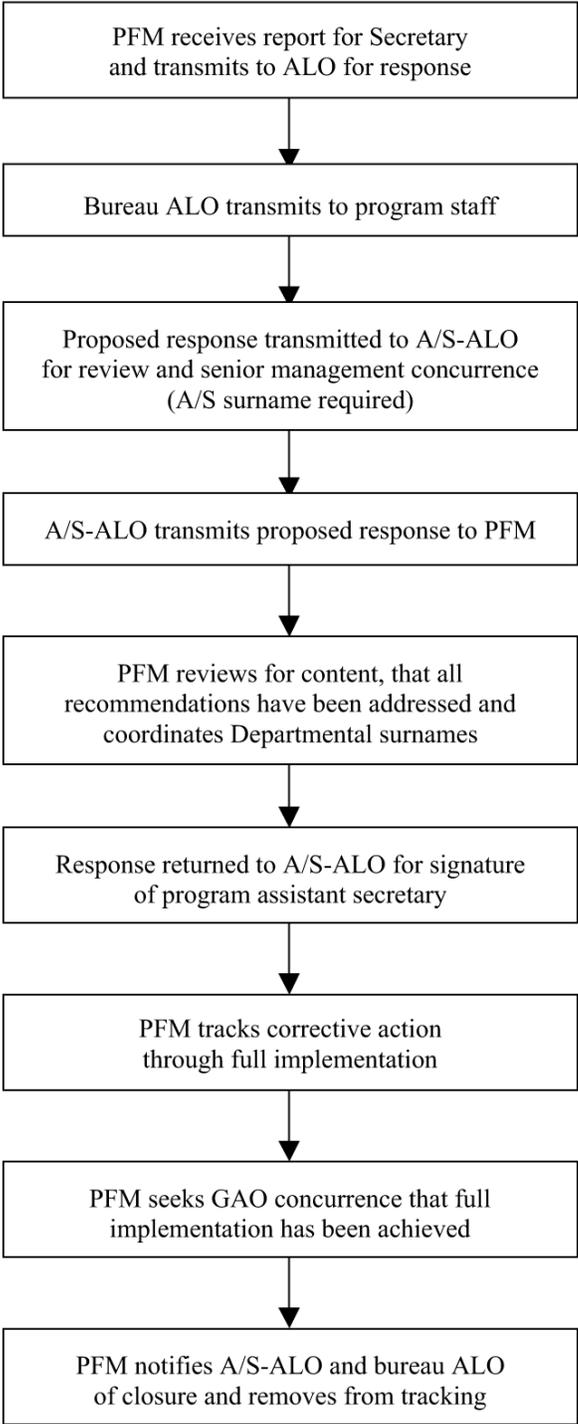


**PROCESSING GAO DRAFT REPORTS**



\*A/S-ALO – Asst. Secretary – level audit liaison officer

**PROCESSING GAO FINAL REPORTS**



## A D D E N D U M I

**SAMPLE GAO REPOSE LETTERS****SAMPLE: RESPONSE LETTER TO GAO DRAFT REPORT**

Mr. Barry Hill  
 Director  
 Natural Resources and Environment  
 U.S. General Accounting Office  
 441 G Street, NW, Room 2T23  
 Washington, DC 20548

*(DOI Response should be addressed to GAO Issue Area Director responsible for transmitting Draft Report)*

Dear Mr. Hill:

Thank you for the opportunity to respond to the draft report entitled, “**LAND MANAGEMENT SYSTEMS: BLM’s Actions to Improve Information Technology Management**” (GAO-01-282).  
*(The entire report title, including a report number should, appear).*

The text of the transmittal letter should be brief, immediately stating the Department’s concurrence or nonconcurrence with GAO’s recommendations.

If you have any further questions, please contact *(the name and phone number of the responsible senior program official should always be provided)*.

Sincerely

Assistant Secretary  
 Land and Minerals Management

*(The response should be prepared for signature of the program Assistant Secretary, unless other directions are provided by the Department’s Audit Follow-up staff).*

Enclosure

*(Enclosures should provide the Department’s detailed comments on each of the Draft Report recommendations, and also contain any technical or editorial comments necessary and address any other draft report comments such as Matters for Congressional Consideration).*

**Sample – Basic Transmittal Letter - GAO Draft Report**

**SAMPLE: ENCLOSURE TRANSMITTING DRAFT RESPONSE**

Response to GAO Draft Report entitled,  
“LAND MANAGEMENT SYSTEMS: BLM’s Actions to Improve  
Information Technology Management”  
(GA0-01-XXX)

*(The Department’s comments should include the type of report our comments are addressed to i.e., draft/final, and should include the full report title, and a report number)*

In response to the above Draft Report, the Department of the Interior, Bureau of Land Management offers the following comments:

*Recommendation 1: (Each report recommendation should be restated as outlined in report)*

*Response: **Concur.** (Concur or Noncurrence. Whether the Department concurs or does not concur with GAO’s stated recommendation should be the first information provided in response to each report recommendation, followed with additional comments applicable to the stated recommendation. Each GAO recommendation and response should be addressed separately, unless GAO has grouped the recommendations together in their report).*

*Technical Comments/Editorial Comments: (Technical comments should be addressed page by page, and should be included after all the report recommendations have been addressed).*

*Matters for Congressional Consideration: (If you chose to comment on information provided to the Congress for consideration, this information is also included after the Department’s response report recommendations).*

**SAMPLE: RESPONSE LETTER TO CONGRESS**

Honorable Dan Burton  
Chairman, Committee on Government Reform  
House of Representatives  
Washington, DC 20515

*(The Department is required by 31 U.S.C. 720 to submit a written statement to the Senate Committee on Governmental Affairs and the House Committee on Government Reform on actions that have or will be taken in response to GAO's Final Report recommendations)*

*In addition to the two committees outlined above, committees with specific Department oversight are also provided with original response letters. The Department's Audit Follow-up staff will provide a listing of those addressees.*

Dear Mr. Chairman:

The Department has reviewed the Final GAO Report entitled, "LAND MANAGEMENT SYSTEMS: BLM's Actions to Improve Information Technology Management" (GAO-01-282).

*(The text following the first paragraph should include a general statement to the Congress regarding the Department's overall review of the GAO report, and any general comments and or observations regarding the report's contents). Specific comments addressing the Final Report recommendations, and any actions that have been taken or are planned, should be included as an Enclosure to the basic transmittal letter).*

Sincerely,

Assistant Secretary  
Land and Minerals Management

*(The response is prepared for signature of the responsible program Assistant Secretary, unless other direction is received from the Departmental Audit Follow-up Office)*

**Sample – Transmittal Letter to Congress - GAO Final Report**







**U.S. DEPARTMENT OF THE INTERIOR**  
**OFFICE OF FINANCIAL MANAGEMENT**  
**1849 C Street, NW**  
**Washington, DC 20240**

[www/doi.gov/pfm](http://www/doi.gov/pfm)