

INDIAN AFFAIRS
DIRECTIVES TRANSMITTAL SHEET

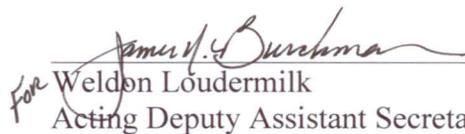
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DOCUMENT IDENTIFICATION NUMBER 5 IAM 1	SUBJECT Internal Control and Audits of IA Operations	RELEASE NUMBER 11-34
FOR FURTHER INFORMATION Office of Internal Evaluation & Assessment 2051 Mercator Drive, Reston, VA 20191		DATE FEB 1 2012

EXPLANATION OF MATERIAL TRANSMITTED:

This chapter provides guidance on internal controls over program operations and financial controls, financial systems information technology, audit follow-up, and Office of Inspector General (OIG) and Government Accountability Office (GAO) audits. In an effort to streamline information and be more effective, the updated 5 IAM 1 chapter combines two outdated chapters: 5 IAM 1 (Audits of Indian Affairs Operations) and 5 IAM 3 (Management Controls).

Per Department of Interior policy (340 DM 1), Bureaus will establish, maintain, evaluate, improve, and report on their systems of program and operational controls. 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. Additionally, the Department firmly believes that timely implementation of OIG and GAO audit recommendations is essential to improving efficiency and effectiveness of its programs and operations, as well as achieving integrity and accountability goals.


for Weldon Loudermilk
Acting Deputy Assistant Secretary – Indian Affairs
(Management)

FILING INSTRUCTIONS:

Remove: 5 IAM 1, #97-03, Issued 8/29/07
5 IAM 3, #99-06, Issued 10/25/99

Insert: 11-34

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

Per Department of Interior (DOI) policy (340 DM 1), bureaus will establish, maintain, evaluate, improve, and report on their systems of program and operational controls. These systems of control should constitute 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; and the results of evaluations must be documented, maintained and made available upon request.

Additionally, the Department firmly believes that timely implementation of OIG and GAO audit recommendations is essential to improving efficiency and effectiveness of its programs and operations, as well as 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 Indian Affairs (IA) headquarters, program, and field staff, and the operations and activities under the authority of the Assistant Secretary – Indian Affairs (AS-IA), the Bureau of Indian Affairs (BIA), and the Bureau of Indian Education (BIE).

1.3 Policy. It is the policy of IA to promote accountability, effectiveness and efficiency in achieving IA program goals, and along these lines, to work cooperatively with the IA Audit Liaison Office (ALO) of Internal Evaluation and Assessment (OIEA), the Department, and external auditors; to conduct internal control reviews as required; to give prompt and objective consideration to the findings and recommendations contained in internal control reviews and audit reports; to follow through with appropriate corrective actions, when necessary; and to report in a timely manner, as required, on all of the above.

1.4 Authority.

A. Statutes and Regulations.

- a. Title 5 U.S.C., Appendix, Inspector General Act (P.L. 95-452), as amended
- b. Title 31 U.S.C. §§701-720, General Accounting Office
- c. Title 31 U.S.C. §§ 901-903, Chief Financial Officers Act

- d. P.L. 97-255, Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- e. P.L. 104-208, Federal Financial Management Improvement Act of 1996 (FFMIA)

B. Guidance.

- a. Office of Management and Budget (OMB) Circular A-123 Revised, Management's Responsibility for Internal Control
- b. OMB Circular A-50, Audit Follow-up
- c. 340 DM 1, Management Accountability and Control
- d. 360 DM, Departmental Audits
- e. 361 DM, Audit Follow-up

C. Handbooks.

- a. Department of the Interior (DOI) Internal Control and Audit Follow-Up (ICAF) Handbook: http://www.doi.gov/pfm/icaf/icaf_handbook/index.html.

1.5 Responsibilities.

The Department has established an integrated organizational structure to implement the Internal Control and Audit Follow-up Program. This structure starts with the Secretary, descends to the respective bureau/program assistant secretary, to the bureau director, and finally to the program manager. The DOI ICAF Handbook defines the responsibilities of Department managers, internal control coordinators, and audit liaison officers for internal control. Specifically, the following roles and responsibilities apply to the AS-IA, IA bureaus and office/program managers:

- A. Program Assistant Secretaries/Solicitor** – Program assistant secretaries and the Solicitor have responsibility over the various bureau programs within their purview, and are encouraged to establish internal control and audit follow-up councils or oversight groups in their respective organizations to coordinate and monitor the internal control and audit follow-up requirements for their bureaus' programs. Such councils or oversight groups may be used to implement the responsibilities for internal control which, at a minimum, are: (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 funding to correct identified deficiencies is 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. Program assistant secretaries also have Department-wide responsibilities for internal control as members of the Senior Management Council.

B. Bureau and Office Heads – Bureau heads and/or senior-level management officials are responsible for establishing and maintaining the system of internal control within their bureaus/offices. This includes determining that the system of control is consistent with standards prescribed in OMB Circular A-123, which are drawn in large part from GAO's "Standards for Internal Control in the Federal Government." This also includes determining that the systems of control are functioning as intended; properly documented, modifying the control systems, as appropriate, for changes required; and 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 systems non-conformance. Bureau heads are also responsible for:

- 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;
- Ensuring internal control guidelines issued by the Departmental Offices of Financial Management (PFM), Acquisition Management (PAM), Chief Information Officer (OCIO), and other Departmental offices are implemented;
- Allocating adequate resources to evaluate their systems of control;
- 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;
- Reporting to the Assistant Secretary – Policy, Management and Budget (PMB) and the Senior Management Council, in consultation with their Assistant Secretary, internal control deficiencies identified in audit reports, internal reviews, and from other sources;
- Specify employee accountability by including program specific internal control elements and standards in all managers' performance evaluations; and
- Ensuring timely correction and validation of all identified program and operational deficiencies, whether material and/or nonmaterial.

C. Program Managers – Are responsible for ensuring compliance with requirements for internal controls for their programs. Specifically, they must undertake within their programs, the duties listed above for bureau directors and office heads.

D. Audit Liaison Officer – The Director, OIEA, is designated as the ALO for IA. The ALO:

- Consolidates input from IA officials in development of the internal control plan;
- Consolidates input from IA officials for responses to OIG and GAO audits, evaluations, inspections, studies, and/or reviews;
- Coordinates and facilitates audit assignments;
- Provides assistance in responding to audit reports, formulating corrective action plans, implementing such plans, and reporting to the Department;
- Tracks the audit status through inception to completion including resolution 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 office of the Assistant Secretary–PMB. As recommendations are implemented, the ALO is to be notified so that a report can be made to the Assistant Secretary–PMB;
- Provides guidance and facilitates tracking of IA programs’ annual internal control reviews, subsequent corrective action plans, and annual assurance statements.

1.6 Definitions.

A. Audit Initiation Memorandum means the OIG’s or GAO’s official notification of the initiation of an audit. The memorandum specifies the audit subject, scope, objective, and when the audit will start.

B. Audit Liaison Officer (ALO) is defined as the person designated by management as the point of contact for all activities pertaining to the conduct of audits and audit follow-up in their organization.

C. Annual Assurance Statement 31 U.S.C. 3512(d) (2) requires that the head of each executive agency submit to the President and the Congress (i) an annual statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (ii) a report on material weaknesses in the agency's controls. Also referred to as a Statement of Assurance.

D. Corrective Action Plan is management’s plan for addressing and implementing recommendations contained in audit reports and/or internal control reviews, and will include actions necessary to implement the recommendation, target completion dates, and officials responsible for completing required actions.

E. Entrance Conference is defined as a request by auditors to discuss the scope of the audit, to identify certain background material that may be of assistance in conducting the audit, and to provide an estimate of the duration of the audit.

F. Exit Conference Upon completion of the audit, an exit conference is held with

appropriate IA officials to provide an opportunity to discuss the preliminary findings and recommendations. The auditors may provide a preliminary draft report prior to the exit conference or present an oral briefing of the results of the audit. The purpose of the exit conference is to ensure that the information in the draft report is accurate.

G. External Audit is defined as a grant audit, a preaward audit of a contractor's proposed future costs, a concessions audit, a lease audit, or a contractor claim audit, or other federal awards administered by contractors, nonprofit entities, and other nongovernmental activities.

H. Financial Statement Audit is defined as an audit conducted by the OIG or an independent public accounting firm in accordance with the Chief Financial Officers (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 means an Indian Trust Funds audit that is required by the CFO Act and that is contracted to an independent public accounting firm.

I. Final Action The completion of all actions regarding a specific audit recommendation(s) that management, in a management decision, has concluded are necessary with respect to the findings and recommendations contained in an audit report.

J. Flash Report When there are significant findings of fraud or mismanagement, the auditors may issue a special report (flash report) to management, prior to completion of the entire audit, so that management can take immediate action to correct the situation.

K. Follow-up is defined as the process of ensuring that audit recommendations are implemented and that disagreements between management and the OIG regarding corrective action are resolved.

L. Internal Audit is defined as an audit that adds credibility to reports produced and used within an organization; internal auditors examine record-keeping processes, assess whether managers are following established operating procedures, and evaluate the efficiency of operating procedures.

M. Management means the agency official to whom an audit report, or the 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 falls.

N. Management Controls Also referred to as internal controls, are the organization's plans, methods, policies, and procedures used to ensure that:

- a. Programs achieve their intended results;
- b. Resources are used consistent with the agency's mission;
- c. Resources are protected from waste, fraud, and mismanagement;

- d. Laws and regulations are followed; and
- e. Reliable and timely information is maintained, reported, and used for decision-making.

O. Notification Letters The initiation of an audit begins with a notification letter identifying the purpose and scope of the audit, and the sites the auditors intend to visit. 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.

P. Resolution is defined as the process of reaching a management decision or, in the case of external audits, resolution means responding to audit recommendations within established time frames.

Q. Single Audit is defined as an audit completed by an independent audit organization in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," specifically, an audit which 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
 - Preparing and Issuing an Annual Assurance Statement on Financial Reporting
 - Preparing and Issuing an Annual Assurance Statement on Compliance with FMFIA
6. Verifying and Certifying Corrective Actions

Executives 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; in these instances, executives should regularly review the planned actions to determine if changed

circumstances warrant modifications to the initial plans. If changes are required, the executive should contact the ALO to arrange for discussions with the auditors.

The ICAF Handbook provides detailed guidance for appropriate and effective internal control and the specific actions required to ensure appropriate and timely follow-up on audit findings and recommendations. The Handbook also includes a generalized Department-wide calendar for each step of the internal control process in Addendum A. Annual updates to this schedule providing specific due dates are prepared by PFM and transmitted in a yearly guidance memorandum to program assistant secretaries, heads of bureaus and offices, and internal control coordinators.

1.8 Reporting. Refer to the ICAF Handbook:

http://www.doi.gov/pfm/icaf/icaf_handbook/index.html