

## Department of the Interior Departmental Manual

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**Effective Date:** 9/28/07

**Series:** Audits

**Part 360:** Departmental Audits

**Chapter 1:** Audit Authority, Policy, and Responsibilities

**Originating Office:** Office of Inspector General

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### 360 DM 1

1.1 **Purpose.** This chapter provides policies, procedures and responsibilities for performing audits of and related services on programs and operations of (1) the Department of the Interior (DOI or the Department); (2) the Insular Areas of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands; and (3) the Compact States of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

1.2 **Authority.** This chapter is issued pursuant to the provisions of the Inspector General Act of 1978, as amended, 5 U.S.C.A. App.3, (the IG Act); the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 2 et. seq.); the Chief Financial Officers Act of 1990 (Public Law 101-576); the Single Audit Act of 1984 (Public Law 98-502), as amended; Insular Areas Act (Public Law 97-357); Compacts of Free Association Act of 1985 (Public Law 99-239 as amended by Public Law 108-239, and Public Law 99-658); Office of Management and Budget (OMB) Circular A-50, September 29, 1982; OMB Circular A-123, revised December 21, 2004; OMB Circular A-127, July 23, 1993; and OMB Circular A-133, June 24, 1997.

### 1.3 **Policy.**

A. Objectives. The Office of Audits conducts audits and evaluations and makes recommendations designed to (1) promote economy, efficiency and effectiveness in administering programs and operations of the Department, Insular Areas, and Compact States; (2) prevent and detect fraud, waste and abuse in programs and operations of the Department and Insular Areas; and (3) keep the Secretary of the Interior and the Congress fully and currently informed about problems and deficiencies in the Department's and Insular Area governments' programs and operations and the necessity for and progress of corrective actions.

B. Standards. Audits by or for the Department will be conducted in accordance with the "Government Auditing Standards" promulgated by the Comptroller General of the United States. Evaluations will be conducted in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

C. Distinction Between Departmental Management Responsibilities and OIG Office of Audits Responsibilities. Both the OIG and the Department play important roles in ensuring that

adequate internal controls in the Department's programs and operations are in place and properly functioning. OMB Circular A-123 (Management Accountability and Control) requires each agency and individual Federal manager to (1) assess internal control, (2) correct internal control deficiencies, and (3) report on internal control. The Inspector General is responsible for conducting or arranging for audits of activities carried out or financed by the Department for the purpose of promoting economy, efficiency, and effectiveness or preventing and detecting fraud, waste, and abuse in the Department's programs and operations. An audit serves to independently evaluate the adequacy of established controls. However, the audit is not a substitute for the control responsibilities of bureaus and offices to provide adequate organization, policy, day-to-day operating procedures, and administrative review activities.

#### **1.4 Responsibilities.**

A. Assistant Inspector General for Audits (AIG-A). The AIG-A is responsible to the Inspector General for supervising the performance of all auditing activities relating to the Department's and Insular Area governments' programs and operations. The AIG-A:

- (1) Manages, supervises, coordinates, and conducts audits/evaluations, and other reviews relating to Departmental and Insular Area governments' programs and operations.
- (2) Provides audit services to all management levels within the Department and Insular Area governments, including examinations of its grantees, contractors, lessees, permittees, and royalty payors.
- (3) Assists bureaus and offices, Insular Area governments, and Compact States in evaluating policies, procedures, standards and criteria relating to audit activities conducted by these activities.
- (4) Determines when audits can be carried out by organizations outside the OIG and evaluates the adequacy of audits performed for the Department by non-Federal organizations to determine that such audits meet generally accepted government auditing standards.

B. Assistant Secretaries and Heads of Bureaus and Offices are responsible for:

- (1) Providing timely responses to all draft and final audit reports and taking appropriate actions on recommendations.
  - (a) In order to be valid, all responses to draft and final audit reports must be signed by a senior management official of the organization to which the report is addressed.
  - (b) Responses to draft performance audit reports on Departmental or Insular Areas programs, activities, and functions are normally due within 30 days. Responses to final audit reports are normally due in 30 days. Responses to external audit reports on grants and contracts are due in 90 days. If a shorter response timeframe is required, it will be stated in the report and/or transmittal letter. Extensions of up to 15 days may be granted under certain circumstances.

(c) Responses should state whether there is agreement with each recommendation. If there is non-concurrence, the specific reasons must be stated. The response should include the corrective actions taken or planned. If the response provides for future corrective actions, it should indicate when completion of such action is contemplated and the official responsible for completing the action. Copies of new or revised policies and/or operating procedures issued in response to the audit report recommendations should be attached to the response. The response should also provide agreement/disagreement with the monetary impact of the findings in the report, and the reasons for any disagreement. For contract audit reports, the response should provide the amount of disallowed, questioned, or unsupported costs which have been resolved (that is, reinstated or sustained) or are still under review by the agency. For contract pre-award, termination settlement, and claim audits, a record of negotiation should be provided in accordance with the Federal Acquisition Regulation. Responses should be addressed to the OIG official specified in the transmittal memorandum.

(d) Notice of Potential Finding and Recommendation: The Notice of Potential Finding and Recommendation (NPFR) is a tool used to inform clients of a potential finding. The NPFR is considered a working document and its purpose is to generate discussion with the client in order to establish clear communication relating to the potential finding. NPFR's will be used in performance audits, financial and financial related audits, and evaluations when appropriate. NPFR's will request a client response to the issue and proposed recommendation and/or additional information to resolve the issue. A timeframe for response (generally 10 days) and contact information will be included in the NPFR.

(2) Designating an initial contact point (audit liaison officer) and advising the OIG of the designation and any changes in the contact point.

(3) Submitting audit suggestions to the OIG in areas of substantive interest to Departmental, bureau, and Insular Area management officials. The suggestions should be in writing and include the following:

- (a) The specific aspects of the program, function, or activity to be addressed.
- (b) Why the audit is being suggested and any specific inquiries, studies, internal or external criticisms, or the reference material of which the auditors should be aware.
- (c) If there is a date by which audit results are needed in order to facilitate impact on operations or management decisions.
- (d) Other reviews or related activities with which the audit efforts should be coordinated and the contact point for the reviews.
- (e) The priority for each suggestion. The OIG will evaluate all suggestions. Bureaus and offices should provide further information as required to evaluate the priority of the suggested audits.

(4) Informing the OIG of all audits performed by contractors and of evaluations of programs, functions, or organizations prior to initiation of the audits or evaluations.

(5) Ensuring that adequate follow-up actions are taken by the bureaus and offices on OIG recommendations.

(6) Providing, as required by the Inspector General Act, appropriate and adequate office space at headquarters, regional, and field office locations, together with such equipment, office supplies, and communications facilities and services as may be necessary to execute the audits.

C. Coordination and Cooperation During the Audit. Departmental officials and their staffs, contractors, and grantees will cooperate with OIG auditors to facilitate the accomplishment of audits and other reviews. All data required by the auditors will be made available promptly upon request. The OIG or an authorized representative, in carrying out the provision of the Inspector General Act, is authorized to have access to all records, reports, documents, or other material available to the Department or Insular Areas that relate to programs and operations for which the Inspector General has responsibilities under the Act.

(1) About 10 days before the start of an audit or other review, the head of the bureau or office concerned is notified and arrangements are made for an entrance conference. On audits of contracts and grants, the notice is given to the contractor or grantee and the administering office of the Department or Insular Area. At the entrance conference, representatives of the OIG discuss the scope and objectives of the audit and facilitate arrangements. The views of the auditee are sought, including suggestions for modifying the proposed scope of the audit to appropriately include matters of special concern to management.

(2) During the audit, periodic meetings are held with management officials to advise them of the status of the audit and of any issues requiring their immediate attention. Also, the OIG will issue written notices of potential findings and recommendations to inform management of any potential audit findings and to obtain feedback on the accuracy of the potential finding.

(3) Upon completion of the audit, a close-out conference is held with appropriate officials to provide a further opportunity to discuss the tentative findings and recommendations. Departmental and Insular Area senior managers are responsible for ensuring that the appropriate officials attend the conference.