

Treasury Directive Publication 40-04
Treasury Internal (Management) Control Program
Guidance for Conducting Internal Control Reviews

I. Guidelines for Performing Internal Control Reviews

A. **General.** Bureaus and DO offices should schedule and perform a sufficient number of internal control reviews (ICRs) which, in conjunction with audits by GAO, OIG, TIGTA, GPRA assessments, program evaluations, and management studies, provide an adequate basis for the annual assurance statement conclusion issued by the bureau head. The criteria used to determine areas of review within an organization should be based on risk factors in various program areas, e.g. the size or volatility of transactions or the visibility of an activity. High-risk activities and significant GPRA-related activities should be given priority in the planning and scheduling of reviews.

Attachments A-1 and A-2 provide one possible approach to ICRs: attachment A-1 is a short form risk assessment questionnaire designed to assist bureaus in determining if a review should be done; attachment A-2 provides guidance for completing a risk assessment for a program or function and includes a worksheet and scoring card that helps rate each category. Both documents are offered only as samples, and bureaus are free to develop other guidelines.

B. **Focus.** Bureaus have the discretion to determine the methodology used to conduct an evaluation. An effective review of management controls begins with the recognition of the responsibilities and characteristics of each bureau or office component. The focus must, therefore, be on management's responsibility to provide reasonable assurance that:

1. programs are efficiently and effectively carried out in accordance with applicable law and management policy;
2. obligations and costs are in compliance with applicable law and Congressional direction;
3. funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and,
4. revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of complete, reliable budgetary, financial and statistical reports.

Control Tests. Internal reviews require appropriate tests of existing control procedures to determine if the controls are operating as intended. Methods used to test controls may include reviewing records, observing the performance of a control, tracing transactions through the control system, and interviewing the individuals responsible for operation of the controls. The test results should be considered along with other sources of information to form a conclusion on the adequacy of the controls in operation.

C. Quality Assurance. Each bureau should establish a quality assurance process to ensure that control systems are properly defined, control evaluations are properly performed, and the results are accurately reported.

D. Evaluation Documentation. Each bureau should maintain sufficient documentation to support the conduct of an evaluation, the basis for the results, and conclusions reached. Evaluation documentation should be retained and available for review by parties both inside and outside the Department.

F. Frequency. Bureaus have discretion in determining how often ICRs are performed and in what areas. Programs and functions that recently have been the subject of a formal audit or evaluation by an external organization such as OIG, TIGTA, or GAO, need not be reviewed unless, subsequent to the audit, there is a significant change in the program, function, staff, or resources.

G. Communication. Management control deficiencies identified in the course of daily operations or from other sources should be reported through the chain of command to the person responsible for the function or activity involved, and to other management levels as deemed appropriate. Early reporting of a weakness permits management to focus attention on correcting the problem in a timely manner. Once responsibility for correcting the deficiency has been established, the appropriate management levels together determine whether the weakness is of sufficient seriousness to warrant further reporting to responsible bureau senior management officials and/or to the Assistant Secretary. The final determination in classifying deficiencies as material weaknesses to be reported outside the Department is made by the AIC.

II. Guidelines for Deciding FMFIA Materiality and Non-Conformance

A. General. By performing the materiality considerations contained below, Bureaus can ensure that the Secretary accurately reports to the President, Congress, and OMB on Section 2 FMFIA material management control weaknesses and Section 4 FMFIA conformance and FFMLA.

B. Materiality Considerations. The following questions should be considered by organizational personnel in making a decision to report identified deficiencies through management levels:

1. Could this problem lead to a serious injury or loss of life?
2. If the problem is fixed in one part of the organization, is there a good possibility that the same problem may exist in other parts of the organization (the office, the area, the region, the bureau, or the Department)?
3. Is there a likelihood that higher levels of management may be questioned by Congress or the media about the problem?
4. Is it going to take more than three months to correct the deficiency (deficiencies that take longer to correct should be reported to the next management level)?

5. Was there a significant loss of government resources? Is there a potential for significant resource loss?

6. Was there a significant financial loss either through misuse of appropriated funds or under collection of revenues? Is there a potential for a significant financial loss?

7. Were laws broken or regulations violated?

8. Could the Department have any potential liability to employees or to third parties as a result of the deficiency?

9. Were there ethical violations by organizational personnel?

10. Was inaccurate information reported upon which management or third parties based decisions?

11. Could this problem lead to an audit qualification on a financial statement?

C. Classification of Deficiencies as Material Weaknesses The following describes the criteria used by the AIC in determining identified deficiencies deemed material weaknesses that should be reported to OMB and Congress:

1. Conditions which could endanger the health or safety of employees or the public;

2. Conditions which could lead to substantial damage or loss of a significant public asset or natural, biological, cultural or historical resource;

3. Conditions which significantly impair the fulfillment of the Department's or bureau's mission;

4. Conditions which indicate systemic deficiencies across bureaus or in the Department's central support systems;

5. Conditions that could lead to inaccurate or incomplete information being provided in areas of major importance to operations or policy,

6. Conditions which result in an audit qualification on a financial statement; and

7. Conditions that could result in Congressional hearings or adverse media attention and reporting