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	U. S. DEPARTMENT OF THE INTERIOR OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT DIRECTIVES SYSTEM	Subject Number: OPM-7 Transmittal Number: 448 Date: 6/6/88

Subject: Management Control Systems

Approval: Title: Acting Director

1. Purpose. This directive provides policies and standards for establishing and maintaining management control systems in compliance with Office of Management and Budget (OMB) Circular A-123, General Accounting Office (GAO) Standards for Control in the Federal Government, Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Department of the Interior policy.

2. Definitions. For the purpose of this directive, the following terms are defined:

a. Internal Control. All methods and measures of the Office of Surface Mining Reclamation and Enforcement (OSMRE) which are designed to prevent or detect waste, fraud, abuse, mismanagement, and other loss by assuring the safeguarding of resources; the accuracy and reliability of information; adherence to applicable laws, regulations, and policies; and promotion of operational economy and efficiency.

b. Internal Control Standards. The standards issued by the Comptroller General on October 31, 1984, for use in establishing and maintaining systems of internal control. These are applicable to all operations and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking in an agency.

c. Internal Control Documentation. Written policies and procedures, organization charts, manuals, memoranda, flow charts, completed questionnaires, computer software, and related written materials used to describe the internal control methods and measures, to communicate responsibilities and authorities for operating internal controls, and to serve as a reference for persons reviewing the internal controls and their functioning.

d. Internal Control Reviews (ICR). An ICR is a control evaluation which conforms to the methodology described in the Department's Guidelines for Conducting Internal Control Reviews.

e. Departmental Functional Review (DFR). A review conducted on components generally found in most bureaus within the Department. Offices with functional responsibilities for these areas develop questionnaires and guidelines that are to be followed in conducting the DFR's.

f. Alternative Internal Control Reviews (AICR). A control evaluation which encompasses the GAO Internal Control Standards but which departs from the event cycle methodology described in the Department's Guidelines for Conducting Internal Control Reviews. The concept of an AICR is to concentrate on the highest risk areas of a component using the most effective and efficient means of reviewing the risks. Departmental functional reviews are one type of AICR. Existing review processes which may be modified to qualify as AICR's include OMB Circular A-76 studies, computer security reviews, consulting studies, internal management reviews, personnel operations reviews, and operations evaluations.

g. Bureau Component. A major organization, program, discrete automatic data processing system, or functional subdivision requiring one or more separate systems of management control to: (1) safeguard resources, (2) assure the accuracy and reliability of timely reports and information, (3) assure adherence to applicable laws, regulations, and policies, and (4) promote operational economy and efficiency.

h. Internal Control Coordinator. The official designated by each bureau or Assistant Secretary to coordinate and facilitate compliance with the OMB Circular A-123 and relevant guidance issued by OMB, GAO, Office of Financial Management (PFM), and Office of Inspector General (OIG). In OSMRE, the Internal Control Coordinator is a member of the Operations Evaluation Staff.

i. Accounting System Nonconformance. A situation in which the design procedures and/or the degree of operational compliance do not provide reasonable assurance that the accounting system conforms to the accounting principles, standards, and related requirements prescribed by the Comptroller General.

j. Management Control Plan (MCP). A brief written plan which summarizes the agency's risk assessments, planned actions, and internal control evaluations to be undertaken to provide reasonable assurance that controls are in place and working and is used to manage FMFIA implementation.

k. Material Weakness. A specific instance of noncompliance with the FMFIA of sufficient importance to be reported to the President and Congress. Such weakness would significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

l. Reasonable Assurance. A judgment by an agency head based upon all available information that the systems of internal control are operating as intended by the FMFIA.

m. Risk Assessment. A documented review by management of a component's susceptibility to waste, loss, unauthorized use, or misappropriation. As a result each component is given a high, medium or low rating for vulnerability.

n. Testing. Procedures to determine whether internal control systems are working in accordance with management internal control objectives.

3. Policy/Procedures

a. General. The basic authority for establishing and maintaining agency internal controls is vested in the Budget and Accounting Act of 1950, which requires each department and agency to establish and maintain adequate systems of internal control.

The FMFIA amended the Budget and Accounting Act by requiring that: internal accounting and administrative control procedures be developed by the GAO; annual evaluations be conducted by each executive agency of its systems of internal accounting and administrative controls; and annual reports be submitted by the heads of each executive agency to the President and Congress on the status of the agency's systems of internal control.

It is Departmental policy that bureaus and offices establish and maintain effective systems of control including management, program, accounting, and administrative. These systems should constitute the full range of internal controls necessary to protect and use Government resources effectively and efficiently. All levels of management within OSMRE should ensure that adequate controls are in place to safeguard agency resources; to maintain the accuracy of data; to promote efficient management; and to comply with prescribed laws; regulations, and policies.

b. Scope. The provisions of this directive apply to all operational units within OSMRE.

c. Responsibilities. Responsibilities for internal control systems are as follows:

(1) The Assistant Secretary - Policy, Budget and Administration (PBA)

(a) Managing Departmental compliance with A-123 and the FMFIA.

(2) The Office of Financial Management - PBA (PFM)

(a) Providing oversight and guidance to the bureaus and offices concerning the review, evaluation, and maintenance of effective internal controls.

(b) Managing, directing, and evaluating the Department's reporting under OMB Circular A-123 and the FMFIA.

(3) Other PBA Offices

(a) Other PBA offices also have significant Departmentwide A-123 responsibilities. The Offices of Acquisition and Property Management, Information Resources Management, Administrative Services, Personnel, and Budget will develop internal control guidelines for identified administrative functional areas for which they exercise Departmental oversight responsibility. These offices will report periodically to the Secretary, on the adequacy of such controls within bureaus and offices.

(4) The Inspector General (IG)

(a) Provide guidance and technical assistance to Departmental management in their efforts to evaluate and improve internal controls.

(b) Evaluate bureau and office compliance with OMB Circular A-123 and the FMFIA, and provide the Secretary with a statement on the adequacy of annual assurance statements provided to the Secretary by the Department's senior management officials.

(c) Audit internal control systems, including their related practices and procedures, to ensure they are adequate and will reliably protect and safeguard the efficient and effective use of Government resources.

(d) Determine whether the policies and standards established in accordance with OMB Circular A-123 and the FMFIA are being properly implemented and adhered to.

(5) Director/Deputy Director

(a) Ensure that adequate systems of internal control have been implemented within OSMRE.

(b) Review internal control evaluations and promptly take appropriate corrective actions.

(c) Promote a control conscious environment within OSMRE that keeps managers constantly aware of the need to establish systematic controls, monitor their application, and periodically review their effectiveness.

(d) Ensure that adequate resources are devoted to the Internal Control Review Program.

(6) Internal Control Coordinator

(a) Develop standards and procedures, guidelines, and reporting requirements necessary to establish and maintain effective internal controls.

(b) Establish a review plan to ensure that all agency operations are periodically assessed for vulnerability to fraud, abuse, and waste.

(c) Provide guidance and assistance to OSMRE organizational components in the conduct of internal control reviews.

(d) Inform the Director/Deputy Director of significant problems associated with internal control reviews and recommend corrective action.

(e) Coordinate OSMRE's reporting on internal control reviews to the Assistant Secretary, Land and Minerals Management; the PFM, and the OIG.

(7) Assistant Directors, Heads of Director's Staff Offices

(a) Ensure compliance with this directive and establish adequate internal controls within organizational units under their direction.

(b) Ensure that all ICR's are conducted in accordance with the overall plan.

(c) Inform the Director/Deputy Director, through the Internal Control Coordinator, of major instances of fraud, abuse, and waste.

(d) Promote a control conscious environment and ensure compliance by exacting employee accountability through appropriate program objectives, goals and performance standards.

(e) Ensure that adequate resources are devoted to the Internal Control Review Program.

(f) Develop corrective action plans to correct reported internal control weaknesses.

(g) Ensure that corrective actions are implemented as scheduled.

(h) Ensure that reports on the status of corrective actions are prepared by the responsible officials in accordance with guidance provided by the Internal Control Coordinator.

d. Procedures. OSMRE must provide an ongoing management control process to evaluate controls in accordance with policies, standards and procedures prescribed by Departmental Manual Part 340. The management control evaluation process in OSMRE will include the following:

(1) maintaining an inventory of agency components,

(2) developing a management control plan,

(3) conducting sufficient evaluation of controls to provide a basis for a reasonable assurance determination,

(4) providing training, if necessary, to conduct evaluations,

(5) monitoring and reviewing the quality of evaluations conducted,

(6) monitoring corrective actions through a corrective action tracking system, and

(7) reporting evaluation results through an established reporting process.

(1) Component Inventory. The establishment of an agencywide component inventory is the first step in the management control process. The inventory will include all nonpolicy activities and functions, and be properly segmented in size to facilitate review. The inventory will be reviewed and adjusted annually to reflect changes in mission, programs, organization or resources.

(2) Risk Assessments. Each component will be assessed for risk and assigned a risk rating.

Components will be evaluated for risk based on an analysis of the control environment, the inherent risk of the component and a preliminary evaluation of the existing safeguards. Both the analysis of the control environment and the preliminary evaluation of the safeguards are generally subjective reviews based on management's attitude concerning controls and the existence and adequacy of management controls.

The major factors that affect the inherent risk of a component are: size of budget, life of component, component administration, results of other studies, responsiveness to recommendations and the component's impact outside the Department.

(3) Scheduling Components for Control Evaluations. On an annual basis, the OSMRE Permanent Management Committee (Director, Deputy Director, and Assistant Directors) will meet to discuss risk ratings of components and schedule control evaluations. A management control plan will be developed identifying the risk ratings and scheduling components for evaluation over a five-year cycle. The scheduling and/or risk ratings can be revised annually.

In scheduling evaluations, priority will be given to high risk components or areas of higher risk within medium or lower rated components.

(4) Guidelines for Conducting Control Evaluations

(a) General. OSMRE has established an Operations Evaluation Staff with primary responsibility for conducting control evaluations. However, in some cases, it will still be the responsibility of agency management officials to perform the evaluations. In either case, it is imperative that management officials cooperate fully in the control evaluation process.

(b) Evaluation Process. OMB and the Department of the Interior have issued guidelines for performing internal control reviews. These guidelines are incorporated by reference herein, and are followed by OSMRE in defining control systems and conducting and documenting control evaluations.

There are three types of evaluations that can be conducted:

1. Functional Reviews - Certain functional components (such as space, printing, debt collection, and cash management) are identified at the departmental level and specific guidelines (generally in the form of questionnaires) are issued by responsible PBA offices for bureau/office use in conducting the evaluation.

2. Full ICR's - A detailed examination of events and event cycle(s) of an OSMRE program or administrative activity to determine if appropriate and adequate internal control objectives and techniques exist to prevent or detail waste, fraud, abuse and mismanagement. Full ICR's must be conducted in accordance with the Department's Guideline for Conducting Internal Control Reviews.

3. Alternative ICR's - This approach will be used whenever possible because AICR's are generally more cost effective and efficient than full ICR's. AICR's concentrate on the highest risk areas of a component and can be integrated with other planned reviews such as management studies, consulting studies, and OMB Circular A-130 Computer Security Reviews.

To avoid unnecessary duplication, reviews conducted by the Operations Evaluation Staff, Personnel Management Evaluations, Property Management Reviews and Acquisition Management Reviews will form the basis of many AICR's.

(c) Internal Control Testing. Control testing is an integral part of the review of internal controls. Effective internal control testing should include a plan for testing a component's controls. Typically, the plan should set forth the test objectives, test methodology, documentation to be reviewed, sampling method, test period, sample size, and the acceptable and nonacceptable error conditions. The testing procedures should be directed at the control techniques employed to accomplish the control objectives for the component. Tests should be limited to that necessary to ensure reasonableness of the controls and to determine whether they are functioning as intended.

Internal control testing should include as appropriate:

1. Interviewing persons that exercise control functions;

2. Observing control procedures;

3. Examining documentation that shows evidence of control techniques;

4. Performing control procedures on live transactions and comparing results; and

5. Direct testing of computer-based control mechanisms by use of dummy transactions.

(d) Evaluation Documentation. Copies of all completed evaluations will be maintained by the Operations Evaluation Staff. Documentation pertaining to the performance and results of the evaluation should be maintained by those responsible for conducting the evaluation. The responsible official should maintain sufficient evidence to support the review for a period of four years.

Documentation should include written evidence which sets forth: (1) the officials participating in the review, (2) the controls examined, (3) the extent and type of control tests performed, (4) the analyses of the tests conducted, (5) a description of any weaknesses found, and (6) the actions recommended to correct the weaknesses.

(e) Quality Assurance. The Internal Control Coordinator has responsibility for ensuring that control evaluations are performed properly and are accurately reported. All completed evaluations

must be submitted to the Internal Control Coordinator for review and approval prior to submission to the Director, OSMRE for signature.

4. Reporting Requirements. The performance of control evaluations is a continuous process requiring reports to OMB, the Congress, and the President. Under FMFIA, the Secretary of the Interior has annual reporting responsibility to the Congress and the President on results of evaluations and whether the Department's systems for accounting and administrative control conform to principles, standards and related requirements prescribed by the Comptroller General.

a. General. In addition to the specific reporting requirements needed to support Departmental reports to the Congress and the President, OSMRE is also required to maintain a formal follow-up system to record and track planned corrective actions and to monitor progress against planned completion dates.

b. Control Evaluation Reports. As components are evaluated during each fiscal year, OSMRE is required to prepare and submit reports on evaluation results through the Assistant Secretary, Land and Minerals Management to Policy, Budget and Administration (Office of Financial Management). A copy also must be sent to the OIG. All evaluations are required by the specific due date. If a due date is not applicable, evaluations should be submitted within 30 days of completion.

(1) Draft reports must be submitted to the Internal Control Coordinator for review and comment prior to finalization. If in the view of the Internal Control Coordinator, appropriate criteria have not been satisfactorily addressed, the report will be returned to the responsible official for correction.

(2) Finalized reports must be submitted to the Internal Control Coordinator for review and surnaming before they are submitted to the Director for signature.

c. Accounting System Review Reports. OSMRE is required to conduct an annual evaluation of its accounting system to determine compliance with principles, standards, and related requirements prescribed by the Comptroller General.

(1) The report is to be completed by the Chief, Division of Financial Management (OSMRE) in accordance with guidance provided by Policy, Budget and Administration, through the Internal Control Coordinator.

(2) The Internal Control Coordinator will review and surname the final report prior to submission to the Director for signature.

(3) A copy of the completed report will be submitted to the Assistant Secretary, Land and Minerals Management for signature and subsequent transmission to the PFM and the OIG.

(4) If there are significant instances of nonconformance with GAO standards and principles, this information will be included in the annual report. The report will include all situations in which the design procedures and/or the degree of operational compliance does not provide reasonable assurance that the accounting system generally conforms to the principles, standards, and related requirements prescribed by the Comptroller General. Material weaknesses will be reported in the format specified by PFM with plans, schedules and dates for correction.

d. Annual Statement on Internal Accounting and Administrative Control. OSMRE is required to submit to the Assistant Secretary, Land and Minerals Management the results of internal control activity for the fiscal year. The statements from OSMRE and other Departmental bureaus form the basis for the Annual Departmental Statement/Report which is submitted by the Secretary to the President and Congress.

(1) The Internal Control Coordinator is responsible for preparing the annual statement and a preliminary identification of material weaknesses for the report.

(2) The Director and Deputy Director are responsible for reviewing and refining the list of material weaknesses.

e. Tracking and Reporting System. OSMRE in accordance with Departmental Guidance, maintains a formal tracking system to record and track planned corrective actions and monitor progress towards completion.

(1) The Internal Control Coordinator is responsible for data gathering and reports distribution of the Corrective Action Tracking System (CATS). The CATS will include all components for which weaknesses have been identified.

(2) On a quarterly basis, the CATS report will be distributed to Assistant Directors and responsible officials for updating. It is the responsibility of each Assistant Director to ensure that requested information is promptly provided and that information provided is accurate and complete.

(3) The Internal Control Coordinator is responsible for verifying that corrective actions on material weaknesses have been completed and that the action taken has corrected the weakness. To ensure that the action taken was sufficient to correct the control weaknesses, the responsible program official must conduct an AICR of the component in the following year. The AICR should

determine whether the action taken corrected the weakness, i.e., procedures are complied with and/or the system works effectively. The Operations Evaluation Staff (OES) will notify responsible officials when an AICR is needed. A copy of the completed AICR must be submitted to the OES.

(4) Before nonmaterial weaknesses are removed from the CATS, the responsible program official is responsible for certifying that the planned corrective action was completed and the action taken corrected the weakness. The Internal Control Coordinator will periodically check a sampling of completed nonmaterial weaknesses to ascertain if responsible officials are appropriately certifying items as complete.

(5) Quarterly reports on material weaknesses will be submitted to the Department by the Internal Control Coordinator. It is the responsibility of the Deputy Director to ensure that sufficient progress is being made to correct material weaknesses.

(6) Quarterly reports issued to Assistant Directors should be carefully reviewed. It is the responsibility of Assistant Directors to ensure that sufficient progress is being made to correct both material and nonmaterial weaknesses.

(7) Revising corrective action completion dates will occur on occasion. When dates on material weaknesses are revised into the next fiscal year, the responsible official is required to prepare a memorandum for the Director's signature to the Assistant Secretary, Land and Minerals Management explaining the reasons for the delay in implementing the corrective action. It is the responsibility of the appropriate Assistant Director to ensure that changes in completion dates of nonmaterial weaknesses are held to a minimum.

5. Reference:

a. Office of Management and Budget Circular A-123.

b. Departmental Manual Part 340 1 and 2, Management Control Systems.

c. Department of the Interior Guidelines for Conducting Internal Control Reviews.

d. Office of Management and Budget Guidelines for the Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government.

6. Effect on Other Documents. Supersedes OSMRE Directive OPM-7, Internal Control Systems, dated July 26, 1984.

7. Effective Date. Upon issuance.

8. Contact. Operations Evaluation Staff, (202) 343-7910.