DEPARTMENT OF THE INTERIOR

MINERALS MANAGEMENT SERVICE MANUAL

TRANSMITTAL SHEET

Release No. 77 October 28, 1985

SUBJECT: Program Series
Part 730 Internal Control Systems
Chapter 1 General Policies and Responsibilities
Chapter 2 Standards, Guidelines, and Reporting Systems

EXPLANATION OF MATERIAL TRANSMITTED:

This release describes the Minerals Management Service's policies and procedures for implementation of the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular No. A-123 (revised).

REPORTS REQUIRED:
- Summary Control Report
- Component Control Report
- Component Inventory, Vulnerability Assessment Results, and Internal Control Review Plan
- Vulnerability Assessments
- Annual Internal Control Review Report
- Internal Control Review Report on Material Weaknesses
- Annual Accounting System Review Report

Wm D Bettenberg
Director

FILING INSTRUCTIONS:

REMOVE:

None

INSERT:

Part	Chapters	Pages	Release
730	1	1-14	77
	2	1-19	

OPR: Branch of Evaluation
Internal Review Division
Office of Program Review

IA3 20037 (288)

LEFT MARGIN

RIGHT MARGIN

BOTTOM MARGIN

1. Purpose. This chapter sets forth the Minerals Management Service (MMS) policies and responsibilities for the implementation of the Federal Managers' Financial Integrity Act of 1982 (the Act) and Office of Management and Budget (OMB) Circular No. A-123 (revised) (the Circular), "Internal Control Systems," dated August 16, 1983. OMB Circular No. A-123 (revised) is included as Appendix 1 to this chapter.

2. Objectives. The objective is to ensure implementation and maintenance of effective internal controls as a primary method to prevent fraud, waste, and abuse. An additional objective is to establish environments where internal controls are understood, encouraged, and enforced by all levels of management.

3. Authority.

A. Accounting and Auditing Act of 1950 (31 U.S.C. 3512).

B. Antideficiency Act (31 U.S.C. 1341).

C. Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255) (the Act).

D. Departmental Manual (340 DM Internal Control Systems).

4. Definitions. See Appendix 1.

5. Policy.

A. General. Organizational units will establish and maintain effective systems of controls including management, program, accounting, and administrative controls. These systems of controls should constitute the full range of internal controls necessary to protect and use Government resources efficiently and effectively. All levels of management should ensure that adequate controls are in place to: safeguard resources; maintain the accuracy of data; promote efficient management; and comply with prescribed laws, regulations, and policies.

B. Control Environment. Each organizational unit should establish a control conscious environment. This environment should provide an atmosphere in which managers are aware of the need to establish systematic controls, monitor their application, and periodically review their effectiveness. The control environment should encourage employee awareness of the existence of

BOTTOM MARGIN

FORM MMS 2000

internal controls and their individual responsibilities in the development and implementation of internal controls.

C. Vulnerability Assessments, Internal Control Reviews and Reporting. The MMS will conduct vulnerability assessments as specified in the Circular for all identified components (organizations, programs, functions, etc.). In addition, followup assessments will be conducted at least biennially. Subsequently, MMS will periodically conduct, on an ongoing basis, internal control reviews of all components. MMS will also establish and maintain a formal Corrective Action Tracking System to record and track planned corrective actions and to monitor related progress relative to planned completion dates.

6. Responsibilities.

A. All Associate/Assistant Directors, the Chiefs of the Offices of Congressional and Legislative Affairs and Minerals Management Information, and the Service Equal Opportunity Manager are responsible for establishing and maintaining adequate internal controls in their areas of responsibility. Effective execution of internal controls requires coordination and cooperation from all segments of MMS; management, program execution, or administrative. Managers have a further responsibility to ensure compliance by specifying employee accountability through program objectives, goals, and performance standards.

B. The Assistant Director for Program Review is responsible for establishing and maintaining policies and procedures to ensure that all requirements regarding internal controls contained in the Act, the Circular, and the Departmental Manual are completed in an effective and efficient manner in accordance with timeframes established by the Department's Office of Financial Management (PFM). The Assistant Director has a further responsibility to assign an Internal Control Coordinator to perform the day-to-day activities related to coordinating the establishment and maintenance of effective internal control systems for the MMS.

C. The Chief, Internal Review Division, through the Chief, Branch of Evaluation, is responsible for providing oversight of the internal control review process in MMS. The Chief, Internal Review Division, has further responsibilities to ensure that sufficient resources are provided to the Internal Control Coordinator to enable the accomplishment of all coordination requirements of the Act and the Circular.

102 20037

D. The Internal Control Coordinator is responsible for performing day-to-day activities related to the establishment and maintenance of effective internal control systems for the MMS. Specific responsibilities include:

(1) Developing and maintaining an inventory of organization programs, functions, and activities requiring systems of internal control;

(2) Scheduling a vulnerability assessment for each component in the inventory;

(3) Ranking the results of the vulnerability assessments;

(4) Scheduling internal control reviews for each component in the inventory;

(5) Preparing and revising annually an Internal Control Review Plan;

(6) Meeting on an as-needed basis with those designated to perform internal control reviews to assist them in understanding what needs to be done, how the reviews should be conducted, and how the required documentation should be compiled;

(7) Performing a quality assurance review on each assessment and review conducted to ensure they are completed in accordance with all established guidelines;

(8) Providing liaison with the PFM, auditors from the General Accounting Office (GAO), and the Department's Office of Inspector General (OIG);

(9) Preparing the annual statements required by the Act and the material weakness reports for the signature of the Director to the Assistant Secretary;

(10) Establishing and maintaining a formalized Corrective Action Tracking System; and

(11) Preparing an annual Summary Control Report and quarterly Component Control Report; see Minerals Management Service Manual (MMSM) 730.2.7C.

E. Program Managers who direct or control resources are responsible for:

103 20037

BOTTOM MARGIN

FORM MMS-2000

(1) Establishing, maintaining, evaluating, improving, and reporting on internal controls for their assigned areas;

(2) Completing internal control reviews for those program and functional components in their assigned areas within the time-frames established in the MMS Internal Control Review Plan. This includes determining that:

(a) Internal control systems are established in accordance with standards prescribed by the Comptroller General and that the systems provide reasonable assurance that the objectives of internal control, as described in the Circular and the Act, are met; and

(b) The system is functioning as prescribed or assuring that the system is modified, as appropriate, to assure proper functioning.

(3) Providing adequate resources to evaluate their systems of control.

LEFT MARGIN

RIGHT MARGIN

162 20037

BOTTOM MARGIN

FORM MMS 2000

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 16 1983

CIRCULAR No. A-123
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Internal Control Systems

1. Purpose. This Circular prescribes policies and standards to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.

2. Rescission. This revision replaces Circular No. A-123, "Internal Control Systems," dated October 28, 1981.

3. Background. The Accounting and Auditing Act of 1950 requires the head of each department and agency to establish and maintain adequate systems of internal control. Office of Management and Budget (OMB) Circular A-123, issued in October 1981, promulgated internal control standards and a system of agency responsibilities and requirements to address the numerous instances of fraud, waste, and abuse of Government resources and mismanagement of Government programs resulting from weaknesses in internal controls or breakdowns in compliance with internal controls.

The Federal Managers' Financial Integrity Act, P.L. 97-255, (hereafter referred to as the Act), amended the Accounting and Auditing Act of 1950. The Act's requirements and objectives are basically the same as the original Circular's, except that the internal accounting and administrative control standards are to be prescribed by the Comptroller General; annual evaluations are to be conducted by each executive agency of its system of internal accounting and administrative control, in accordance with guidelines established for such evaluations by the Director of the Office of Management and Budget; and an annual statement is to be submitted by the head of each executive agency to the President and the Congress on the status of the agency's system of internal control. The guidelines, entitled "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government" were issued in December 1982.

In addition to the requirements of the Act, 31 U.S.C. 1514 requires that agency systems for the control of funds be approved by the Director of OMB. These requirements are prescribed by Circular A-34, "Budget Execution."

4. Policy. Agencies shall maintain effective systems of accounting and administrative control. All levels of management shall involve themselves in assuring the adequacy of controls. New programs shall incorporate effective systems of internal control. All systems shall be evaluated on an ongoing basis, and weaknesses, when detected, shall be promptly corrected. Reports shall be issued, as required, on internal control activities and the results of evaluations.

5. Definitions. For the purpose of this Circular, the following terms are defined:

a. Agency -- any department or independent establishment in the executive branch.

b. Agency Component -- a major organization, program or functional subdivision of an agency having one or more separate systems of internal control.

c. Control Objective -- a desired goal or condition for a specific event cycle that reflects the application of the overall objectives of internal control to that specific cycle. /1

d. Internal Control -- the plan of organization and methods and procedures adopted by management to provide reasonable assurance that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

/1 Control objectives are not absolutes. Since the achievement of control objectives can be and is affected by such factors as budget constraints, statutory and regulatory restrictions, staff limitations, and cost-benefit considerations, the lack of achievement of control objectives does not necessarily represent a defect or deficiency in internal control requiring correction. Such limiting factors need to be considered in determining whether there is reasonable assurance the control objectives are being achieved.

e. Internal Control Documentation -- written policies, organization charts, procedural write-ups, manuals, memoranda, flow charts, decision tables, completed questionnaires, software, and related written materials used to describe the internal control methods and measures, to communicate responsibilities and authorities for operating such methods and measures, and to serve as a reference for persons reviewing the internal controls and their functioning.

f. Internal Control Guidelines -- the guidelines issued by OMB in December 1982, entitled "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government".

g. Internal Control Review -- a detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner.

h. Internal Control Standards -- the standards issued by the Comptroller General on June 1, 1983, 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.

i. Internal Control System -- the sum of the organization's methods and measures used to achieve the objectives of internal control.

j. Internal Control Technique -- processes and documents that are being relied on to efficiently and effectively accomplish an internal control objective and thus help safeguard an activity from waste, loss, unauthorized use, or misappropriation.

k. Material Weakness -- a situation in which the designed procedures or degree of operational compliance therewith does not provide reasonable assurance that the objectives of internal control specified in the Act are being accomplished.

l. Vulnerability Assessment -- a review of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation.

6. Responsibility. The head of each agency is responsible for ensuring that the design, installation, evaluation, and improvement of internal controls, and issuance of reports on the agency's internal control systems are in accordance with the requirements of the Act and the guidance contained in the Internal Control Guidelines. Designated internal control officials and heads of organizational units within agencies have responsibilities for ensuring the performance of necessary internal control evaluations and providing assurances to the agency head. These responsibilities are described in paragraphs 6b and c. The Inspector General, or equivalent in agencies without an Inspector General, has a limited responsibility in regard to internal controls, as explained in paragraph 6d.

a. Agency heads are responsible for establishing and maintaining the system of internal control within their agencies. This includes determining that the system is established in accordance with the standards prescribed by the Comptroller General and that it provides reasonable assurance that the objectives of internal control, as described in paragraph 7, are met. It also includes determining that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

b. A designated senior official shall be responsible for coordinating the overall agency-wide effort of evaluating, improving and reporting on internal control systems in accordance with the Internal Control Guidelines. This responsibility includes providing assurance to the agency head that those processes were conducted in a thorough and conscientious manner.

c. Heads of organizational units are responsible for the system of internal control in their units. This responsibility includes providing to the agency head assurance that he or she is cognizant of the importance of internal controls; has performed the evaluation process in accordance with the Internal Control Guidelines and in a conscientious manner; and believes the objectives of internal control are being complied with in his or her area of responsibility within prescribed limits.

d. The Inspector General (IG), or the senior audit official where there is no Inspector General, is encouraged to provide technical assistance in the agency effort to evaluate and improve internal controls. This would be in addition to the reviews of internal control documentation and systems, undertaken at the IG's initiative or at the request of the agency head, and the reports issued as a result of these reviews.

e. In addition, the IG may advise the agency head whether the agency's internal control evaluation process has been conducted in accordance with the Internal Control Guidelines. Performing the limited review required to provide such advice should not be interpreted to preclude the IG from providing technical assistance in the agency effort to evaluate and improve internal controls, or otherwise limit the authority of the IG. The extent of IG involvement in the agency's internal control evaluation, improvement and reporting process should be coordinated among the agency head, IG, and the designated internal control official.

7. Objectives of Internal Control. The objectives of internal control, as specified in the Act, are to provide management with reasonable assurance that:

a. Obligations and costs comply with applicable law.

b. Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

c. Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

The objectives of internal control apply to all program and administrative activities.

8. Internal Control Standards. An agency's or agency component's system of internal control shall be established and maintained in accordance with the standards prescribed by the Comptroller General as presented below. OMB commentary on selected standards is contained in the bracketed paragraphs.

a. General 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 internal control should not exceed the benefits derived therefrom and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.]

2. Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

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.

4. Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

5. Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

[Internal control techniques are to be designed for and operated in all agency programs and administrative activities in order to accomplish the control objectives consistently.]

b. Specific Standards

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.

[Independent evidence is to be maintained that authorizations are issued by persons acting within the scope of their authority and that the transactions conform with the terms of the authorizations.]

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

[Key duties such as authorizing, approving, and recording transactions, issuing or receiving assets, making payments, and reviewing or auditing are to be assigned to separate individuals to minimize the risk of loss to the government. Internal control depends largely on the reduced opportunities to make and conceal errors or to engage in or conceal irregularities. This, in turn depends on the assignment of work so that no one individual controls all phases of an activity or transaction, thereby creating a situation that permits errors or irregularities to go undetected.]

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

[Qualified and continuous supervision also is to ensure that approved procedures are followed. Lines of personal responsibility and accountability are to be clearly established.]

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. Audit Resolution Standard

1. Prompt Resolution of Audit Findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

9. Requirements for Agency Internal Control Directive. Each agency shall update its internal control directive which will, at a minimum:

a. Establish specific responsibilities for seeing that agency internal control systems are developed (where they do not exist), maintained, evaluated, improved as necessary, and reported upon in accordance with the Internal Control Guidelines.

b. Provide for coordination among the designated internal control official, heads of organizational units, program managers, and technical staffs, including the Office of Inspector General or its equivalent in agencies without an Inspector General, in matters concerning internal control.

c. Assign responsibility for internal control to appropriate levels of management in each agency component and establish administrative procedures to enforce the intended functioning of internal controls. These procedures should require performance agreements for each Senior Executive Service and Merit Pay or equivalent employee with significant management responsibility to include fulfillment of assigned internal (i.e., management) control responsibilities; notations in performance appraisals for positive accomplishments related to internal controls; appropriate disciplinary action for violations of internal controls; and timely correction of internal control weaknesses, however identified.

d. Require each internal control system to meet the standards of internal control described in paragraph 8.

e. Provide for an ongoing program of vulnerability assessments covering all agency components and assessable units. Assessments shall be accomplished as frequently as circumstances warrant. Agencies shall assure the evaluation of each assessable unit at least once every two years.

f. Provide for internal control reviews, audits, increased or improved monitoring procedures or other processes on an ongoing basis to determine whether the controls are operating as intended and are effective. These reviews or other actions should identify internal controls that need to be strengthened or streamlined. The timing of the reviews or other actions shall be determined based upon the results of the vulnerability assessments, management priorities, resource availability, and other management initiatives planned or underway.

10. Follow-up Actions. The recommendations resulting from vulnerability assessments and internal control reviews should be considered by management on a timely basis and appropriate corrective actions should be taken as promptly as possible. A formal follow-up system should be established that records and tracks recommendations and projected action dates, and monitors whether the changes are made as scheduled. The existing audit follow-up system maintained by the designated agency follow-up official could be used for this purpose.

11. Specific Internal Control Guides. Models and other guidelines for internal controls for specialized aspects of agency operations will be developed from time to time and issued separately to aid agencies in designing specific internal control systems.

12. Reporting. By December 31, 1983, and by each succeeding December 31, the head of each executive agency subject to P.L. 97-255 (31 U.S.C. 3512) shall submit a statement to the President and to the Congress stating whether the evaluation of internal controls was conducted in accordance with the Internal Control Guidelines, stating whether the agency's system of internal accounting and administrative control complies with the Comptroller General's standards and provides reasonable assurance

that obligations and costs are in accordance with applicable law; funds, property, and other assets are safeguarded; and revenues and expenditures are properly recorded and permit the preparation of reliable financial and statistical reports; reporting the material weaknesses, if any, in the agency's system of internal control, however identified; and containing a plan for correcting any weaknesses. Procedures to be followed in preparing this report are contained in the Internal Control Guidelines.

Agencies are also required to submit information to OMB on the progress made in evaluating and improving internal controls as part of the Reform '88 Tracking System.

13. Effective Date. This Circular is effective on publication.

14. Inquiries. All questions or inquiries should be addressed to the Finance and Accounting Division, Office of Management and Budget, telephone number 202/395-3122.

15. Sunset Review Date. This Circular shall have an independent policy review to ascertain its effectiveness three years from the date of issuance.

David A. Stockman
Director

1. Purpose. This chapter provides direction and guidance to employees for:

A. The standards of internal controls to be used;

B. The guidelines to be followed in performing vulnerability assessments and internal control reviews;

C. The followup process regarding corrective actions; and

D. The reporting system to be used in the implementation of Office of Management and Budget (OMB) Circular No. A-123 (revised) (the Circular).

E. This chapter also incorporates, by reference, relevant guidelines issued by OMB, the General Accounting Office (GAO), and the Office of Financial Management (PFM).

2. Definitions.

A. General. Most of the terms used in this chapter (such as internal controls, vulnerability assessments, risks, abuse, fraud, and waste) are defined in the Circular or in relevant guidelines issued by OMB, GAO, OIG, or PFM.

B. Bureau Component is a major organization, program, or functional subdivision requiring one or more separate systems of internal control to:

(1) Safeguard resources;

(2) Assure the accuracy and reliability of timely reports and information;

(3) Assure adherence to applicable laws, regulations, policies and procedures; and

(4) Promote operational economy and efficiency.

C. Internal Control Coordinator is the official designated to coordinate and facilitate compliance with the Circular as set forth in relevant guidance issued by OMB, GAO, OIG, and PFM.

IA8 20037

3. Standards of Internal Control.

A. Internal Control Standards. Internal control standards consist of general standards and specific standards. They are employed in conducting vulnerability assessments and conducting internal control reviews. When properly applied, these standards will assist managers in determining the adequacy of management controls in place. These standards are listed in the Circular. More detailed explanations of the internal control standards are contained in the Comptroller General's "Standards for Internal Control in the Federal Government," dated June 1, 1983.

(1) General standards refer to the overall aspects of the process which are considered essential to successful application of specific controls. General standards include:

(a) Establishing reasonable assurance that the objectives of the internal control system are accomplished;

(b) Maintaining a supportive attitude toward internal controls;

(c) Maintaining competent personnel;

(d) Identifying or developing internal control objectives; and

(e) Specifying effective internal control techniques.

(2) Specific standards refer to the essential techniques necessary to provide reasonable assurance that the internal control objectives will be achieved. Specific standards refer to:

(a) Documentation;

(b) Recording of transactions and events;

(c) Execution of transactions and events;

(d) Separation of duties;

(e) Adequate supervision; and

(f) Access to and accountability for resources.

B. Control Standard Modification. Control standards for specific components should be tailored to fit the unique circumstances represented by the program or functional component. For this reason, the standards identified in the Circular provide a broad context within which appropriate modifications may be made by management. When such modifications are necessary, they must be consistent with those prescribed in the Circular and those contained in the Comptroller General's "Standards For Internal Control in the Federal Government," dated June 1, 1983.

4. Guidelines for Conducting Vulnerability Assessments.

A. General. The MMS will conduct vulnerability assessments as prescribed in the Circular and according to supplemental PFM guidance. The Department has established a 2-year cycle starting with each even-numbered year and ending with each odd-numbered year. The even-numbered years are designated as the years in which vulnerability assessments will normally be conducted. In addition, followup assessments are to be conducted at least biennially. Based on the results of vulnerability assessments, MMS will schedule and perform internal control reviews of the components. In order to meet the vulnerability assessment requirement, MMS will:

(1) Identify and maintain an accurate inventory of all components;

(2) Prepare and execute a plan to conduct vulnerability assessments at least biennially for all components; and

(3) Conduct and properly document vulnerability assessments, as prescribed by PFM, and prepare a Component Inventory, Vulnerability Assessment Results, and Internal Control Review Plan. The completed Component Inventory, Vulnerability Assessment Results, and Internal Control Review Plan will be approved by the Director and the Assistant Secretary. Copies of the approved document, along with the completed vulnerability assessments, will be submitted to OIG and PFM.

B. Developing Vulnerability Assessments. Three steps are required: analysis of the general control environment; analysis of inherent risk; and a preliminary evaluation of safeguards.

(1) Analysis of the General Control Environment. The general control environment is management's attitude and discipline concerning internal controls. The purpose of

analyzing the general control environment is to determine if management's attitude is conducive to a strong internal control system. Since the control environment is an indication of management's control consciousness, it could have a major impact on the effectiveness of internal controls. The major factors that influence the general control environment are organization; delegation of authority; policies and procedures; personnel; planning, programming, and budgeting; and reporting and monitoring. A subjective analysis of the adequacy of these factors will lead the reviewer to a conclusion on the general control environment.

(2) Analysis of Inherent Risk. Risk is a type of unwanted occurrence such as loss, error, fraud, or mismanagement that might occur because internal controls are not adopted or implemented. Inherent risk, as defined by OMB's "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government," is "the inherent potential for waste, loss, unauthorized use, or misappropriation due to the nature of an activity itself." The purpose of analyzing the inherent risk is to get an indication of the scope of the component and the degree of control necessary to prevent or reduce the inherent risk. The major factors that affect the inherent risk of a component are size of budget; life of component; component administration; results of audits and other studies; responsiveness to recommendations; component's impact outside the Department; and special concerns. The analysis of inherent risk is more objective than the analysis of the general control environment.

(3) Preliminary Evaluation of Safeguards. This step calls for a subjective evaluation of the existence and adequacy of controls. The evaluator must exercise professional judgment based on his/her knowledge and experience with the component. In reaching a judgment, the evaluator is expected to consider what internal control standards are necessary to effect the proper controls.

(4) Documentation. The MMS will prepare and maintain sufficient documentation to evidence the basis for the results and conclusions reached on vulnerability assessments. The MMS will use the documentation process outlined by PFM in applying numerical ranking criteria to the analysis factors evaluated in a component. Where the vulnerability assessment numerical ranking for a component is "medium" or "low" and MMS management is aware of specific circumstances such as audit findings that

could alter the ranking, MMS approval officials must exercise an override prerogative and rank the component vulnerability assessment at the appropriate level called for by the circumstance.

5. Guidelines for Conducting Internal Control Reviews.

A. General. An effective review of internal controls begins with the recognition of the responsibilities and characteristics of each component. The focus must, therefore, be on management's responsibility to provide reasonable assurances that:

(1) Obligations and costs are in compliance with applicable law;

(2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

(3) Revenues and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. Given this responsibility, management officials will periodically evaluate their internal control systems to assure that their responsibilities are being adequately met. Management officials are also required to involve regional office officials in conducting internal control reviews where the program is primarily executed in a field location.

B. Review Plans. After completing the vulnerability assessment process, internal control reviews must be planned and conducted as part of a continuous cycle. An Internal Control Review Plan must be prepared annually, as prescribed by PFM, to cover all internal control reviews anticipated during each calendar year. Normally, such plans will be completed biennially as a part of the vulnerability process with review plan updates for the intervening calendar years. These plans will be forwarded to the Assistant Secretary for approval. A copy of the approved plans will then be forwarded to OIG and PFM.

C. Evaluation Process. The OMB has issued its guidelines to agencies for use in performing internal control reviews. The guidelines are entitled "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government." As a supplement to the OMB guidelines, PFM issued a departmental guideline entitled "Guideline for Conducting Internal Control Reviews" as a "how to" handbook to

Bureaus and offices in conducting and reporting on program and administrative components. This guideline must be followed by bureaus and offices in defining internal control systems and conducting and documenting internal control reviews. The MMS will follow the departmental handbook in conducting internal control reviews.

D. Quality Assurance. The MMS will establish and maintain a built-in quality assurance process to ensure that internal control systems are properly defined, internal control reviews are properly performed, and the results accurately reported. This means that event cycles, control objectives, and control techniques must be established and documented for each component evaluated. No internal control review is considered complete without a determination of the risks for its established control objectives and the related control techniques. For each component evaluated, control tests are both essential and imperative in the quality assurance process to determine whether the internal control system employed, together with its control techniques, is properly functioning as intended to minimize associated risks in accomplishing the stated component control objectives. The individual assigned to perform an internal control review is responsible for obtaining his/her supervisor's concurrence in the work performed prior to forwarding the required worksheets and reports to the Internal Control Coordinator. The Internal Control Coordinator will be responsible for performing a quality assurance review for each internal control review to ensure that it is completed in accordance with the departmental "Guideline for Conducting Internal Control Reviews." The quality assurance review will include:

(1) Reviewing the Worksheet for Analysis of General Control Environment (Illustration 1) to ensure it is complete and documentation exists to support the responses to the questions;

(2) Reviewing the Internal Control Review Worksheet for Documentation of Event Cycles, Control Objectives, and Control Techniques (Illustration 2) to ensure it is complete, the event cycles are logical, the control objectives are realistic, and the control techniques are adequate;

(3) Ensuring that potential risks are identified for each event cycle;

(4) Ensuring that evidence is contained in the documentation indicating that the control systems were tested; and

BOTTOM MARGIN
LEFT MARGIN
RIGHT MARGIN
FORM MMS 2000

(5) Ensuring that sufficient documentation exists to facilitate a subsequent review of the process by GAO or OIG.

E. Resolution of Conflicts. In the event that the Internal Control Coordinator takes exception to any aspect of the internal control review and is unable to reach agreement with the reviewer on the issue, he/she will bring it to the attention of the appropriate Associate/Assistant Director, through the Office of the Chief, Internal Review Division, for resolution.

6. Guidelines for Conducting Accounting System Reviews.

A. General. Section 4 of the Act requires a separate annual report on whether Agencies' accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

B. Evaluation Process. The Department and OMB require annual evaluations of all Bureau accounting systems each fiscal year and a report on the results of such evaluations to the responsible Assistant Secretary with a copy to the OIG and PFM within 30 days after completion or after the end of the fiscal year for which the systems were evaluated, whichever comes first. The GAO has prepared a questionnaire for reviewing systems to be used in performing accounting system compliance reviews (Illustration 3). The questionnaire's objective is to determine whether accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. The MMS, as requested by PFM, will use the GAO questionnaire in performing accounting system compliance reviews. In performing the reviews, MMS will develop sufficient documentation to facilitate any subsequent reviews by OMB, GAO, OIG, or PFM.

7. Reporting Systems.

A. General. The Act and the Circular require Departments to develop an internal control evaluation process. The Department's process requires Bureaus and offices to periodically identify assessable components, conduct vulnerability assessments, perform internal control reviews, and conduct evaluations of their accounting systems. Internal control reviews and reviews of the accounting systems result in reports which identify internal control weaknesses, planned corrective actions, and scheduled completion dates. Based upon these reports, audits of internal controls conducted by the OIG and GAO, and other evaluations of internal controls, Bureau Directors submit through Assistant Secretaries to the Secretary annual statements and reports

including, where appropriate, related plans and schedules for correcting internal control weaknesses. These statements and reports, in turn, form the basis for the annual departmental statement/report to OMB, the President, and the Congress.

B. Followup Requirements. In accordance with requirements outlined in the Circular, MMS will establish and maintain a formal followup system to:

(1) Record and track planned corrective actions; and

(2) Monitor related progress against planned completion dates. This system should facilitate the discharge of management responsibilities associated with correcting internal control weaknesses identified in internal control reviews. This system is based on guidance from PFM and will be known as the Corrective Action Tracking System. The Internal Control Coordinator will maintain the system which will generate two reports, a Summary Control Report and a Component Control Report, for use by MMS management and PFM.

(3) The Summary Control Report will represent a summary listing of all components for which internal control weaknesses have been identified. The Component Control Report will be prepared for each component identified on the Summary Control Report. The Summary Control Report will be updated annually.

(4) The Component Control Report will be updated on a quarterly basis with quarterly reports provided to OFM by the 15th calendar day after the end of each quarter. Each responsible component manager will submit control report update information for components under his/her jurisdiction to the Internal Control Coordinator by the fifth calendar day after the end of a calendar quarter. This updated information may be provided on the appropriate pages of the existing control report. The control reports will then be officially updated by the Internal Control Coordinator.

C. Reporting Requirements. The MMS will prepare the following reports and forward them to PFM according to the timeframes established by PFM.

(1) Component Inventory, Vulnerability Assessment Results, and Internal Control Review Plan. This report contains an inventory of components, indicates the results of prior and

current assessment ratings, and includes a schedule of detailed internal control reviews of appropriate components (Illustration 4).

(2) Vulnerability Assessment for individual components (Illustration 5).

(3) Annual Internal Control Review Report. This report contains a list of identified control weaknesses and planned corrective actions for each component reviewed (Illustration 6).

(4) Internal Control Review Report on Material Weaknesses. The OMB states that material weaknesses included in these reports should be matters that would be of significance to the Secretary of the Interior. In determining how to apply the materiality criteria, MMS must consider all the weaknesses reported from internal control reviews conducted during the current fiscal year. In addition, MMS must consider all OIG and GAO audit findings issued or recommendations implemented during the current fiscal year and the results of any internal reviews or studies completed during the current fiscal year (Illustration 7).

(5) Annual FMFIA Accounting System Review Report. This report contains a list of identified exceptions to the applicable Comptroller General principles, standards, and related requirements, and planned corrective actions for each exception (Illustration 8).

(6) Summary Control Report. This report contains a listing of all MMS components which contain internal control weaknesses (Illustration 9).

(7) Component Control Report. This report is generated by the formal followup system and tracks planned corrective actions identified in the Internal Control Review Reports until they are implemented (Illustration 10).

BOTTOM MARGIN
LEFT MARGIN
RIGHT MARGIN
NV 1A120037
FORM MMS-2000

WORKSHEET FOR
ANALYSIS OF GENERAL CONTROL ENVIRONMENT
COMPONENT -

FACTOR	QUESTIONS	RESPONSE YES	RESPONSE NO	COMMENTS
A. Organization	1. Does/do the organizational unit(s) operating the component have a. clearly written goals and objectives? b. authority and responsibility to pursue the goals and objectives?			
	2. Is/are the organization unit(s) operating the component a. sufficiently flexibile to accommodate changes? b. held accountable for resources entrusted to it? c. held accountable for the results of its operations?			
B. Delegation of Authority	1. Do delegations of authority a. exist in writing? b. clearly delineate duties and responsibilities? c. prevent overlapping, duplication, and conflicts of duties and responsibilities? d. grant sufficient authority to officials to carry out their responsibilities? e. divide responsibility so that no single official controls all phases of a critical transaction?			
C. Policies and Procedures	1. Are policies and procedures a. clearly stated in writing and systematically organized in manuals, handbooks, or other publications? b. systematically communicated throughout the organization?			

INTERNAL CONTROL REVIEW
WORKSHEET FOR DOCUMENTATION OF EVENT CYCLES, CONTROL OBJECTIVES, AND CONTROL TECHNIQUES
COMPONENT -

EVENT CYCLES	CONTROL OBJECTIVES	CONTROL TECHNIQUES

YES	NO	N/A

SECTION II. APPLICABLE PRINCIPLES AND STANDARDS FROM GAO REVISED TITLE 2 STANDARDS

1. Accounts Payable (A10)

1.1 Accounts payable for goods and services shall be recorded as a liability when the goods are received.

ATTRIBUTES:

--Receiving reports are completed and forwarded promptly.

--Evidence shows no significant delays in recording payables.

1.2 Under appropriate circumstances services performed by employees, contractors, grantees, and lessors shall be considered as accounts payable.

ATTRIBUTES:

--Items manufactured to the Government's specifications, including contract retentions, are recorded as payables, based on requests for progress payments or reasonable estimates of unbilled performance.

1.3 Amounts owed at the end of an accounting period for which no further performance by payees is required (such as annuities, insurance premiums, cash grants) shall be recorded as accounts payable.

ATTRIBUTES:

--Determination is made that payment is probable and amount estimable.

1.4 Accounts payable shall be recorded for amounts received in advance (received but not yet earned).

ATTRIBUTES:

--Procedures exist for recording advance receipts as liabilities.

1.5 Monetary credits issued as compensation for property or services received from non-Federal entities shall report a liability equal to the value of the monetary credit.

ATTRIBUTES:

--Procedures exist and are documented for issuances of monetary credits.

2. Acquisition Cost of Assets (A20)

2.1 All assets acquired shall be recorded at full cost, including amounts paid to acquire them, such as transportation, installation and other costs required to place an asset in service.

ATTRIBUTES:

--Actual documents show that values capitalized include all elements.

2.2 Acquisition cost is to be recorded net of purchase discounts taken. Discounts lost and late payment penalties should not be included in asset costs, but instead should be recognized as operating expenses.

ATTRIBUTES:

--Procedures are up-to-date.

--Sampling shows classification to proper GL and cost accounts.

Department of the Interior

Component Inventory, Vulnerability Assessment Results, and Internal Control Review Plan

Bureau/Office: Minerals Management Service 1984-1985 Cycle

No.	Component	Prior Assessment Rating	Current Assessment Rating	Internal Control Review Plan				Responsible Official
				Alternative Review		Full Review		
				Begin	End	Begin	End	
7.	Offshore Oil and Gas Information	Low	Low					John Doe
8.	Offshore Operator Proposals to Reduce Royalty Rates	Medium	Medium					John Doe
9.	Royalty Management--Receipt of Proper Royalty Payments	High	High			ICR completed in 1983		John Doe
10.	Royalty Management--Internal Controls over Revenue Receipts and Disbursements	High	High			ICR completed in 1983		John Doe
11.	Royalty Management--Auditing; use of quantitative data in company audits	High	Low					John Doe
12.	Royalty Management--Statistical Reporting and Projections	High	High			ICR completed in 1983		John Doe
13.	Budget--Administrative Control of Funds	Medium	Medium			ICR completed in 1983		John Doe

DEPARTMENT OF THE INTERIOR
VULNERABILITY ASSESSMENT

Bureau/Office: _____ Component: _____

Factors	Numerical Ranking
Analysis of the General Control Environment	
1. Organization	
2. Delegation of Authority	
3. Policies and Procedures	
4. Personnel	
5. Planning, Programming, and Budgeting	
6. Reporting and Monitoring	_____
Subtotal - Analysis of the General Control Environment	_____
Analysis of Inherent Risk	
1. Size of Budget	
2. Life of Component	
3. Component Administration	
4. Results of Audits and Other Studies	
5. Responsiveness to Recommendations	
6. Component's Impact Outside the Department	
7. Special Concerns	_____
Subtotal - Analysis of Inherent Risk	_____
Preliminary Evaluation of Safeguards	_____
Total Numerical Ranking	_____

Overall Vulnerability Assessment: High Medium Low

Estimated Time Spent Performing Vulnerability Assessment: _____ Hours

Evaluator _____ Date _____

Approver _____ Date _____

Internal Control Coordinator _____ Date _____

INTERNAL CONTROL REVIEW REPORT

Bureau/Office _____ Component _____

Responsible Official _____ Date _____

NO.	IDENTIFIED CONTROL WEAKNESSES	NO.	PLANNED CORRECTIVE ACTION	DATE SCHL'D.

INTERNAL CONTROL REVIEW REPORT ON MATERIAL WEAKNESSES

Bureau/Office _____ Component _____

NO.	IDENTIFIED CONTROL WEAKNESSES	NO.	PLANNED CORRECTIVE ACTION	DATE SCHL'D

FMFIA ACCOUNTING SYSTEM REVIEW REPORT

BUREAU/OFFICE _____ **ASCR** /__/ **ICR** /__/ **ELEMENT** _____

RESPONSIBLE OFFICIAL _____ **DATE** _____

REVIEWER(S) _____ **PHONE NO.** _____

NO.	IDENTIFIED CONTROL WEAKNESSES	ASCR REFERENCE	NO.	PLANNED CORRECTIVE ACTION	DATE SCHL'D.

Reporting Month: March 1985
Date Prepared: April 30, 1985

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Corrective Action Tracking System: SUMMARY CONTROL REPORT

No.	Component Code	Component Title	Vulnerability Assessment	ICR	Comments
	Fiscal Year 1983				
1	MMS-OMM-01	OCS Oil and Gas Leasing	H(12/23/82)	F(11/14/83)	Complete
2	MMS-OMM-02	Resource Evaluation Program	H(12/23/82)	F(11/14/83)	
3	MMS-OMM-03	Offshore Oil and Gas Inspection Program	H(12/23/82)	F(11/14/83)	
4	MMS-OOA-01	Procurement	H(12/23/82)	F(11/14/83)	Complete
5	MMS-ORM-01	Product Value Determinations	H(12/23/82)	F(11/14/83)	
6	MMS-ORM-02	Royalty Management-- Internal Controls Over Receipts and Disbursements	H(12/23/82)	F(11/14/83)	Complete
7	MMS-ORM-03	Royalty Management-- Receipt of Proper Royalty Payments	H(12/23/82)	F(11/14/83)	
8	MMS-ORM-04	Royalty Management-- Statistical Reporting and Projections	H(12/23/82)	F(11/14/83)	Complete
	Fiscal Year 1984				
9	MMS-ORM-05	Royalty Management-- ADP Systems Security	H(2/29/84)	F(9/29/84)	
10	MMS-ORM-06	Royalty Management-- ADP Contingency Plan for systems disaster	H(2/29/84).	F(9/25/84)	Complete

Reporting Month: March 1985
Date Prepared: April 30, 1985

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Corrective Action Tracking System: COMPONENT CONTROL REPORT

No. 2 Component Code: MMS-OMM-02 Component Title: Resource Evaluation Program Responsible Official: Chief, Offshore Resource Evaluation Program

Detailed Code	Internal Control Weakness	Planned Corrective Actions	Completion Date	Comments
12m	Lack of coordination among Regions of control levels and techniques in sale-specific evaluation work and nonsale-specific regional and topical studies.	Will exchange information and techniques among Regions on continual or as needed basis through meetings.	3/84	Complete.
13m	Workload measures and unit costs included in formal budget justifications are difficult to use to measure performance.	Reviewing work load factors to be used. Will set up small ADP system to monitor situation.	7/84	Complete.
14m	Difficult to monitor true performance via appraisal system now used.	Performance standards redone to better define measures for technical work.	1/84	Complete.
15m	Lack of monthly financial reports by program.	Budget Division developing financial reports to show spending by program.	10/1/83	Complete.

IMP 2AI 20037