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	U·S· DEPARTMENT OF THE INTERIOR **OFFICE OF SURFACE MINING** **RECLAMATION AND ENFORCEMENT** **DIRECTIVES SYSTEM**	**Subject Number:** OPM-7-2 **Transmittal Number:** 799 **Date:** OCT 29 1993

Subject: Alternative Management Control Review Handbook

Approval: [signature] **Title:** Acting Director

1. Purpose. This directive provides guidance, in the form of a handbook, to all Office of Surface Mining Reclamation and Enforcement (OSM) employees responsible for conducting an Alternative Management Control Review (AMCR).

2. Summary. This directive describes OSM's Management Control Process and outlines the methodology, approach, and techniques to use in conducting AMCRs and reporting results.

3. Definitions. All definitions of terms are discussed in the attached handbook.

4. Policies and Procedures.

   a. Concept. The policies and procedures prescribed in the handbook provide employees charged with conducting an AMCR with a structured and consistent approach to the review. Procedures outlined in this manual are in compliance with standards set forth by the General Accounting Office, the Office of Management and Budget and the Department of the Interior.

   b. Responsibilities. All policies and procedures herein are applicable to all OSM organizational units involved in management controls. The Chief, Management Controls Staff, is the Management Control Coordinator and is responsible for the promulgation of management control review guidance.

5. Reporting Requirements. As specified in the handbook.

6. References.

   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 Management Control Handbook (March 1992)
   d. OMB Guidelines
   e. Financial Systems Memorandum No. 90-1 (February 1990)
   f. Chief Financial Officers Act of 1990 (P.L. 101-576)
   g. OSM Policy Directive OPM-7, Management Control Systems (December 7, 1992)

7. Effect on Other Documents. None

8. Effective Date: Upon issuance

9. Contact. Management Controls Staff, 202-343-7910

OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT

ALTERNATIVE MANAGEMENT CONTROL REVIEW

HANDBOOK

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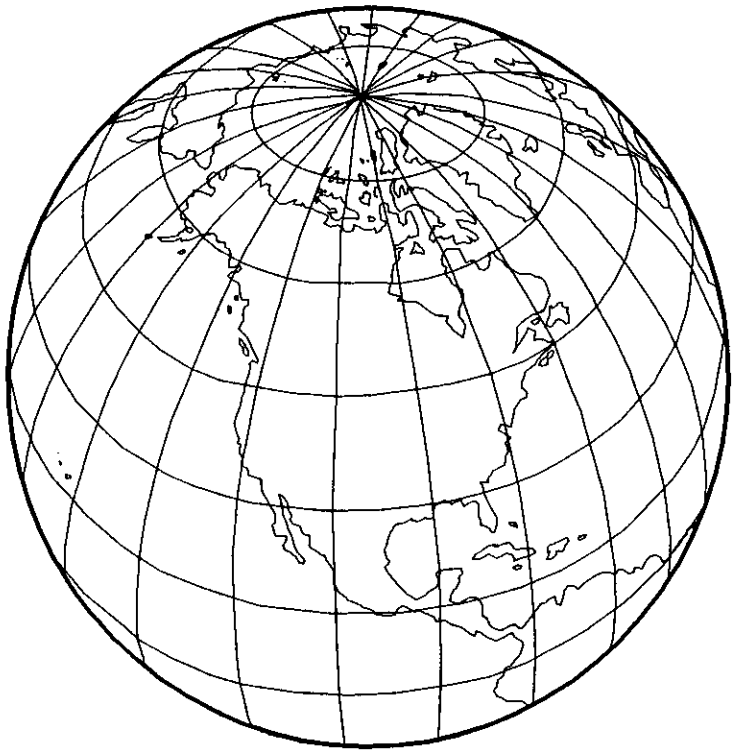
CHAPTER I

OVERVIEW



I. OVERVIEW

Background

Scandals and mismanagement plagued several Federal departments and agencies and the Savings and Loan Industry during the late 1980's. To avoid similar situations in other government programs, the Administration and Congress have placed renewed emphasis on improving Federal management controls through more intensive oversight and monitoring activities.

The Department of the Interior (DOI), like other Federal agencies, is required to establish and maintain an effective system of management controls and to annually report on this system to the President and the Congress under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Office of Management and Budget (OMB) Circular A-123, "Internal Control Systems," provides the implementing instructions for Federal agencies.

Definition

"Management Control" is a collective term for the actions, procedures, and systems used by managers to assure that the organization accomplishes its objectives efficiently and effectively within the planned time, within the approved cost limitations, and with planned quality and quantity of outputs.

Objectives

The objectives of DOI's Management Control Process are to:

- Assist managers in reaching their own objectives;
- Ensure that resources are used consistently within the law, regulations and policy;
- Ensure that resources are safeguarded against waste, loss and misuse; and
- Ensure that reliable data are obtained, maintained and fairly disclosed in the annual report to the President and the Congress.

Policy

OMB Circular A-123 requires agencies to establish and maintain a cost-effective system of management controls to provide reasonable assurance that government resources are protected against fraud, waste, mismanagement and misappropriation. A-123 also requires that both existing and new program and administrative activities are to be effectively and efficiently managed to achieve the goals of the agency. All levels of management are to be involved in ensuring the adequacy of

controls. Management controls do not include statutory development or interpretation, determination of program need, resource allocation, rulemaking or other discretionary policymaking processes in an agency.

Operational Procedures

This handbook describes OSM's Management Control Process and outlines the methodology, approach, and techniques to use in conducting Alternative Management Control Reviews and reporting the results. It consolidates Departmental, OMB and GAO guidance regarding the FMFIA. Sample worksheets and blank forms are also included.

A separate handbook is available on the policy and procedures for conducting a Management Control Review.

CHAPTER II

DOI MANAGEMENT CONTROL PROGRAM RESPONSIBILITIES

II. DOI MANAGEMENT CONTROL PROGRAM RESPONSIBILITIES

DOI's management control organizational structure provides for the involvement and interaction of many units, and defined roles and responsibilities contribute to the successful implementation of the program.

Organizational Structure

DOI has established an integrated organizational structure to implement the Management Control Program. This structure uses the building block principle: it starts with the individual program manager and ascends to the Secretary. The roles and responsibilities are described below.

Roles and Responsibilities

The Secretary - establishes internal policy direction for the Management Control Program and submits the annual FMFIA report to the President and the Congress.

The Deputy Secretary - chairs the Department's Management Control and Audit Follow-up Council.

Departmental Management Control and Audit Follow-up Council - composed of the Deputy Secretary, Assistant Secretary - Policy, Management and Budget, and the Inspector General. The Council provides senior-level oversight of the management control program and audit follow-up process, and resolves issues related to both programs.

The Assistant Secretary - Policy, Management and Budget (PMB) - Chief Financial Officer (CFO) has operational responsibility for the Management Control Program.

Other PMB policy offices are responsible for developing Departmentwide Functional Review (DFR) evaluation guidelines for their functional areas. The policy offices, as resources become available, will periodically provide the bureaus with an assessment of the adequacy of their management controls, based on the review reports submitted to the Department.

The Inspector General - performs routine evaluations of management controls within the scope of internal audits and investigations.

Assistant Secretaries/Solicitor - provide direction and oversight for management control systems within their area of responsibility.

Bureau Heads - establish, maintain, monitor, and coordinate the development and operation of management control systems for the bureau.

Responsible Officials - are charged by the bureau senior-level management with the establishment and evaluation of management controls within assigned areas (programs) in addition to their general control responsibilities as managers.

Management Control Coordinators (MCCs) - are the officials designated by each Assistant Secretary or Bureau Head to coordinate and facilitate compliance with management control requirements.

Management Control Evaluators - perform management control evaluations and report results to the Department through their supervisors, MCC, Bureau Head, and Assistant Secretary.

CHAPTER III

OSM's MANAGEMENT CONTROL PROGRAM

III. OSM's MANAGEMENT CONTROL PROGRAM

In 1989, the President's Council on Management Improvement issued a report entitled, "Improving the Management Control Process." As a result of this study and other concerns raised involving Government management and integrity, the Department of the Interior (DOI) and the Office of Surface Mining Reclamation and Enforcement (OSM) initiated action to strengthen the management control review process. The Secretary requested from all employees their commitment for establishing and improving management controls throughout the Department.

The Director, OSM, endorsed the concept of integrating management control processes into day-to-day operations. To that end, beginning in 1991, each OSM program area assumed primary responsibility for performing agency management control reviews selected by the Management Control and Audit Follow-up Committee and approved by the Director. The program basically is one of self-assessment to determine whether adequate controls are in place to ensure that programs are well managed and that funds are well spent. In addition, OPM-7, "Management Control Systems," dated 12/7/92, requires Assistant Directors and Heads of Staff Offices to establish individual Management Control Plans.

The process is designed to identify opportunities for improvement and, therefore, to strengthen the overall management of the agency. There is no penalty for identifying and acting on opportunities for improvement. On the contrary, each manager is expected to aggressively identify and pursue methods to improve the agency's programs.

Management Control and Audit Follow-up Committee. Within OSM, the Management Control and Audit Follow-up (MCAF) Committee is made up of high-level management officials who review and revise bureau policy, establish priorities in the correction and reporting of management control weaknesses, provide linkage between the identification of material weaknesses and their funding in the budget, emphasize the early warning potential of the management control process, and provide oversight of the management control review and reporting process.

The MCAF Committee is chaired by the Deputy Director. Members include all the Assistant Directors and the Budget Officer. The The Management Controls Staff (MCS) acts as advisor to and secretariat for the MCAF Committee.

Management Control Plan. The Management Control and Audit Follow-up Committee develops OSM's Management Control Plan (MCP) which is approved by the Director and the Assistant Secretary.

The MCP is a written plan which summarizes OSM's components and identifies the relative priority ranking of each component as

high, medium or low. It establishes the type of management control evaluation, the year in which the evaluation is to be conducted and assigns responsibility for conducting the evaluation. It is a five-year plan with annual updates which reflect changes in programs, organizations or functions, the progress of actions taken to improve controls, and any additional information on the status of control systems. A copy of an OSM MCP is shown at Exhibit 1.

The Department requires that a number of components be reviewed. Evaluations of these components are called Departmental Functional Reviews (DFR's) and are scheduled by the Department to be evaluated. Guidance for conducting DFR's is issued by the Department.

All Assistant Directors, Field Office Directors and Staff Office Heads are expected to integrate the management control process into their operations. To accomplish this, each office should develop an individual management control system to control reviews. Copies of their annual plans must be filed with the Management Controls Staff.

Management Controls Staff. The MCS is responsible for quality assurance over management control activities within OSM. MCS members participate in each national management control review as team members and facilitators. The MCS member provides expertise on the management control process and methodology, participates as a full team member in planning and testing, and facilitates necessary discussions and obtains appropriate concurrences. The MCS will review all documentation involved in the performance of national management control reviews including the schedule of completion dates, the work plan for each review, the report and the work papers generated during the review.

The MCS provides training and individual assistance in review methodology, techniques and reporting for internal control reviews.

Also, the MCS is responsible for maintaining the formal system, described below, that records and tracks to completion planned corrective actions for the weaknesses identified in management control reviews. When corrective actions have been certified complete by the responsible official, the MCS performs follow-up reviews to verify that corrective actions have been completed and the weaknesses eliminated.

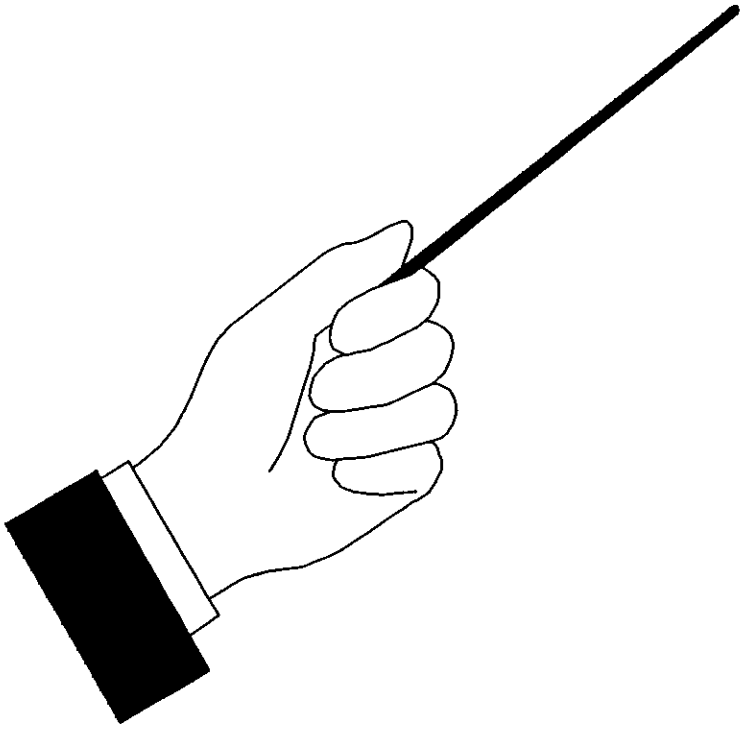
Additionally, the MCS serves as the liaison for management controls with other offices of the Assistant Secretaries for Land and Minerals Management and Policy, Management and Budget - Chief Financial Officer.

Corrective Action Tracking System. The culmination of the management control program is not the preparation of reports; it is the improvement of programs and services through timely correction of control weaknesses identified in management control reviews. OSM, in accordance with Departmental guidance, maintains the Corrective Action Tracking System (CATS) to record and track planned corrective actions for identified weaknesses and to monitor progress toward completion. The MCS maintains the CATS system. Spot check reviews are also conducted by MCS to verify that corrective actions have been completed and the weaknesses eliminated.

Quarterly status reports are submitted to the Department on material weaknesses only.

CHAPTER IV

CONDUCTING AN AMCR



IV. CONDUCTING AN AMCR

The Department recognizes two types of control evaluations: AMCRs and MCRs. Both types of evaluations require testing the effectiveness of the control system in operation. Both reviews must answer the following questions:

- Does the component have clear objectives?
- Are control systems in place?
- Do the control systems provide reasonable assurance?
- Do the control systems have weaknesses?
- Have the weaknesses caused problems?
- What actions are necessary to improve controls?

An AMCR is an evaluation of controls over the highest risk areas/steps within a selected event cycle(s). Departmental Functional Review (DFRs) are examples of AMCRs.

An MCR is an evaluation of controls over all high risks in each event cycle (area or activity within the component). MCRs are normally conducted as separate reviews since the evaluation methodology requires review of all areas and activities.

AMCRs are preferred over MCRs because they are generally less paper and resource intensive and are most cost effective. However, each year the Department requires the bureaus to conduct one MCR. In OSM, the Management Control and Audit Follow-up Committee selects the area to perform the MCR.

AMCRs may be combined with other review processes (such as internal management or technical reviews) or may be conducted as a separate review. Where periodic reviews of programs, organizations or functions are conducted by Bureaus, the Department strongly encourages combining management control reviews and internal Bureau reviews to avoid duplication of effort and to make them more acceptable to managers. Combining reviews also will institutionalize the management control process.

The steps for conducting AMCRs are listed below.

STEPS IN CONDUCTING AMCRs

☑ A. Starting the Evaluation

1. Planning the evaluation
2. Survey the Component
3. Analysis of general control environment
4. Analysis of ADP

☑ B. Defining the Control System

1. Identify and document selected event cycle(s)
2. Identify and document high risk areas/steps within a selected event cycle(s)
3. Identify and document control objectives
4. Identify and document control techniques
5. Compare control systems to the GAO control standards

☑ C. Testing the Control System

1. Select controls to be tested
2. Select test methods
3. Determine amount of testing
4. Plan data collection
5. Conduct the tests
6. Analyze tests results, develop conclusions and plans for corrective action

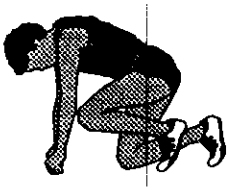
☑ D. Evaluation Report

☑ E. Document the Evaluation

NOTE: The responsibilities of the team and/or the reviewer are complete once the report is signed by the Director. Corrective actions for identified weaknesses resulting from the review are tracked to completion by MCS. Follow-up reviews are conducted also by the MCS to verify that corrective actions have been completed and identified weaknesses satisfactorily eliminated.

These steps are discussed below.

A. Starting the Evaluation



1. Planning the Evaluation

The AMCR should be carefully planned to gain managerial support and to ensure that the objectives are accomplished. The planning process should include:

a. Develop Work Plan

The work plan sets the objectives of the AMCR, assigns staff, allocates staff resources and establishes timeframes.

(1) State objectives. Identify the component and include the objective of the review. Usually, the objective of the AMCR is to determine whether: the component being reviewed has adequate management controls, they are being implemented, they ensure effective and efficient management, and prevent fraud, waste, and misuse of resources.

(2) Assign staff. The team members selected should be knowledgeable of the program area, have analytical skills, and be trained in conducting control evaluations. Ideally, team members should be selected from within the responsible program office and from an independent "program-evaluation" function. The number of reviewers should be based on the complexity and scope of review.

It is important that the team leader contact team members and their supervisors prior to the start of the review and as soon as practicable, particularly when the team members are not part of the same organization. The initial contact should be a personal visit or telephone call and should be followed up with a memorandum and meeting of all team members. The work plan for the review should be provided to all team members immediately after approval.

(3) Allocate staff resources and establish timeframes. Determine the amount of staff resources needed to complete each task. The final planned completion date should be set with interim planned completion dates for each review task.

The work plan is signed by the team leader and approved by the appropriate management levels, i.e., Division Chief, Assistant Director, Deputy Director, and Chief, MCS. A sample work plan is shown at Exhibit 2.

2. Component Survey

The next step in the evaluation process is to survey the component to be reviewed. The survey is primarily a fact-finding and data-gathering exercise to establish the framework in which the component operates. It includes reviewing authorizing legislation, implementing regulations, policies and procedures, planning and budget documents, organizational charts, and other pertinent documents and records. It also includes reviewing audit reports, results of internal reviews, and similar

evaluations. The survey provides the input for the steps that follow. If a survey has been previously conducted, the reviewer should check to see if the survey is still accurate and update as necessary.

3. Analysis of the General Control Environment

The purpose of analyzing the general control environment is to determine if management's attitude is conducive to a strong management control system. The analysis of the general control environment will provide the reviewer with a preliminary opinion about the effectiveness of specific controls. The worksheet or questionnaire shown at Exhibit 3 is completed by the review team from knowledge of the program and discussions with program managers and staff. The general control environment analysis questionnaire may be sent to appropriate program staff for completion and the results are indicated on the form's summary sheet.

The core factors that influence the general control environment are:

- organization;
- delegation of authority;
- policies and procedures;
- personnel;
- planning, budgeting and accounting; and
- reporting.

The questionnaire or the "Analysis of the General Control Environment" form may be tailored to fit individual reviews but must include the core factors shown above and reflected in the sample exhibit.

4. Analysis of ADP

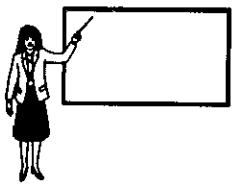
If the component contains an ADP application, it should be analyzed to determine if ADP application controls should be reviewed. This review of ADP can be a separate review or part of the AMCR. An ADP application should be included if it contains any of the following characteristics:

- processes information used for significant management decisions;
- calculates or records amounts owed by or to the Government;
- maintains balances or other records used to control government resources;

- maintains or processes information necessary for effective and efficient program operation; or
- maintains or processes sensitive information.

NOTE: Bureaus are required to use the Office of Information Resources Management's Automated Application System Control Evaluation Guidelines, dated March 1987, for reviewing ADP applications.

B. Defining the Control System



1. Identify and Document Selected Event Cycle(s)

An event cycle is a series of related steps that constitute a distinct and separate process or activity within a component. Each program or administrative component of a bureau contains one or more event cycles that help achieve the goals of the component.

In general, components can be comprised of either administrative-type events or program type events. For example, the cash management administrative component of a bureau normally includes billing, collecting, depositing, procuring, and disbursing event cycles. By contrast, most program components normally include planning, budgeting, executing, reporting, and administrative event cycles. Some components, such as grants management, may be described as either administrative or program components and, accordingly, may be segmented into administrative or program event cycles. It is left up to the reviewer to determine which type best fits the component being reviewed.

An important step in the review process is to first identify and then list all the event cycles of the component. The next step is to develop a thorough understanding of how each event cycle functions. This detailed description should be retained as part of the AMCR documentation.

Background information necessary for creating such documentation may be obtained through interview, observation, or existing records. Documentation of the event cycle should be sufficient to provide an in-depth understanding of the objectives and operations of every cycle.

2. Identify and Document High Risk Areas/Steps Within a Selected Event Cycle(s)

The reviewer should identify high risk areas/steps within a selected event cycle(s). High risks are potential

unwarranted occurrences which, if they occur, could prevent a component from reaching its objectives or could result in a significant loss of government resources. When identifying high risk areas, the reviewer should also consider the probability of the unwanted occurrence and the severity of the consequences. A sample worksheet is shown at Exhibit 4.

If the AMCR does not cover all the identified high risk areas within the event cycle, justification for eliminating the review of any of the high risk areas must be documented in the report.

3. Identify and Document Control Objectives

Control objectives are what you want to achieve. Specifically, control objectives are the desired goals for a specific event cycle that reduce the potential for fraud, waste, and abuse or ensure the efficiency, effectiveness, and economy of operations within the event cycle. The GAO general control standards require complete, logical, and applicable control objectives for each event cycle. Control objectives should be observable and measurable. They should correspond to the risks identified for the event cycle and set forth the specific goals the control system is to meet.

Setting control objectives involves turning the potential risk into a goal. To identify a control objective, ask yourself - in order to avoid a specific risk, what needs to happen? You should state what the objective will achieve and how you will know you achieved the objective.

If the component being reviewed does not have control objectives, then develop the control objectives during the review in order to proceed to identifying and documenting the control techniques.

4. Identify and Document Control Techniques

Control techniques are a series of carefully constructed checks and balances designed to provide reasonable assurance that the control objectives are met in an efficient and effective manner. Control techniques should be observable and cost effective. Examples of control techniques include passwords to limit access to data bases, written delegations of authority, technical reports, documentation of processes and procedures for carrying out program and technical activities, periodic supervisory review, comparisons of actual results to planned results, and segregating sensitive duties among several individuals.

When developing control techniques, it is crucial to identify the relationship between the techniques and the risks within the event cycle. Control techniques are implemented to reduce risks and meet the control objectives.

Control techniques are the basis of testing. Testing verifies compliance with existing control techniques to determine if the controls are operating as planned and are sufficient to provide reasonable assurance of achieving the control objectives.

Exhibit 5 is an example of the form used to document event cycles, associated risks, control objectives and control techniques.

5. Compare Control Systems to the GAO Control Standards

The GAO control standards define the minimum level of quality acceptable for an internal control system. These standards apply to all operations and functions except development of legislation, rulemaking, or discretionary policymaking. General standards apply to all aspects of control while specific standards are critical to internal control techniques. If one or more of the standards are not met, it is an indication of potential risk and further review should be conducted in that area. GAO's general and specific control standards follow.

a. General Control Standards - provides a framework for the operation of the specific control standards.

(1) Reasonable Assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished. This standard recognizes that the cost of establishing internal controls should not exceed the benefit from having such controls in place. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. **NOTE: This determination is made during the analysis of the general control environment and during the testing of the control techniques.**

(2) Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times. **NOTE: This determination is made during the analysis of the general control environment.**

(3) Competent Personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls. **NOTE: This determination is made during the analysis of the general control environment.**

(4) Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably completed. **NOTE: This objective is met by defining control systems.**

(5) Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives. **NOTE: This objective is met by defining control systems.**

b. Specific Control Standards - When testing control techniques, look for evidence of standards listed below.

(1) Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

(2) Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.

(3) Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

(4) Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

(5) Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

(6) Access to and Accountability for Resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability

to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

C. Testing the Control System

Testing verifies the effectiveness of control techniques in operation by determining if they are, in fact, operating as intended, meeting the control objectives, and reducing risks. By testing, the responsible official can quickly validate whether:

- prescribed procedures are performed in accordance with instructions,
- proper separation of duties exist,
- actual transactions processed in the operation are in fact those authorized for your group, and
- actual operations are conducted in accordance with the control objectives (i.e., program goals) and techniques (regulations, manuals, directives relevant to the program) which have been devised for the component.

The focus of testing should be upon high risk areas and those areas of inadequate management control system design.

Effective management control testing should include a test plan. Exhibit 6 is an example of a plan. Typically, the test plan should include the test objectives, test methodology, documentation to be reviewed, sampling methods and size, and test period.

Testing consists of the following steps:

1. Select Controls to be Tested

It is both impractical and unnecessary to test all control techniques. The control techniques to be tested should be those that contribute most to achieving the control objectives or managing the risk. A control should be eliminated from testing when (1) the technique does not meet the control objective or manage the risk because it is poorly designed, unnecessary or duplicative or is not performed in a timely manner and (2) the cost of testing exceeds the value of the technique being tested.

If a technique is excluded from testing, the reasons supporting your decision should be recorded. Ineffective controls constitute a component weakness that should be reported. Consideration should be given to modifying or eliminating the ineffective control.

2. Select Test Methods

Testing methods include:

a. document analysis - reviewing existing records, completed forms, or other documentation.

b. interview - eliciting information from the personnel who perform the control technique.

c. observation - watching the performance of specific control technique.

d. transaction testing - entering and processing transaction data through the system or by tracing transactions through the system.

Tests should not be limited to information obtained through interviews, but interviews should be used to supplement document analyses and/or observation. One or more methods of testing may be combined during the test.

3. Determine Amount of Testing

It is unrealistic to observe every time a control is used or review 100% of the records at all locations. The reviewer must select the organizations and locations where the tests will be conducted and select a sample for each control to be tested. Judgmental sampling is recommended; statistical sampling is not required.

4. Plan Data Collection

Accurate recording of test results is an extremely important part of the testing process. A data collection plan assists in determining how to record the test results. For example, interview guides should be used to ensure uniformity and that all areas of concerns are covered.

5. Conduct the Tests

While conducting the tests, you may follow a sample plan but may need to revise the scope or size of the sample based on the results of your initial sample. Consider increasing the sample size if the initial tests provide mixed results. When possible, retain copies of authorizing documents or other physical evidence that control techniques are working.

NOTE: Watch for compensating controls. Sometimes a control technique will appear to be weak or not operating. In such a case, determine if personnel are compensating

for the shortcomings by using informal control mechanisms. If informal control mechanisms are being used, evaluate and document them during the testing.

6. Analyze Test Results and Develop Conclusions and Plans for Corrective Action

a. Analyze test results and develop conclusions. The tests of specific control techniques must be analyzed to determine if the degree of compliance with control techniques is adequate. It is important to remember that usually several control techniques are utilized to meet a control objective or manage a risk. Accordingly, the failure to substantially comply with one individual control technique does not necessarily result in a failure to meet the control objective or manage a risk.

Some questions to consider when you are analyzing the test results are:

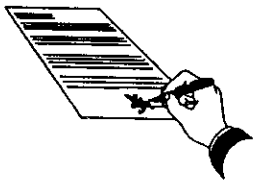
- What is the degree of compliance with the control technique?
- Is the degree of compliance adequate to meet the control objective or manage a risk?
- If the degree of compliance with the control technique is not adequate, are there additional or compensating controls which meet the objective? If so, what are the compensating control techniques?
- What are the results or potential results of failure to meet a control objective or manage a risk?
- Is the problem a failure to comply with existing control techniques or are the techniques inadequate?
- If the techniques are inadequate, what additional techniques are necessary?

The test results should then be discussed with managers responsible for operating the control techniques at the location or organization that was reviewed. These discussions will (1) communicate the results of the tests and any conclusions drawn, (2) seek agreement on those conclusions, and (3) elicit from the managers recommendations on any necessary corrective actions. Such discussions are best held as soon as the testing and related analysis of results are completed.

b. Develop plans for corrective action. The primary purpose of the control evaluation process is to assist managers in identifying and correcting weaknesses. When a weakness is found, a decision must be made to institute new controls, improve existing controls, or

accept the risk inherent in the weakness. In many cases the appropriate action is apparent, but in other cases further analysis may be necessary before a plan for corrective action can be made. Selecting corrective actions involves creating a strategy for achieving the control objectives. The actions selected should use the least amount of dollar and personnel resources possible and ensure the achievement of the control objectives or results. The following five steps should be completed in selecting corrective actions: (1) identify possible actions, (2) analyze costs and benefits, (3) document corrective action, (4) identify reasonable completion dates, and (5) identify funding required for implementation.

D. Evaluation Report



Control evaluation results for each component must be summarized in a narrative report. The report should identify control weaknesses and describe plans for corrective action. Since the report forms the basis for the certification required by FMFIA, it must provide the Director, OSM and Assistant Secretary, Land and Minerals Management with sufficient assurance that the review was conscientiously performed and accurately reflects the condition of management controls.

The report narrative must clearly state the objectives and scope of the review. The methodology used in testing must be reported. Sufficient background information must be provided on the area reviewed to acquaint the reader with the relevance of the report.

The narrative must detail the risks and controls reviewed and the tests conducted. A summary of the results of testing must include detailed information on weaknesses found and reasons why they occurred.

The report must contain all control weaknesses which are significant to the next higher organizational level. Control weaknesses that have been fully or partially corrected during the AMCR should still be included in the narrative report and listed on the Control Evaluation Report.

Weaknesses which are not significant to the next higher organizational level need not be included in the report. However, such weaknesses and the planned corrective actions should be disclosed in a memorandum to the responsible official.

When control weaknesses and corrective actions cross OSM organizational lines, the Deputy Director will chair a meeting to discuss the issues involved. All responsible officials and the MCC will attend the meeting. Similarly, when control weaknesses

cross OSM organizational lines and a draft report is forwarded to the concerned organization for comment, the reviewer is responsible to provide disposition on the comments received prior to the finalization of the report.

All sources of information on the status of controls, such as audit reports, management reviews, and routine management reports, are to be considered in identifying control weaknesses. The transmittal memorandum to MCS must describe: (1) risks that the evaluation focused on and (2) testing conducted - locations, controls techniques tested, type and amount of testing.

The report and the Control Evaluation Report must be submitted to the official designated on the MCP as responsible for component controls and their evaluation. After review by the responsible official, the report is to be transmitted to the Bureau MCC, MCS in OSM, for approval. All responsible officials involved in the review are required to surname the memorandum forwarding the final report to the MCS. Please note that surnaming means acknowledgement of, not necessarily agreement with, the final report.

MCS will review the reports of agency reviews and prepare a transmittal memorandum to the Department (PFM or appropriate program office) for approval by the Deputy Director and signature of the Director and Assistant Secretary, Land and Minerals Management. Copies of all agency reports will be provided to the OIG.

Once the report has been approved by OSM and AS/LM and submitted to the Department, the MCS enters the identified component weakness, its planned corrective action and scheduled completion date into the Corrective Action Tracking System and monitors its progress toward completion.

The narrative report format, control evaluation report, and transmittal memorandum are shown at Exhibits 7, 8 and 9.

E. Document the Evaluation

Documentation is written material explaining the operation of the control system and the conduct of a management control evaluation. GAO specific control standards require that all internal controls and all transactions and other significant events are to be clearly documented and the documentation is to be readily available for examination. In addition, responsible officials will prepare and maintain sufficient documentation to evidence the conduct of a management control evaluation and the basis for the results and conclusions reached. This documentation should include written evidence concerning:

- the officials participating in the review
- the risks reviewed
- the controls examined
- the extent and type of control tests performed
- the analysis of the tests conducted
- a description of any weaknesses found
- the actions recommended to correct the weaknesses.

DOI requires both types of documentation for various reasons.

System documentation (required by GAO general control standards) provides a means of communicating information on the operation of the control system. It serves as a standard to measure the operation of the control system. It further provides information necessary for supervisory or other review and serves as a basis for training new personnel. (NOTE: Inadequate control system documentation is a control weakness.)

Evaluation documentation provides evidence that a management control evaluation was performed and provides support for the reasonable assurance determination. It serves as the basis for supervisory review and quality control while assisting in subsequent evaluations.

How much documentation is enough? Keep it to a minimum. Sufficient system documentation answers the questions: why the system was designed, what the system does, and how the system operates. Sufficient evaluation documentation answers the questions: who did what, what were the results, and why were actions taken.

NOTE: Sufficient documentation should not involve an inordinate amount of paper. Documentation should serve as:

- repositories of the information obtained;
- identification and documentation of the process followed;
- tools to perform the review in an orderly fashion;
- support for discussions with operating personnel;
- a basis for review of the work performed;
- and background and reference data for subsequent reviews.

Specific examples of documentation or workpapers that should be maintained when conducting a review are listed below:

- work plan
- reasons for selecting area(s) of review
- applicable laws/regs/policy directives/internal memoranda/local directives
- current organization chart
- mission and function statements
- standard operating procedures/desk procedures
- handbooks/manuals

- workflow description
- current budget/financial plans
- short- or long-range plans/goals
- past audit/evaluation reports
- Analysis of the Control Environment - worksheets and summary
- Worksheet for Documentation of Event Cycles, Risks, Control Objectives, Control Techniques
- Test Plan and results of testing:
  - persons who conducted the tests
  - persons who were observed listed
  - persons who were interviewed listed
  - rationale for test design
  - description of what items were reviewed (e.g., document numbers, logs, etc.)
  - description of what information was collected during the interviews
  - description of informal controls used to compensate for nonexistent or weak controls
  - description of test results
  - testing schedule
  - testing locations
  - documents collected or other physical evidence
  - completed data collection forms
- questionnaires and/or summaries
- records of interviews
- correspondence
- records of telephone conversations

EXHIBITS

U.S. DEPARTMENT OF THE INTERIOR
MANAGEMENT CONTROL PLAN
FOR 1994 THROUGH 1998

Bureau/Office: Office of Surface Mining Reclamation and Enforcement (OSM)

Bureau Component Number	Component	Previous Priority Rating	Current Priority Rating	Previous Evaluations Year	Previous Evaluations Type	Planned Evaluations Year	Planned Evaluations Type	Responsible Official/ Comments
01	Accounting System	High	High	1993	ASCR	1994	ASCR	Robert Ewing
02	Acquisition Mgt.	High	High	1993	AMCR	1996	AMCR	Nancy Garrett
03	Adminis. Control of Funds/Budget Execution	High	High	1992	AMCR	1995	AMCR	Kristi Heisel
04	Cash Mgt/Debt Collect/ Financial Instr.	High	High	1990	AMCR	1995	AMCR	Robert Ewing
05	Computer Centers	High	High	1991	AMCR	1994	AMCR	John Adkins
06	Equal Employ. Oppor.	High	High	None	1993	1995	AMCR	Ann Chapman
07	Grants Coop. Program	High	High	1991	MCR	1994	AMCR	Brent Wahlquist
08	Personal Property Mgt.	High	High	1992	AMCR	1996	AMCR	Nancy Garrett
09	Personnel Management	Low	Low	1992	AMCR	1997	AMCR	Ann Chapman
10	Printing and Public. Management	Low	Low	1988	AMCR	1995	AMCR	Nancy Garrett

Exhibit 1

U.S. DEPARTMENT OF THE INTERIOR
MANAGEMENT CONTROL PLAN
FOR 1994 THROUGH 1998

Bureau/Office: Office of Surface Mining Reclamation and Enforcement (OSM)

Bureau Component Number	Component	Previous Priority Rating	Current Priority Rating	Previous Evaluations Year	Previous Evaluations Type	Planned Evaluations Year	Planned Evaluations Type	Responsible Official/ Comments
11	Reprographics	Low	Low	1987	AMCR	1994	AMCR	Nancy Garrett
12	Safety Management	Low	Low	1989	AMCR	1994	AMCR	Nancy Garrett
13	Law Enforce./Security Management	High	Low	1991	AMCR	1996	AMCR	Nancy Garrett/ Ann Chapman
14	Sensitive Automated Information Systems	Medium	High	1993	AMCR	1994	AMCR	John Adkins
15	Space Management	Medium	Medium	1988	AMCR	1994	AMCR	Nancy Garrett
16	Telecommunications	Low	Low	None		1995	AMCR	Nancy Garrett
17	Travel	Low	Low	1991	AMCR	1996	AMCR	Robert Ewing
18	Vehicles Management	Low	Low	1993	AMCR	1998	AMCR	Nancy Garrett
19	Fee Compliance	High	High	1993	AMCR	1996	AMCR	Robert Ewing
20	State Prog. Oversight	High	High	1993	AMCR	1996	AMCR	Al Klein

U.S. DEPARTMENT OF THE INTERIOR
MANAGEMENT CONTROL PLAN
FOR 1994 THROUGH 1998

Bureau/Office: Office of Surface Mining Reclamation and Enforcement (OSM)

Bureau Component Number	Component	Previous Priority Rating	Current Priority Rating	Previous Evaluations Year	Previous Evaluations Type	Planned Evaluations Year	Planned Evaluations Type	Responsible Official/ Comments
21	Applicant/Violator System	High	High	1991	AMCR	1994	AMCR	Annetta Cheek
22	Small Operator Assistance Program	Medium	Medium	1989	AMCR	1994	AMCR	Brent Wahlquist
23	Indian Lands Program	Medium	Medium	1989	MCR	1994	AMCR	Ray Lowrie
24	State Program Amend. Processing	High	High	1993	AMCR	1996	AMCR	W. Hord Tipton
25	Federal Reclamation Programs	High	High	1993	MCR	1996	AMCR	Carl Close
27	Experimental Practices	Low	Low	1991	AMCR	1996	AMCR	Brent Wahlquist

U.S. DEPARTMENT OF THE INTERIOR
MANAGEMENT CONTROL PLAN
FOR 1994 THROUGH 1998

Bureau/Office: Office of Surface Mining Reclamation and Enforcement (OSM)

Bureau Component Number	Component	Previous Priority Rating	Current Priority Rating	Previous Evaluations Year	Previous Evaluations Type	Planned Evaluations Year	Planned Evaluations Type	Responsible Official/ Comments
29	Federal Programs	High	High	1992	MCR	1995	AMCR	Al Klein
30	Drug Free Work Place	High	Low	None		1994	AMCR	Ann Chapman

I certify that the top managers of the bureau/office have met collectively, and have reviewed and reassessed the propriety of the component structure and the related priority rankings in this management control plan in accordance with the guidance and instructions provided by the Office of Financial Management.

signed
Bureau/Office Head

10/15/93
Date

Exhibit 2

SAMPLE

WORKPLAN

ALTERNATIVE MANAGEMENT CONTROL REVIEW OF THE OFFICE OF SURFACE MINING GRANTS PROGRAM

Objective: To determine if the OSM grant programs has adequate management controls to prevent fraud, waste, abuse and mismanagement of Federal funds; and is operated in an effective and efficient manner.

	Timeframe
A. Starting the Evaluation	
1. Planning the evaluation	
- Develop work plan	02/12/91
- Seek Deputy Director approval	02/19/91
- Choose team members (informal)	02/19/91
- Memo to Field	02/26/91
- Notify team members (formal)	02/26/91
- Draft questionnaire re general control environment	03/01/91
- First team meeting	03/05-07/91
- Finalize questionnaire	
- Finalize schedule/assignments	
- Review historical information	
- Define control systems (draft)	
2. Survey of component	03/01/91
- Fact-finding and data-gathering exercise	
- Confirm the framework in which the component operates	
3. Analysis of general control environment	03/08/91
- Questionnaire used to survey Field units regarding the general control environment	
- Questionnaire distributed 03/08/91; to be returned by 3/29/91	
4. Analysis of ADP - Not included as part of this review	

SAMPLE

		Timeframe
B.	Defining Control Systems	03/05/91
	1. Identify and document selected event cycles	
	2. Identify and document all high risks areas/steps within each event cycle	
	3. Identify and document control objectives	
	4. Identify and document control techniques	
	- Draft completed. Finalized after review of questionnaires.	
C.	Testing the Control System	
	1. Select controls to be tested	04/16-19/91
	2. Select test methods	04/16-19/91
	3. Determine amount of testing	04/16-19/91
	4. Plan data collection	04/16-19/91
	5. Conduct the tests (on-site)	04/29-05/10/91
	6. Analyze test results and develop conclusions and plans for corrective action	05/14-17/91
D.	Document Findings and Write Report	
	Final Report Completed	05/24/91

<u>Team</u>

Team Leader - Division of Regulatory Programs
Member - Division of Regulatory Programs
Member - Western Support Center
Member - Eastern Support Center

Concurrence:

Chief, Branch of State Programs — Date: 02/12/91

Chief, Division of Regulatory Programs — Date: 2/12/91

Assistant Director, Reclamation and Regulatory Policy — Date: 2/21/91

Deputy Director, Operations and Technical Services — Date: 2/21/91

Chief, Management Control Staff — Date: 2/13/91

WORKSHEET FOR
ANALYSIS OF GENERAL CONTROL ENVIRONMENT
COMPONENT - GRANTS PROGRAM
FY 1991

FACTOR	QUESTIONS	RESPONSE		COMMENTS
		YES	NO	
A. Organization	1. Does/do the organizational unit(s) operating the component have			Field Office managers and staff have a high degree of commitment to achieving a quality grants program.
	a. clearly written goals and objectives?	x		
	b. authority and responsibility to pursue the goals and objectives?	x		
	2. Is/are the organization unit(s) operating the component			
	a. sufficiently flexible to accommodate changes?	x		
	b. held accountable for resources entrusted to it?	x		
	c. held accountable for the results of its operations?	x		

Exhibit 3