OST DIRECTIVES TRANSMITTAL SHEET

(modified DI -416)

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FOR FURTHER INFORMATION Deputy Special Trustee – Program Management	Risk Management and Internal Control	DATE JUN 23 2014

EXPLANATION OF MATERIAL TRANSMITTED:

This chapter establishes policy, authority, and responsibilities for an entity-wide integrated Risk Management Program within the Office of the Special Trustee for American Indians (OST). The primary purpose of this program is to manage OST's risk within an acceptable level and provide reasonable assurance regarding achievement of OST's mission, strategic goals, and related operating, reporting, and compliance objectives. This includes ensuring OST's internal control system is effective and in compliance with the internal control requirements of the Federal Managers' Financial Integrity Act of 1982.

for Helen Riggs, Chief of Staff, ACTING
Office of the Principal Deputy Special Trustee

FILING INSTRUCTIONS:

Remove: None

Insert: 671 DS 1

1.1 Purpose. This chapter provides the policy, authorities, and responsibilities for the Risk Management Program within the Office of the Special Trustee for American Indians (OST). The policy provided in this chapter is intended to serve as a general framework for OST's Risk Management Program, and is issued as supporting authority for the procedures contained in and implemented through the Risk Management Handbook. The Risk Management group, under the Deputy Special Trustee – Program Management, will periodically issue additional guidance.

1.2 Scope. This policy applies to all OST offices with programmatic, operational, or administrative functions, including those with responsibilities for accounting and financial management.

1.3 Policy.

A. General. Management is responsible for managing OST's risk within an acceptable level and providing reasonable assurance regarding the achievement of OST's mission, strategic goals, and related operating, reporting, and compliance objectives. Internal control is considered an integral part of risk management, which, in turn, is considered an integral part of the overall management function. Accordingly, a Risk Management Program has been established within OST which allows managers at all levels to satisfy their applicable internal control responsibilities and proactively manage the risk associated with the achievement of their objectives.

B. Risk Management Framework.

1) Adoption. OST has adopted an entity-wide integrated risk management framework to use in its Risk Management Program. This risk management framework is defined as the basic structure for OST's Risk Management Program, which includes key components, objectives, and concepts. This framework integrates the internal control efforts, required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), with OST's other efforts, in order to manage risk and increase accountability. OST's risk management framework is based on the accepted practices and principles of the private sector, including those issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Enterprise Risk Management – Integrated Framework and its Internal Control – Integrated Framework. In addition, OST's risk management framework encompasses the current internal control standards and guidance established by the Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Department of the Interior (Department).

2) Application. The risk management framework adopted for OST's Risk Management Program is applied during strategic planning to evaluate the risks

related to strategic choices and to assist in selecting proper strategy and related objectives. In addition, this framework is applied at all levels within OST, including planning, administration, and program activities. This framework is also applied to special projects and new initiatives.

C. Internal Environment. An environment is established and maintained throughout OST that sets a positive and supportive attitude toward risk management and internal control. This environment reflects management's philosophy for proactively managing risk, entity-wide, within a low level and its commitment to integrity, ethical values, and the competence of personnel at all levels. In addition, this environment encourages employee awareness of the existence of risks and their individual responsibilities in the management of those risks.

D. Objective Setting. Operating, reporting, and compliance objectives are specified for activities at all levels within OST, beginning at the entity-level; then, cascading to the office and program levels; and, finally, to the activity and individual levels (i.e., top to bottom focus). Considered activities include program, operational, and administrative areas as well as accounting and financial management. All objectives are in alignment with OST's mission and strategic direction. In addition, all objectives are specified with sufficient clarity to enable the risks to their achievement to be identified and managed.

E. Internal Control Process. Inherent risks are systematically and proactively identified and managed within an acceptable level in order to provide reasonable assurance that OST's objectives related to operations, reporting, and compliance are achieved.

1) Risk Identification. Risk identification methods vary. However, the method used must consider internal factors at the entity-wide and activity level as well as all significant interactions between OST and third parties.

2) Risk Assessment (Inherent). Inherent risks are assessed upon identification to determine the impact on related objectives. Fraud risk is considered concurrently with inherent risk.

3) Risk Response. Appropriate risk responses are selected based on the assessed inherent risk level. Options include avoiding, accepting, sharing, and reducing the risk. Appropriate risk responses bring residual risk within an acceptable level and are cost-beneficial to implement and maintain.

4) Control Activities. Control activities are designed and implemented to provide assurance that selected risk responses are carried out properly and in a timely manner. To be considered properly implemented, all control activities must be documented.

5) Risk Assessment (Residual). Residual risk is assessed after control activities have been implemented to ensure the remaining risk is within acceptable levels. Control risk is considered concurrently with residual risk.

6) Monitoring. Continuous monitoring and periodic separate evaluation of OST's internal control are performed to ensure the effectiveness and adequacy of control activities. Internal control deficiencies are evaluated and corrected upon identification.

F. Internal Control Evaluations. All managers evaluate and report on their systems of control at least annually. These systems of control constitute the full range of controls necessary to assist management in reaching program goals and objectives, and in using Government resources efficiently and effectively. Evaluations are performed in accordance with Section IV of OMB Circular A-123, Management's Responsibility for Internal Control, as revised.

G. Internal Control Reviews. Independent internal control reviews are performed at the activity or program level in order to support management's judgment as to the effectiveness and adequacy of internal control. Internal control reviews are scheduled based on assessed inherent risk. At a minimum, all programs are reviewed at least once every five years, and within a program that has financial reporting activities, those financial reporting activities are reviewed at least once every three years. Internal control reviews are performed consistent with Chapter 1 of the Department's Internal Control and Audit Follow-up (ICAF) Handbook and incorporate, where appropriate, the methodology for evaluation of internal controls contained in the Financial Audit Manual (FAM), jointly issued by the GAO and the President's Council on Integrity and Efficiency (PCIE). These reviews are considered a supplement to, not a replacement for, management's annual internal control evaluations.

H. Assessment of Internal Control over Financial Reporting. Management separately assesses, documents, and reports on OST's systems of internal control over financial reporting. These systems of control constitute the full range of controls necessary to initiate, authorize, record, process, summarize, and report financial transactions related to both Government resources and Indian trust funds. The process for this assessment is consistent with Chapter 2 of the Department's ICAF and incorporates, where appropriate, the recommendations of the Chief Financial Officers Council in its Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting. Wherever possible, key activities in OST's process for assessing internal control over financial reporting are integrated with those performed as part of internal control evaluations and reviews.

I. Documentation. The results of evaluations, reviews, and assessments must be documented and maintained. This documentation must be made available to the Office of the Inspector General (OIG), GAO, and the Department's Office of Financial Management (PFM) upon request.

1.4 Authority.

A. Statutory.

The basic authority for establishing and maintaining internal control within Federal agencies is vested in the **Accounting and Auditing Act of 1950 (31 U.S.C. 3512)**, as amended by the **Federal Managers Financial Integrity Act of 1982 (FMFIA) (PL 97-255)**. FMFIA requires the agency head to establish internal accounting and administrative controls in accordance with standards prescribed by the Government Accountability Office (GAO) that reasonably ensure (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. In addition, FMFIA requires the head of each agency to annually evaluate and provide a statement of assurance regarding the reliability of the agencies internal control and financial systems. Annual evaluations of internal accounting and administrative control must be performed in accordance with guidelines established by Office of Management and Budget (OMB), which includes Circulars and Appendices.

Additional statutory requirements considered in the development of this policy include:

1) **The Inspector General Act of 1978, as amended (IG Act) (5 U.S.C. App. 1)** provides for independent reviews of agency programs and operations. Inspector Generals are required to submit semiannual reports to Congress on significant abuses and deficiencies identified during reviews and the recommended actions to correct those deficiencies.

2) **Chief Financial Officers Act of 1990, as amended (CFO Act) (31 U.S.C. §501)** requires agencies to both establish and assess internal control related to financial reporting. The Act requires the preparation and audit of financial statements. In this process, auditors report on internal control and compliance with laws and regulations related to financial reporting.

3) **Government Performance and Results Act of 1993 (GPRA) (31 U.S.C. §1101)** requires agencies to develop strategic plans, set performance goals, and report annually on actual performance compared to goals. With the implementation of

this legislation, these plans and goals are integrated into the budget process, the operational management of agencies and programs, and accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved.

B. Guidance.

1) GAO Standards for Internal Control in the Federal Government provides the internal control standards for Federal agencies, required by FMFIA.

2) OMB Circular A-123, Management's Responsibility for Internal Control, as revised, and appendices, provides the guidelines for evaluation of internal control by Federal agencies, required by FMFIA.

3) Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting, provides recommendations from the Chief Financial Officers Council on performing management's assessment of internal control over financial reporting.

4) Part 340, Chapter 1, of the Department Manual (340 DM 1) provides the Department's policy and responsibilities for bureaus and offices in complying with FMFIA.

C. Handbooks.

1) The Internal Control and Audit Follow-up Handbook (ICAF) contains the procedures to implement the Department's policy for complying with FMFIA. Bureaus and offices have the discretion, where necessary, to supplement the policy guidance by developing bureau-specific instructions.

2) The Risk Management Handbook (671 DS 1-H) contains OST specific guidance to implement this policy. The Handbook may be accessed via OST's intranet website.

1.5 Responsibilities. The basic responsibilities for OST's Risk Management Program are defined below. For more specific roles and responsibilities, refer to the Risk Management Handbook.

A. Special Trustee. The Special Trustee is responsible for overseeing and coordinating Department-wide efforts to provide effective management of, and accountability for, Indian trust assets. As such, the Special Trustee has ultimate responsibility for OST's Risk Management Program and is responsible for providing leadership and direction to OST senior management, through the Principal Deputy Special Trustee.

B. Principal Deputy Special Trustee. The Principal Deputy Special Trustee is delegated all of the authority of the Special Trustee and assists in fulfillment of the Special Trustee's responsibilities. All offices and organizations in OST report through the Principal Deputy Special Trustee to the Special Trustee.

C. OST Senior Management. OST senior management is comprised of the Deputy Special Trustee – Field Operations; the Deputy Special Trustee – Trust Services; the Deputy Special Trustee – Program Management; the Deputy Special Trustee – Business Management; the Director, Office of Appraisal Services; and the Director, Office of Historical Trust Accounting. Together with the Principal Deputy Special Trustee, these individuals fulfill the role of an oversight body within OST and are responsible for overseeing OST's strategic direction and other responsibilities related to accountability. This includes overseeing OST's Risk Management Program and the design, implementation, and operation of OST's internal control system.

D. Risk Management Group. The Risk Management group, under the direction of the Deputy Special Trustee – Program Management, is responsible for monitoring and facilitating OST's Risk Management Program. This includes coordinating OST's internal control evaluations, reviews, and assessments. The Risk Management group is also responsible for providing management and staff with risk management tools, procedures, and training in support of this policy.

E. OST Managers. Managers at all levels are responsible for setting objectives for their assigned areas; identifying opportunities and risks associated with the achievement of objectives; assessing risk; determining appropriate risk responses; designing, implementing, and maintaining cost-effective control activities; and monitoring, evaluating, and reporting to the next level manager on the effectiveness of their internal control system.

F. OST Employees. Employees at all levels must be aware of the risks related to the achievement of their assigned objectives and are responsible for reporting issues, upon identification, to an appropriate party, which is usually the next level manager. This includes communicating any problems in operations, non-compliance with the code of conduct, and other violations of policy or illegal actions. An employee who discovers or suspects fraud, waste, abuse, misconduct, or mismanagement involving OST personnel or contractors should contact the OIG complaint hotline.

1.6 Definitions.

A. Control activities. The plans, methods, and procedures used to implement selected risk responses.

B. Control risk. The risk that controls may fail to prevent or detect identified inherent risks on a timely basis.

C. Fraud risk. The risk of fraudulent financial reporting and the risk of misappropriation of assets.

D. Internal control. Internal control is a process, effected by an entity's oversight body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

E. Inherent risk. Condition or event that exists which could negatively impact achieving the mission or objectives assuming no controls are in place. This also includes the nature of the program and the potential for waste, loss, unauthorized use, or misappropriation due solely to the nature of an activity itself.

F. Objective. The result or achievement toward which effort is directed (i.e., goal).

G. Residual risk. The risk that remains after management's response to risk (considering control activities that are in place).

H. Risk. A condition (event, action, or inaction) that could occur which would prevent achievement of an objective; or the probability that an event or action (or inaction) will occur and adversely affect the achievement of objectives.

I. Risk assessment. Measuring the likelihood of occurrence and the severity of consequences related to an identified risk and determining which risks are more critical.

J. Risk identification. The act of identifying and classifying business risks and their characteristics.

K. Risk management. The act of controlling risk within an organization.

L. Risk management framework. The basic structure for OST's Risk Management Program, which includes key components, objectives, and concepts.

M. Risk Management group. A group of risk management specialists, established under the Deputy Special Trustee – Program Management, responsible for coordinating and facilitating the Risk Management Program within OST.

N. Risk Management Program. An entity-wide program established within OST. The primary purpose of this program is to manage OST's risk within an acceptable level and provide reasonable assurance regarding the achievement of OST's mission, strategic goals, and related operating, reporting, and compliance objectives.

O. Risk response. Determining the best way to respond to a risk once it has been identified and assessed.