

- 1.1 Purpose.** The purpose of this chapter is to provide guidance on internal controls over program operations, financial controls, financial systems information technology, audit follow-up, and Office of Inspector General (OIG) and Government Accountability Office (GAO) audits.

Per Department of the Interior (DOI) policy (340 Departmental Manual (DM) 1), bureaus will establish, maintain, evaluate, improve, and report on their systems of program and operational controls. The objective of the internal control program is to reasonably ensure that:

- programs and operations achieve their intended results efficiently and effectively;
- resources are used in accordance with the Department's mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed; and
- reliable, complete, and timely data is maintained and used for decision making at all levels.

These 'systems of control' should comprise the full range of controls necessary to assist managers in reaching program goals and objectives, and in using government resources efficiently and effectively. All levels of management will involve themselves in assuring the effectiveness and adequacy of controls, and controls will be evaluated on an ongoing basis. Deficiencies, when detected, will be promptly corrected. Evaluation results must be documented, maintained and made available upon request.

Additionally, the DOI Office of Financial Management (PFM) firmly believes that timely responses to OIG and GAO reviews, as well as implementation of OIG and GAO audit recommendations, is essential to improving the efficiency and effectiveness of programs and operations, and achieving integrity and accountability goals. The Department has established a comprehensive audit follow-up program to ensure that policy and direction regarding the resolution and implementation of audit recommendations is communicated and implemented across the Department.

- 1.2 Scope.** This policy applies to all programs and offices under the authority of the Assistant Secretary-Indian Affairs (AS-IA), including AS-IA offices, the Bureau of Indian Affairs (BIA), and the Bureau of Indian Education (BIE).
- 1.3 Policy.** It is the policy of Indian Affairs (IA) to promote accountability, effectiveness, and efficiency in achieving IA program goals. Program offices should work cooperatively with the IA Division of Internal Evaluation and Assessment (DIEA), which serves as the IA Audit Liaison Office (ALO), as well as with the DOI PFM, and external auditors to conduct internal control reviews, and give prompt and objective consideration to the findings and recommendations contained in internal control reviews and audit reports.

Program offices are also expected to follow through with developing and implementing appropriate corrective actions to correct deficiencies.

1.4 Authority.

A. Statutes and Regulations.

- 1) P.L. 95-452, Inspector General Act of 1978, as amended
- 2) P.L. 97-255, Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- 3) P.L. 104-208, Federal Financial Management Improvement Act of 1996 (FFMIA)
- 4) P.L. 101-576, Chief Financial Officers Act of 1990 (CFO Act)
- 5) P.L. 104-156, Single Audit Act Amendments of 1996
- 6) 2 CFR 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- 7) 31 U.S.C. §§701-720, General Accounting Office

B. Guidance.

- 1) OMB Circular A-50, Audit Follow-up
- 2) OMB Circular A-123, Management's Responsibility for Internal Control
- 3) 340 DM 1, Management Accountability and Control – General Policy and Responsibilities
- 4) 360 DM, Departmental Audits
- 5) 361 DM 1, Audit Follow-up – General Audit Follow-up Responsibilities
- 6) DOI Financial Management Memorandum (FMM) 2012-002 Mandatory Submission for Review of Draft Responses to Audit Reports

C. Handbooks.

- 1) DOI Internal Control and Audit Follow-Up (ICAF) Handbook:
<https://portal.doi.net/OS/PMB/PFM/default.aspx>
(Please note: you must use Internet Explorer to access this Handbook as well as request permission to access it once on the site; it is only available to DOI employees)

1.5 Responsibilities. The Department established an integrated organizational structure to implement the Internal Control and Audit Follow-up Program. This structure starts with the DOI Office of the Secretary, descends to the respective bureau/program Assistant Secretaries, to the bureau Directors, and finally to the program managers. The DOI ICAF Handbook defines the responsibilities of Department managers, internal control coordinators, and audit liaison officers for internal control.

- A. Bureau/Program Assistant Secretaries and the Office of the Solicitor** are responsible for internal control and audit follow-up for their respective bureau and office programs. Councils or oversight groups may be established to coordinate these efforts. Specific responsibilities include:
- 1) institutionalizing the internal control process within their organizations;
 - 2) establishing priorities in identifying, correcting, and reporting internal control material weaknesses and accounting non-conformances, including non-compliance with laws and regulations;
 - 3) ensuring that adequate funds to correct identified deficiencies are addressed in the budget formulation and execution process; and
 - 4) establishing a quality assurance process that permits the responsible official to provide reasonable assurance to the Secretary that the objectives of the FMFIA are being achieved. Bureau/program Assistant Secretaries also have Department-wide responsibilities for internal control as members of the Senior Management Council.
- B. Bureau and Office Heads** are responsible for establishing and maintaining the system of internal control within their bureaus/offices. This includes making a determination whether or not the system of control is consistent with standards prescribed in OMB Circular A-123. This also includes making a determination that the systems of control are functioning as intended, properly documented, and modified as needed or when required. In addition, bureau heads and senior-level management officials are responsible for ensuring that the type, number, and quality of control evaluations conducted are sufficient to provide assurance in disclosing the existence of any internal control weakness and/or accounting system's non-conformance. Bureau heads are also responsible for:
- 1) determining on an annual basis which programs or administrative functions should be subject to a formal review in order to supplement management's judgment as to the adequacy of internal controls;
 - 2) ensuring internal control guidelines issued by the Department Offices of Financial Management (PFM), Acquisition Management (PAM), Chief Information Officer (OCIO), and others are implemented;

- 3) allocating adequate resources to evaluate their systems of control;
 - 4) developing procedures, documentation, training, and reporting requirements necessary to review, establish, maintain, test, improve, and report on control systems within their bureau programs and operations;
 - 5) reporting to the DOI Assistant Secretary – Policy, Management and Budget (PMB) and to the Senior Management Council, in consultation with their Assistant Secretary, all internal control deficiencies identified in audit reports, internal reviews, and from other sources;
 - 6) reporting all deficiencies and corrective actions to appropriate bureau/program personnel and management, and to the Director, DIEA;
 - 7) specifying employee accountability by including program specific internal control elements and standards in all managers' performance evaluations;
 - 8) ensuring timely correction and validation of all identified program and operational deficiencies, whether material and/or nonmaterial; and
 - 9) routing all draft OIG and GAO responses to appropriate offices, including the PFM Director, before finalization. The lead bureau or office responsible for preparing and monitoring the response should wait until PFM has completed its review before finalizing the letter for signature and submission to the OIG.
- C. **Program Managers** are responsible for ensuring compliance with internal control requirements. Specifically, they must undertake within their programs the duties listed above for bureau directors and office heads.
- D. **Audit Liaison Officer (ALO)** is responsible for:
- 1) consolidating input from officials in development of the internal control plan;
 - 2) consolidating input from officials for responses to OIG and GAO audits, evaluations, inspections, studies, and reviews;
 - 3) coordinating and facilitating audit assignments;
 - 4) providing assistance in responding to audit reports, formulating corrective action plans, implementing such plans, and reporting to the Department;
 - 5) tracking the audit status from inception to completion, including resolution of findings and implementation of OIG and GAO audit recommendations. Both OIG and GAO audits remain open until all agreed actions have been implemented. These audits are tracked in the DOI Office of the Assistant Secretary–PMB. As recommendations are implemented, the ALO should be notified so a report can be made to the Assistant Secretary–PMB; and

- 6) providing guidance and facilitating tracking of programs' annual internal control reviews, subsequent corrective action plans, and annual assurance statements.

The ALO for IA is the Director, DIEA.

1.6 Definitions.

- A. **ALO** is the person designated as the point of contact for all activities pertaining to the conduct of audits and audit follow-up in their organization.
- B. **Annual Assurance Statement** is required by 31 U.S.C. 3512(d) (2), which states that the head of each executive agency must submit to the President and the Congress: (1) an annual statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (2) a report on material weaknesses in the agency's controls. Also referred to as a "Statement of Assurance."
- C. **Corrective Action Plan** is management's plan for addressing and fully implementing recommendations contained in audit reports and internal control reviews. It includes actions necessary to implement the recommendations, target completion dates, and officials responsible for completing required actions.
- D. **Entrance Conference** is a request by internal or external auditors to discuss the scope of the audit, identify certain background material that may be of assistance in conducting the audit, and to provide an estimate of the duration of the audit.
- E. **Exit Conference** is held with appropriate officials upon completion of the audit, to provide an opportunity to discuss the preliminary findings and recommendations. The auditors may provide a preliminary draft report prior to the conference or present an oral briefing of the results of the audit. The primary purpose of the exit conference is to ensure that the information in the draft report is accurate.
- F. **External Audit** is an audit of Federal awards administered by non-Federal entities, and may include a grant audit, preaward audit of a contractor's proposed future costs, concessions audit, lease audit, contractor claim audit, or other Federal awards administered by contractors, nonprofit entities, and other nongovernmental activities.
- G. **Final Action** is the completion of all actions regarding specific audit recommendation(s) where management concluded that specific tasks are necessary to address reasonable findings and recommendations contained in an audit report.

- H. Financial Statement Audit** is an audit conducted by the OIG or an independent public accounting firm in accordance with the CFO Act of 1990, the purpose of which is to obtain reasonable assurance that the financial statements of a bureau and office are free of material misstatement. A financial statement audit also includes an Indian Trust Funds audit which is conducted by an independent public accounting firm.
- I. Follow-up** is the process of ensuring that audit recommendations are implemented and disagreements between management and the OIG regarding corrective action(s) are resolved.
- J. Initiation Memorandum** is the official notification from the OIG or GAO of the initiation of an audit, evaluation, or inspection. The memorandum specifies the subject, scope, objective, and start date of the review.
- K. Internal Audit** is defined by the Institute of Internal Auditors as an independent, objective assurance and consulting activity designed to add value and improve an organizations operations.
- L. Management** is the agency official to whom an audit report or OIG memorandum (which transmits an audit report) is addressed. For internal audits, the agency official is usually the cognizant program Assistant Secretary. For external audits, the agency official is usually the contracting officer or grants awarding official within whose purview the subject matter of the audit resides.
- M. Management Controls**, also referred to as internal controls, are the organization's plans, methods, policies, and procedures used to ensure:
- Programs achieve their intended results;
 - Resources are used consistently with the agency's mission;
 - Resources are protected from waste, fraud, and mismanagement;
 - Laws and regulations are followed; and
 - Reliable and timely information is maintained, reported, and used for decision-making.
- N. Notification Letter** is a letter initiating the audit, which identifies the purpose and scope of the audit, and the sites the auditors intend to visit. For IA, OIG notification letters are sent to the AS-IA, while GAO letters are sent to the Director, PFM. A copy is provided to the ALO, who notifies the appropriate IA officials of the audit.
- O. Resolution** is the process of reaching a management decision. For external audits, a resolution means responding to audit recommendations within established time frames.

- P. Single Audit** is an audit completed by an independent audit organization in accordance with 2 CFR 200. Specifically, a single audit includes both the audited entity's financial statements and federal awards.

1.7 Standards, Requirements, and Procedures. All managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas. Effective execution of management controls requires the utmost coordination and cooperation from all segments of the Department. The Internal Control Program consists of six major components:

- 1) Developing and Updating the Annual Internal Control Review Plan
- 2) Conducting Internal Control Assessments
- 3) Monitoring Quality Control Over Evaluations
- 4) Developing and Implementing Corrective Actions
- 5) Reporting
 - a. Preparing and Issuing an "Annual Assurance Statement on Financial Reporting"
 - b. Preparing and Issuing an "Annual Assurance Statement on Compliance" with FMFIA
- 6) Verifying and Certifying Corrective Actions

Senior Management should strive to have all recommendations completely implemented within six months of the issuance of the final audit. Some particularly complex or costly implementation actions may be scheduled over longer periods of time. If changes are required, the senior management official should contact the ALO to arrange for discussions with the auditors. In these instances, IA senior management and the DIEA Director will regularly review the planned actions to determine if changed circumstances warrant modifications to the initial plans and further discussions with the auditors.

The ICAF Handbook provides detailed guidance on the specific actions required to ensure appropriate and timely follow-up on audit findings and recommendations, as well as reporting requirements.

INDIAN AFFAIRS MANUAL

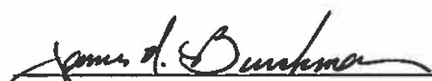
Part 5
Chapter 1

Management Accountability
Internal Controls and Audits

Page 8

A Department-wide calendar for each step of the internal control process is updated annually by PFM with specific due dates and transmitted in a guidance memorandum to Assistant Secretaries, heads of bureaus and offices, Chief Financial Officers, and internal control coordinators.

Approval



James N. Burckman
Acting Deputy Assistant Secretary – Indian Affairs (Management)

8/2/16
Date