



United States Department of the Interior

OFFICE OF THE SECRETARY
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FINANCIAL MANAGEMENT MEMORANDUM 2012-006 (VI.A)

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

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

Subject: Guidance for Fiscal Year 2012 Internal Control Program

This memorandum transmits the Department of the Interior's (DOI) guidance for the FY 2012 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 is being issued under separate cover.

This year's program will focus on certain aspects of the internal control program including:

- Ensuring adequate oversight by senior management of the internal control program, with the Senior Management Council or Senior Assessment Team in an active role;
- Oversight of charge card and convenience checks and confirmation that third party drafts are no longer in use;
- Implementation of controls over conference attendance and spending;
- Evaluating controls over accelerated payments to small businesses;
- Reviewing use of FBMS miscellaneous obligations;
- Evaluating controls over the monitoring of savings in the Campaign to Cut Waste; and
- Improved reporting and recapture of improper payments.

These focus areas arise from events that occurred in 2011 including incidents of embezzlement and misuse of third party drafts and charge cards. It is vital that senior managers uphold their responsibilities for oversight of both financial resource allocations and appropriate execution of those resources.

We urge bureaus and offices to maintain a strong "tone at the top" for the internal control program ensuring that senior managers and those with responsibilities for resources have performance measures that relate to these duties. In 2012 we will be instituting a new,

mandatory, computer-based internal control training program for all employees. Other internal control training is available through the Office of Financial Management (PFM) or by task order with bureau funding to address a bureau's particular needs (e.g. training on how to use the risk rating tool or training on how to conduct a review). To date, we have not had significant engagement from bureaus and programs on taking advantage of this contract vehicle.

Controls over the charge card program and the use of convenience checks should be reviewed and strengthened to ensure appropriate use and oversight with timely identification of anomalies. We will be developing a new debit card program and seeking input from bureaus and offices in the design of internal controls over this program. We will be working closely with the Chief Financial Officers Council to consider this as well as other improvements to Interior's internal control environment.

Risk-Based Internal Control:

A risk-based approach is more efficient and contains less redundancy in business process assessments that, if properly performed, will satisfy a variety of the Department's review and reporting requirements. Bureaus and offices should assess risk in a consistent manner using the Integrated Risk Rating Tool (IRRT) and consider inherent risk, control risk, and fraud risk. Internal control reviews should cover high-risk areas. The IRRT is an attachment to the *Internal Control and Audit Follow-up (ICAF) Handbook* and can be found using the following link: [A-123](#).

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 and Senior Assessment Teams 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.

This FY 2012 annual guidance, in conjunction with Section 1 of the Department's *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 FMFIA assurance statements that accurately reflect the current state of their 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.

Attachments 1 - 8 to the Handbook provide templates for the FY 2012 internal control program effort. PFM will work with the bureaus to apply the guidance for the Internal Control Program. In general, PFM encourages consistency in approach to assessing risk and use of PFM's templates for risk management and assessment of internal control. PFM plans to hold a lessons-learned discussion at the end of the FY 2012 cycle.

Specific to the FY 2012 internal control cycle, all bureaus and offices must ensure that internal control reviews are planned and implemented to determine that current Administration directions (e.g., accelerated small business payments under the Campaign to Cut Waste) are being met and that the results of obtaining the goals are accurately reported to appropriate Departmental Offices. This includes documenting the process, identifying controls, testing key controls and submitting to PFM, by **September 15, 2012**, the results of the testing performed using the Department's templates.

Appendix A, Assessment of Internal Control over Financial Reporting:

The three objectives of internal control include effective and efficient operations; reliable financial reporting; and compliance with applicable laws and regulations. The standards of internal control should be applied consistently toward each of the objectives. The process and methodology for applying the standards when assessing internal control over financial reporting should be 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.

Interior uses a top-down approach focusing on the assurance at the Department-wide level supported by assurance statements from bureaus/offices; their 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.

Specific to the FY 2012 internal control cycle, all bureaus and offices must plan and conduct internal control reviews that explicitly address simplified acquisition transactions, third-party drafts, and convenience checks. This includes submitting to PFM, by **August 15, 2012**, the control matrices and summaries of test results for these three areas. The matrices and

documentation of test results should be presented separately along with other Appendix A documentation.

In addition, there is an increased use of miscellaneous obligations (ZMOB document type). While there are appropriate uses of the ZMOB document type, the increased use and non-standard controls around these transactions warrant specific attention. Therefore, FBMS bureaus must conduct specific testing around the use of miscellaneous obligations and submit the control matrices and results of testing to PFM by August 15, 2012. These documents should be presented separately from other required Appendix A documentation.

Section 2 of the Department's *Internal Control and Audit Follow-up Handbook* provides guidelines to evaluate the internal controls over financial reporting. In addition, Attachments 9 - 19 to the Handbook provide templates for the FY 2012 Appendix A effort. The planning materiality for FY 2012 is \$136 million, which is 1 percent of Net Outlays on the Statement of Budgetary Resources. This materiality level is subject to Deputy Operating Group approval but is expected to remain as stated.

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 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 its 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 payments and \$10 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 has procured a contractor to assist with standardizing the process for conducting an IPERA risk assessment and developing the accompanying policy guidance for all bureaus to follow. A pilot is currently being conducted with the Bureau of Land Management.

The FY 2012 specific deadlines and timelines are contained in the Schedule of Key Actions and the Monthly Status Report on A-123, Appendix A documents which are attached to this memorandum.

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: [A-123](#). 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 or (202) 208-3417.

Attachments

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