DEPARTMENT
OF THE
INTERIOR

The Office of
Financial
Management

PROGRAM MANAGERS GUIDE TO FINANCIAL STATEMENT AUDITS

Purpose: To explain the important role that Program Managers play in the annual financial statement audit.

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Why are Program Managers Important to the Financial Statement Audit?

- Program Managers are on the frontline for producing accurate financial information necessary to meet the Department of the Interior's (DOI) strategic goal of maintaining an unqualified financial statement audit opinion.

- The DOI Strategic Plan lists financial integrity and transparency as a guiding principle. The DOI managers and employees standard of operations is to uphold its responsibilities for effective financial operations and accountability including high quality and timely reporting, robust internal controls, clean audits without material weaknesses, and effective follow-up on audit and internal control findings.

- Program Offices are the source of most of the day-to-day accounting activities and are responsible for most of DOI's assets reviewed during the audit.

- Program Managers demonstrate their accountability through the audit process, which assures Congress and the Office of Management and Budget (OMB) that information reported is accurate and internal controls are maintained over the resources provided to the organization.

- Program information is the responsibility of the Program Manager. Programmatic performance results and other program information are an integral part of the Annual Financial Report, which is the subject of the financial statement audit.

What is the Audit Process?

The audit process is designed to provide an independent assessment of and reasonable assurance about whether an entity's reported financial conditions, results, and use of resources are presented fairly in accordance with recognized criteria. The following is an overview of the various aspects of the audit:

- **Entrance Conference** – auditors give a description of the audit scope and objectives; discuss time frames, access to records and personnel, introduce the audit team, and consider management's suggestions on additional areas to include in the audit. Bureaus following a consolidated audit process may choose to bypass this formal entrance conference.

- **Audit Work** – auditors survey program activities to obtain background information; complete audit verification which is a comprehensive review of selected areas of a program, activity, or function; and complete field work by interviewing audited staff and reviewing, analyzing, and documenting relevant information.

- **Communication** – through discussions/meetings, auditors discuss audit findings to clearly understand the facts and circumstances and provide the auditee early notice of

deficiencies so management can take immediate corrective action. The auditor may schedule formal briefings depending on the significance of the issue.

- **Exit Conference** – communicates audit results to management and obtains management's comments on proposed findings and recommendations. Bureaus following a consolidated audit process may choose to bypass this formal exit conference.

- **Audit Report** – auditors prepare draft and final reports.

- **Audit Resolution** – implement agreed upon corrective actions that resolve the audit findings.

What Are Financial and Audit Related Responsibilities?

Program Manager/Field Location and Oversight Organizations Responsibilities

- Process transactions accurately, timely, and enter properly into the accounting system; e.g., payroll, cash receipts, purchase and charge card transactions.

- Maintain and provide complete supporting documentation as requested during the annual report compilation and in preparation for ready review by management and auditors.

- Review charge card purchases to identify misuse, fraud, and delinquency.

- Review travel claims for authorized travel and approve promptly.

- Review expenses and invalid recoveries.

- Review unliquidated obligations (undelivered orders) in accordance with the updated DOI policy issued by the Office of Financial Management; Financial Management Memorandum 2013-015 *Revised Guidance on Financial Performance Metrics* dated March 12, 2013.

- Issue reimbursable agreements including the required data elements for intra-government transactions.

- Assist in preparing a draft Agency Financial Report (AFR).

- Assist finance offices in clearing suspense accounts, monthly.

- Assist finance offices in recording receivables and issuing bills promptly.

- Account for assets including promptly and accurately recording acquisitions, deletions, and transfers of property in the accounting records and assisting in booking depreciation.

- Maintain control of administrative funds.

Record costs properly according to Government Performance and Results Act (GPRA) and/or Activity Based Costing (ABC) requirements.

- Follow financial policies and year-end financial closing instructions and due dates.

- Collect performance management information quarterly and provide performance data annually.

- Provide financial training to employees.

- Develop a Corrective Action Plan (CAP) to correct any weaknesses identified in audit findings. The main steps of a CAP are:
    - Identify cost-effective actions that can improve processes or methods.
    - Eliminate repeated deficient practices by researching the cause of the problem and developing list of steps and milestones.
    - Periodically monitor to see that the problem is resolved.
    - Plan how to prevent the problem from reoccurring.

DOI Management Responsibilities

- Prepare the AFR and consolidated financial statements for DOI, subject to audit.

- Prepare and submit third and fourth quarter financial statements to OMB.

- Prepare and submit quarterly financial statements to DOI management

- Provide overall coordination of the financial statement audit.

- Establish and issue financial policy for DOI, implement Federal Accounting Standards Advisory Board (FASAB) standards, and OMB and U.S. Department of Treasury (Treasury) directives.

- Submit data to Treasury in support of the Consolidated Financial Statements for the Federal Government.

- Summarize data for the President's budget.

- Provide guidance, interpretation, and application of financial standards and policy.

Finance Office/Financial Manager Responsibilities

- Bureau Heads, Chief Financial Officers and Finance Officers certify the accuracy and completeness of financial information and presentation of the required quarterly and annual trial balance certification according to applicable standards, including accurate and timely adjustments, accruals, and footnotes.

- Maintain a sufficient internal control environment to ensure accuracy and integrity of financial data maintained in the core accounting and related financial management systems.

- Perform reconciliations as required; e.g., cash balances with Treasury, subsidiary to general ledger, budgetary to proprietary, etc.

- Review suspense accounts and clear abnormal balances.

- Reconcile intra-departmental transactions monthly.

- Assist the department, when asked, to help reconcile intra-governmental transactions quarterly.

- Review receivables and loans for accuracy quarterly, update allowances for uncollectible accounts receivables, and write off bad debts.

- Refer delinquent debt to Treasury within 180 days.

- Review budget execution data with bureau budget offices and submit to Treasury timely.

- Implement quarterly and year-end reporting instructions from DOI, Treasury, and OMB.

- Prepare quarterly and annual Trial Balance Certification on a timely basis.

- Perform quarterly financial statement line variance analysis.

Performance Management Responsibilities

- Prepare the performance reporting for the bureau/office in coordination with the Office of Planning and Performance Management (PPP).

- Submit 5-year strategic plans (current year plus 4 years), submit annual performance plans, and report program performance in an annual performance report to the public. Effective in Fiscal Year (FY) 2012, Federal agencies will report performance using http://www.performance.gov.

- Describe general goals and objectives, how these goals and objective will be achieved, the relationship between the annual performance plan and the strategic plan, and how priority goals and strategies were chosen.

Budget Office Responsibilities

- Department and Bureau Budget Offices collaborate with PPP and Bureau Performance Offices regarding content and disclosures reported in the of 5-year strategic plans, annual performance plans, and the annual performance report to the public.

- Link budgeting to performance.

Key Terms and Concepts

Objectives of Financial Statement Audits

Financial statement audits provide reasonable assurance that the financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In addition, the audit determines compliance with financial laws and regulations and compliance with internal control procedures.

The audit process is a basic management and oversight tool to ensure the best performance and highest measure of accountability.

Unqualified (clean) Audit opinion

A clean opinion means the Office of Inspector General and/or an outside audit firm has audited our financial statements and can attest that they present fairly, in all material respects, our total revenue, assets, liabilities, net position, and budgetary resources.

Report on Internal Controls

The auditors obtain an understanding of the components of internal control, test the design of the controls, and if designed properly, test the operating effectiveness of the controls and report on the findings. The following internal controls are included:

- Financial reporting controls (including Electronic Data Processing controls).
- Compliance controls for each key provision of laws and regulations.
- Budget controls for each relevant budget restriction.
- Operations controls for each operations control relied upon.
- Performance measure control for performance measures disclosed in the Management Discussion and Analysis.

The report identifies reportable conditions and material weaknesses. Reportable conditions are significant deficiencies in the design or operation of internal controls that could adversely affect DOI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions that have a higher level of risk of a material misstatement in the financial statements.

Report on Compliance with Laws and Regulations

The auditors test compliance of laws and regulations that have a direct and material effect on the financial statements and supplementary information, including laws governing budget authority, and any other laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin 14-02. In addition, auditors will test DOI's compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), section 803(a) requirements and report on

their findings. This includes whether DOI financial management systems comply with:

(1) Federal financial management system standards;
(2) applicable Federal accounting standards; and
(3) the standard general ledger at the transaction level.

In addition, compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Information Security Management Act (FISMA) are also tested by the auditors.

- FMFIA requires the Executive Branch agencies to establish and maintain effective internal control. The Secretary must annually evaluate and report on the effectiveness of the internal control and financial management systems (FFMIA discussed above) that protect the integrity of Federal programs.

- FISMA requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The Secretary and the Office of the Inspector General are required to report annually on the effectiveness of DOI's security programs. Significant deficiencies found under FISMA must also be reported as material weaknesses under FMFIA and as a lack of substantial compliance under FFMIA if related to financial management systems.

Auditor Responsibilities

- Plan and complete the audit in accordance with Government Auditing Standards, issued by the Comptroller General of the U.S. and OMB.

- Issue a combined report including an opinion on the financial statements; results of consideration of internal controls; and, tests of compliance with laws and regulations.

Management Responsibilities

Management's responsibilities directly impact the results of the audit and require the coordination among DOI programs, performance, and financial management.

Key Dates

October

- **10/10 -** Final Trial Balance info provided to auditors
- **10/14 -** Trial Balance Verification Letter provided to PFM
- **10/17 -** Draft of Reporting Packages provided to auditors
- **10/24 -** Preliminary Performance Data
- **10/29 -** Signed Financial Managers Checklist
- **10/29 -** Final Reporting Packages provided to auditors

November

- **11/08 -** Final Performance Data
- **11/15 -** Audit Opinion issued

Financial Statements Guidance Team Points of Contact

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Glossary of Commonly Used Audit Acronyms

AFR	Agency Financial Report
APP	Annual Performance Plan
APR	Annual Performance Report
BLM	Bureau of Land Management
BOEM	Bureau of Ocean Energy Management
BOR	Bureau of Reclamation
BSEE	Bureau of Safety and Environmental Enforcement
CAP	Corrective Action Plan
CFO	Chief Financial Officer
DO	Departmental Offices
DOI	Department of the Interior
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers Financial Integrity Act of 1982
FISMA	Federal Information Security Management Act of 2002
FWS	U. S. Fish and Wildlife Service
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
IA	Indian Affairs
IBC	Interior Business Center
MDA	Management Discussion and Analysis
NPS	National Park Service
OMB	Office of Management and Budget
ONRR	Office of Natural Resources Revenue
OS	Office of the Secretary
OSMRE	Office of Surface Mining Reclamation and Enforcement
PFM	Office of Financial Management
USGS	U. S. Geological Survey

Authorities

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OMB A-11 (2013)
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http://www.whitehouse.gov/omb/financial_ffs_ffmia/

FISMA (2002)
http://csrc.nist.gov/drivers/documents/FISMA-final.pdf

GPRA (1996, 2010)
http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m

http://www.gpo.gov/fdsys/pkg/BILLS-111hr2142enr/pdf/BILLS-111hr2142enr.pdf

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