

CHAPTER 5. ENSURING MANAGEMENT ACCOUNTABILITY AND CONTROL

***GOAL:** Ensure that a sound system of financial management controls exists in all programs, organizations, and functions.*

Interior believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources in the Department's care; (3) ensures high quality, responsible leadership; (4) ensures the sound delivery of services to customers; and, (5) maximizes desired program outcomes. Accordingly, the Department has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- Programs and operations achieve their intended results efficiently and effectively;
- Resources are used in accordance with the Department's mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and,
- Reliable, complete, and timely data are maintained and used for decisionmaking at all levels.

Further, the Department firmly believes that the timely implementation of Office of Inspector General (OIG), General Accounting Office (GAO), and Single Audit recommendations are essential to improving the efficiency and effectiveness of programs and operations, and achieving integrity and accountability goals. As a result, the Department has instituted a comprehensive audit follow-up program to ensure audit recommendations are implemented in a timely and cost-effective manner, and that disallowed costs and other funds due from contractors and grantees are collected or offset.

Management Controls

The Department's goal is twofold: (1) to ensure that a sound system of management controls exists in all programs, organizations, and functions and meets the objectives and requirements of Federal Managers' Financial Integrity Act and OMB Circular A-123; and, (2) to implement an effective and systematic approach to assessing management controls that integrates other management improvement initiatives within the Department.

FY 2001 Accomplishments

- ***Provided Reasonable Assurance Objectives Were Met:*** Based on the results of mid-year and subsequent progress reviews, the Department expects to again provide reasonable assurance to the President and the Congress that, with the exception of BIA and OST, the systems of management, accounting, and administrative controls, taken as a whole, achieve the objectives of the Federal Managers' Financial Integrity Act and OMB Circular A-123, and that accounting and financial systems generally conform with governmentwide standards.
- ***Corrected Material Weaknesses:*** By the end of FY 2001, the Department expects to complete corrective action on five of its 19 pending material weaknesses carried over from FY 2000. Five material weaknesses were originally targeted for correction in FY 2001. Corrective actions on four (80 percent) of those material weaknesses have been or are projected to be completed by the end of FY 2001. Completion of the corrective actions for one material weakness slipped due to the expansion of the scope of its corrective action plan during FY 2001. In addition, one material weakness with a corrective action plan targeted for completion in late FY 2002, will actually be completed before the end of FY 2001, approximately one year ahead of schedule. Including the completion of the this material weakness corrective action plan, an overall completion rate of 83 percent will be achieved for FY 2001, well above the Department GPRA goal of 75 percent. Over the years, the Department has identified and reported 169 material weaknesses and 64 accounting system non-conformances. By the end of FY 2001, the Department expects to have corrected 155 of the total reported material weaknesses (92 percent) and all 64 accounting system non-conformances (100 percent). As no new material weaknesses have been identified or reported in progress reviews to date, the Department will carry forward 14 pending material weaknesses into FY 2002, of which six are expected to again be identified as mission critical weaknesses.
- ***Institutionalized the Management Control Automated Assessment Approach:*** The automated assessment approach was developed in a Department Re-engineering Lab in 1997. During 1998 to 1999, the Department successfully pilot-tested the automated assessment approach in 21 different programs and administrative functions. The resource savings and results were exceptional when compared to traditional management control assessments. The new automated approach saved over 90 percent of the staff resources consumed in planning, conducting, processing, and reporting the results of the assessments; avoided travel costs; and, identified areas of potential material weaknesses and best practices which were not previously detected. In FY 2000, bureaus conducted 23 management control assessments using the automated approach, or 48 percent of all bureau assessments performed and utilized in the FY 2000 annual assurance process. A new Web-based version of the software was introduced early in FY 2001; however, as a result of the delay in acquiring the new software release and the learning curve associated with its use, the Department did not expect nor achieve a significant increase in the usage rate for the automated assessment in FY 2001. The Department, however, expects to realize a significant annual percentage increase in the usage rate beginning in FY 2002 and continuing through FY 2006.

- *Issued the FY 2000 Annual Accountability Report:* The Department issued the FY 2000 Annual Accountability Report by the statutory due date of March 1, 2000. This marked the first time the report was issued by the due date. The Department attained a total of eight unqualified audit opinions on bureau and consolidated financial statements, failing to meet the goal of ten unqualified audit opinions.

Ongoing Actions

- Continue recent progress toward the achievement of the Association of Government Accountant's Certificate of Excellence in Accountability Reporting.
- Accelerate Department validation of the completion of material weakness corrective actions.
- Complete corrective actions on the remaining material weaknesses carried over from FY 2001 and ensure that other material weaknesses are promptly identified, reported to senior management, and corrected.
- Work with the OIG and the Department's Chief Information Officer to develop a more effective and efficient approach for assessing whether adequate computer security is being provided on computer systems, including financial management systems and financial data.

Planned Actions

FY 2002 Planned Actions

- Institute a management control quarterly progress reporting program with bureaus and offices to better support the accountability goals of the new Administration, and the oversight performed by the Department's Management Control and Audit Follow-up Council.
- Prepare and issue the FY 2001 Annual Accountability Report by February 28, 2002, utilizing the independent audit services of KPMG Peat Marwick.
- Complete corrective actions on four of the 14 (29 percent) pending material weaknesses expected to be carried over from FY 2001.
- Complete the development of and issue the Departmental Management Control and Audit Follow-up Handbook.
- Assist bureaus in implementing and becoming more proficient in the use of the web-based version of the management control automated assessment.

Audit Follow-up

The Department's goals are to ensure that audit recommendations designed to improve the efficiency and cost-effectiveness of programs and operations are implemented in an expeditious manner, and that disallowed costs and other funds owed to the Department which are identified in audits are collected and/or offset within reasonable or statutory time frames.

FY 2001 Accomplishments

- *Ensured the Quality of Non-Federal Audits:* During FY 2001, the Office of Inspector General (OIG) planned and expected to complete desk reviews of more than 200 single audit reports that were submitted to it by the Department of Commerce's Federal Audit Clearinghouse. The reviews were performed to ensure that the reports met the requirements of the Single Audit Act of 1984, and Office of Management and Budget Circular A-133.

The OIG also performed quality control reviews, including limited testing of support documentation, on 12 non-federal audits. The scope of these audits covered fiscal years 1998 and 1999, and federal funds totaling approximately \$280 million. In conducting these reviews, the OIG applied guidance established by the President's Council on Integrity and Efficiency to: (1) ensure the audits were conducted in accordance with applicable standards and met the Single Audit Act's requirements; (2) identify deficiencies or weaknesses in the accounting practices of report preparers and, if so, to perform follow-up audit work; and, (3) identify issues that might require management attention. The OIG also applied Bureau of Indian Affairs and U.S. Fish and Wildlife Service compliance supplements as guidance in evaluating workpapers. Overall, the OIG concluded that the audits reviewed complied with the Single Audit requirements. However, the OIG did identify one minor deficiency, a firm made management representations that did not specially address federal award programs as required by OMB Circular A-133.

- *Developed and Implemented a New Audit Tracking System:* The Department's Audit Follow-up Program staff designed and implemented a new and improved audit tracking system using Microsoft Access software. The new system (MCAF-TS) will facilitate more timely and effective monitoring of bureau and office audit recommendation implementation progress. This system has improved functionality and ad hoc report capabilities that will enable the Department to consolidate tracking of audit recommendations (both programmatic and financial management) from OIG, GAO and Single Audit reports, and provide for direct bureau updates. The new system will also provide for tracking the status of material weakness corrective action progress, and efforts by bureaus and offices to address OIG and GAO identified management challenges.
- *Improved the Rate of Management Decisions on Single Audits:* The Department provides over \$1 billion each year in funding for grants, cooperative agreements, Indian self-determination contracts, and Indian self-governance compacts to state and local governments, Indian tribes, colleges and universities, and other nonprofit organizations. Over 800 single audits are conducted of Department grantees each year. All Single Audit reports are now forwarded to the federal Single Audit Clearinghouse. Those with findings and recommendations requiring OIG and/or bureau actions are forwarded by the Clearinghouse to the OIG. These actions include resolving deficiencies identified in the audit

report, and determining the allowability of any expenditure of federal funds which have been questioned by the auditor. By the end of FY 2001, the Department expects to be successful in closing approximately 90 percent of the single audits referred for action by the Clearinghouse.

- *Collected and Offset Disallowed Costs in Single Audits:* The Department has made good progress in collecting and closing single audits with disallowed costs. During FY 2001, the Department expects to close approximately 75 percent of these audits and collect 52 percent (\$6.1 million) in disallowed costs.
- *Improved the Closure Rate of Internal Audits:* Internal audits are audits conducted by the OIG of the programs, organizations, financial, and administrative operations of the Department. During FY 2001, over 90 of these audits were being tracked and monitored. The Department expects to close 40 percent (36 audits) and over 35 percent of all audit recommendations by the end of the fiscal year.
- *Reached Timely Management Decisions on Internal Audits:* The Department has made steady progress in reducing the number of pending internal audits with unimplemented recommendations greater than one-year old. With the help of the Interior Management Council, the 10 oldest audits in tracking at the beginning of the fiscal year will be closed by the end of FY 2001. As a result of this aggressive monitoring activity, the total number of audits in this category are expected to decline by approximately 70 percent for the year. Those audits still pending involve recommendations with long-term and multi-faceted corrective actions, or are subject to policy and or regulatory changes.
- *Improved the Implementation Rate of GAO Audit Recommendations:* General Accounting Office audits are a major component of the Department's annual audit follow-up program workload. During FY 2001, 21 final audit reports are expected to be issued. These audits will contain 40 recommendations of which 38 percent (15) are expected to be implemented by the end of the fiscal year. Some of the remaining recommendations involve actions that may be cost-prohibitive and/or represent policy changes for further deliberation by the new Administration.

Ongoing Actions

- Complete 12 quality control reviews of non-federal audits each fiscal year, subject to resource availability.
- Continue to improve the rate of implementing audit recommendations, collecting disallowed costs, and closing audits.
- Initiate appropriate actions to facilitate mutual agreements on audit recommendations and corrective actions between OIG and GAO auditors and bureau and office management before final audit reports are issued. This action should substantially reduce the number of audit recommendations referred to the Department for final resolution and promote more timely implementation of audit recommendations.
- Accelerate Department validation of the implementation of audit recommendations and corrective actions.

Planned Actions

FY 2002 Planned Actions

- Institute a quarterly status reporting program with bureaus and offices to better support the accountability goals of the new Administration, and the oversight performed by the Department's Management Control and Audit Follow-up Council,
- Complete the development and issuance of a Departmental Management Control and Audit Follow-up Handbook.