



# United States Department of the Interior

OFFICE OF THE SECRETARY

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## FINANCIAL MANAGEMENT MEMORANDUM 2013- 007 (VI.A)

To: Assistant Secretaries  
Bureau and Office Directors  
Bureau Assistant Directors for Administration  
Chief Financial Officers  
Internal Control Coordinators

From: Pamela K. Haze *Pamela Haze*  
Deputy Assistant Secretary - Budget, Finance, Performance, and Acquisition

Subject: Guidance for Fiscal Year 2013 Internal Control Program

This memorandum transmits the Department of the Interior's guidance for the FY 2013 Internal Control Program. The guidance includes activities and timeframes necessary to comply with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*, including Appendix A, *Internal Control over Financial Reporting*. Guidance related to the Department's Audit Follow-up Program and compliance with OMB Circular A-50 was issued under separate cover.

### **The Internal Control Program**

Internal controls must be established and maintained in order to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Safeguarding assets is a subset of these objectives. Internal control activities should comply with the following standards: control environment, risk assessment, control activities, information and communication, and monitoring.

Adequate oversight of the internal control program by senior management, including the Senior Management Council or Senior Assessment Team, remains an important element of the internal control program. We urge bureaus and offices to maintain a strong "tone at the top" that promotes strong internal control as well as programmatic and financial integrity. The internal control program is enhanced by employing relevant performance measures applicable to senior managers and those with responsibility for resources.

This FY 2013 annual guidance, in conjunction with Sections 1 and 2 of the Department's *Internal Control and Audit Follow-up (ICAF) Handbook*, provides instructions and direction to facilitate compliance with the FMFIA and OMB Circular A-123 and ensures that the Secretary's Annual Assurance Statement is adequately supported by bureau assurance statements that accurately reflect the current state of internal controls. The guidance and handbook require that bureaus and offices do the following:

- Planning
  - Verify component inventories and assessable units.
  - Identify and verify risks.
  - Integrate and coordinate internal control review activities.
- Evaluating Entity-Level Controls
  - Document and assess bureau/office-wide design of controls (including controls relating to financial reporting and information technology).
- Evaluating Process-Level Controls
  - Document key processes and controls.
  - Update the annual, risk-based Internal Control Review Plan, with a 3-year cycle.
- Testing Operating/Transaction-Level Controls
  - Perform control assessments and internal control reviews (ICRs.)
  - Document operating effectiveness of controls.
- Concluding, Correcting, and Reporting
  - Conclude on control effectiveness, suitability of compensating controls, and whether any control gap is a material weakness.
  - Prepare and track corrective action plans as necessary.
  - Prepare a Statement of Assurance on Internal Controls over Financial Reporting.
  - Prepare an Annual FMFIA Assurance Statement.

The *ICAF Handbook* Attachments 1 through 8 provide templates regarding risk assessment and internal control review for programs and operations, while Attachment 9 through 19 pertain to assessment of internal controls over financial reporting. The Office of Financial Management (PFM) will work with the bureaus to apply the Internal Control Program guidance, as needed. In general, PFM encourages consistency in approach to assessing risk and use of PFM's templates for risk management and assessment of internal control.

As part of this year's program, certain targeted reviews of the internal control program are required, including:

- Controls over future operating lease payments (i.e., verification of accuracy of schedules and disclosures, consistency and compliance with guidance, and intra-bureau coordination to ensure complete and accurate lease listing);
- Controls over grant monitoring (i.e., verification that grant managers are receiving and reviewing grantee Single Audit reports timely management decisions are being made on identified findings in the Single Audit Reports); and
- Implementation and assessment of controls over conference attendance and spending;

The FY 2013 specific deadlines and timelines are contained in the Schedule of Key Actions (Attachment 1) and the Monthly Status Report on A-123 Appendix A (Attachment 17) which are attached to this memorandum.

If you have internal control training needs, you may contact PFM regarding those particular needs (e.g. training on how to use the risk rating tool or training on how to conduct a review). PFM plans to hold a lessons-learned discussion at the end of the FY 2013 cycle.

## **Risk-Based Internal Controls over Programs and Operations**

When assessing programs and operations, a risk-based approach provides greater efficiency and reduces unnecessary redundancy. Bureaus and offices should assess risk in a consistent manner using the Integrated Risk Rating Tool (IRRT) and specifically consider inherent risk, control risk, and fraud risk. Internal control reviews should cover inherent high-risk areas. The IRRT is Attachment 04C to the *ICAF Handbook* and can be found using the following link: [PFM Guidance-Attachments - All Documents](#).

In implementing a risk-based internal control program, bureau senior management should direct the planning, reviewing, and reporting for internal control over all programs and operations including financial reporting. Bureau senior management should coordinate among the various programs, including finance, budget, acquisition, and information technology, to successfully meet the requirements for maintaining, testing, and reporting on internal controls. Bureaus are advised to integrate the necessary expertise and skills using senior management teams to serve as bureau Senior Management Councils for internal controls. Each bureau's team should periodically review the internal control program, annually approve methodology and plans, discuss the results of risk assessments and subsequent testing in high-risk areas, and ensure that all deficiencies found are addressed in a timely manner.

## **Assessment of Internal Control over Financial Reporting**

Interior uses a top-down approach focusing on assurance at the Department-wide level supported by assurance statements from bureaus/offices. Internal control reviews include documentation of business processes, identification of key controls for identified consolidated material line items and assessment of design and operation of key controls. This approach focuses resources on the items most material and most at risk to Department's financial reporting.

Section 2 of the Department's *ICAF Handbook* provides guidelines to evaluate the internal controls over financial reporting. In addition, as previously noted, the *ICAF Handbook* Attachments 9 through 19 provide templates for the FY 2013 Appendix A effort. The planning materiality for FY 2013 is 1 percent of Net Outlays on the Statement of Budgetary Resources, or \$128 million. This materiality level is subject to Deputy Operating Group approval but is expected to remain as stated. In addition, financial statement line items assigned to each bureau have now been developed and are attached and provided with this guidance (Attachment 9).

The process and methodology for applying the standards when assessing internal control over financial reporting should be well-documented. The Secretary's annual assurance statement on the effectiveness of internal control over financial reporting is a subset of the assurance statement required under FMFIA on the overall internal control of the agency.

## **Appendix B, Improving the Management of Government Charge Card Programs**

Appendix B requires agencies to maintain internal controls in government charge card programs. A significant requirement of this appendix is that agencies perform credit checks on all new purchase and travel card applicants and terminate charge cards for employees that leave or are infrequent users. The Office of Acquisition and Property Management (PAM) has issued a charge card management plan, located at [www.doi.gov/pam](http://www.doi.gov/pam) for reference. However, each

agency is also required to maintain a bureau-specific charge card management plan. Each bureau procurement office is responsible for maintaining and testing internal controls in this area. The testing of other charge card-related controls should be performed where the controls are applied.

### **Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments**

Appendix C aims to improve the integrity of the government's payments and the efficiency of its programs and activities. On July 22, 2010, the President signed the Improper Payments Elimination and Recovery Act (IPERA) of 2010 into law. IPERA amends the Improper Payments Information Act (IPIA) of 2002 and repeals the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act). IPERA expands the requirements of all agencies to periodically perform risk assessments of their programs and activities and identify those programs and activities that are susceptible to significant erroneous payments. Significant erroneous payments are defined by OMB Circular A-123 Appendix C as annual erroneous payments in a program exceeding both 2.5 percent of program outlays and \$10 million of all program or activity payments, or \$100 million.

OMB Memo M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, was issued in November 2010 to address the recovery efforts associated with improper payments and was effective in January 2011. Subsequently, OMB issued Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, in April 2011, as further guidance that defined specific criteria for conducting a risk assessment and payment recapture audit. PFM procured a contractor to assist with standardizing the process for conducting an IPERA risk assessment and developing policy guidance for all bureaus to follow. In FY 2012, the Department inaugurated the newly-developed guidance and tool by inventorying all program outlays. A risk assessment was subsequently conducted by reviewing all programs that exceeded \$10 million in annual outlays to identify those susceptible to improper payments. In FY 2013, the Department is piloting payment recapture audits in departmental offices as well as the Bureau of Land Management, the Bureau of Indian Affairs, the Bureau of Reclamation and the U.S. Geological Survey.

We look forward to your cooperation and assistance as we continue to fulfil the Department's Internal Control Program responsibilities this fiscal year. The *ICAF Handbook* containing Sections 1 and 2 can be found on PFM's Share Point site by following this link: [FY 2103 IC Guidance - All Documents](#). If you have questions or would like to discuss the requirements set forth in this memorandum, please contact Douglas A. Glenn, Director, Office of Financial Management at (202) 208-4701 or Eric Eisenstein, Chief, Internal Control and Audit Follow-up Division at [Eric\\_Eisenstein@ios.doi.gov](mailto:Eric_Eisenstein@ios.doi.gov) or (202) 208-3417.

#### Attachments

cc: Finance Officers Partnership  
Assistant Inspector General for Audits  
Department Audit Liaison Officers (ALOs)