



U.S. DEPARTMENT OF
TRANSPORTATION

**Federal Highway
Administration**

Order

Subject

**FINANCIAL INTEGRITY REVIEW
AND EVALUATION (FIRE) PROGRAM**

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Par.

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1. **What is the purpose of this directive?** This directive establishes the Financial Integrity Review and Evaluation (FIRE) Program, a review and oversight program that each Federal-aid division office, Federal Lands division office, Headquarters office, and the Resource Center are required to perform in support of the Federal Highway Administration's (FHWA's) annual certification of internal and financial controls to support the financial statements. This directive consolidates FHWA's various financial management oversight responsibilities.
2. **Does this directive cancel an existing FHWA directive?** Yes. This directive cancels FHWA Order 4560.1A, Financial Integrity Review and Evaluation (FIRE) Program for the Federal-aid Division Offices, dated May 19, 2006.
3. **What authorities govern this directive?**
 - a. The Chief Financial Officer Act of 1990 requires Federal agencies to establish a plan for improving financial management.
 - b. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires Federal agencies to continuously review and improve their internal control systems.
 - c. The Cash Management Improvement Act of 1990 requires Federal agencies to improve their processes for transferring funds to the States.

- d. Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, requires Federal managers to (1) implement cost-effective internal control, (2) assess the adequacy of internal controls in Federal programs and operations, (3) assess and document internal control over financial reporting, (4) identify needed improvements, (5) take corrective actions, and (6) report annually on internal control through management assurance statements.
- e. OMB Circular A-127, Financial Management Systems, requires each Federal agency to conduct appropriate reviews of its financial management systems.
- f. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, establishes responsibilities and requirements for complying with the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996.
- g. Department of Transportation (DOT) Order 8000.1C, Office of Inspector General Audit and Investigation Report Findings, Recommendations, and Follow-up Action, dated July 20, 1989, establishes reporting requirements.
- h. Improper Payments Information Act of 2002 requires Federal agencies to annually review the programs and activities they administer to identify, validate, and report on those that may be susceptible to significant erroneous payments.
- i. Title 23, Code of Federal Regulations (CFR), Part 630, Subpart A, Project Authorization and Agreement.

4. **What key terms are used in this directive?**

- a. **Administrative Review.** A review of the processes including a sampling of transactions related to administrative activities of FHWA offices.
- b. **Financial Management Review.** A comprehensive review of a key process or system employed by the State in managing Federal-aid funds.
- c. **Improper Payments Review.** A review of payments made by a State on Federal-aid projects and reimbursed by FHWA.
- d. **Single Audit Review.** A review of the annual or biennial audits required in accordance with OMB Circular A-133 or the Single Audit Act Amendments.
- e. **Inactive Federal-aid Projects Review.** A review of Federal-aid projects for which no costs have been billed to FHWA for a specified period of time.
- f. **Project Reconciliation Review.** A monthly reconciliation to test the reasonableness and accuracy of FLH project expenditures and obligations

balances in DELPHI and validate the transactions in DELPHI against copies of the obligation and expenditure source documentation.

- g. **Reimbursable Agreements Review.** A review to determine whether reimbursable agreements are executed in accordance with applicable laws, regulations, and policies.
- h. **Program Funds Management Review.** A review of program funds management to ensure proper approval and accurate and timely tracking of transactions associated with discretionary grant funds and earmarks.
- i. **Annual Certification.** A letter from Division Administrators, Federal Lands Highway Division Engineers, Associate Administrators, Chief Counsel, Chief Financial Officer, and the Resource Center Director providing reasonable assurance that their office, programs, and operations are meeting the objectives of the FIRE Program and FMFIA.
- j. **Certification Validation.** Written correspondence from the applicable offices providing an update and certification of fiscal year FIRE activities.
- k. **Standard Working Papers.** A series of Agency-approved templates to record the activities of the FIRE Program.
- l. **Documentation.** Applicable internal and/or external documents providing evidentiary substantiation of transactions or processes reviewed and the scope of the review work performed.
- m. **Instance of Material Non-conformance.** A significant internal control system weakness producing such quantitative or qualitative impacts that an FHWA official is precluded from providing the needed reasonable assurance that the objectives of the FMFIA and OMB Circular A-123 have been met.

5. **What are the timeframes for complying with the FIRE Program requirements?**

- a. The review and oversight activities required under this directive shall be accomplished between July 1 and June 30 each year as either:
 - (1) On-going quarterly reviews (Inactive Project Reviews) applicable to division offices only, or
 - (2) Individual review activities (Financial Management, Administrative, Improper Payments, Single Audit, Federal Audit Findings, Program Funds Management, Reimbursable Agreements, etc.).
- b. The annual certifications for the FIRE Program and the FMFIA provide assurance for the 12-month period preceding June 15 and September 30. They are due in the Office of the Chief Financial Officer (HCF) as follows:

- (1) Annual Certification, June 8 (to cover the period October 1 through June 30).
- (2) Certification Validation, September 23 (to cover the period July 1 through September 30).

6. What are the goals of the FIRE Program?

- a. Each FHWA division office, Headquarters office, and the Resource Center shall conduct a financial management oversight program in accordance with the provisions of this directive. Division Administrators, Federal Lands Division Engineers, Associate Administrators, Chief Counsel, Chief Financial Officer, and the Resource Center Director shall take the necessary actions to ensure and certify that Federal funds are properly managed and effectively used in accordance with Federal policies, and that safeguards are in place to minimize fraud, waste, abuse, and mismanagement.
- b. A wide range of employees must be included in the review process, in addition to the Financial Manager (or Administrative Program Manager as applicable) and supporting staff, to ensure objectivity and separation of duties and to integrate internal controls and financial oversight as key components of the Agency's day-to-day program and business activities.

7. What are the responsibilities assigned to the FIRE Program?

- a. The Chief Financial Officer (CFO) is responsible for:
 - (1) Providing nationwide leadership, goals, and direction relating to the FIRE Program;
 - (2) Promoting consistent financial management activities through the development of policies, procedures, and guidelines;
 - (3) Serving in an advisory and oversight capacity in the overall administration of the FIRE Program;
 - (4) Interpreting and implementing laws and regulations that may impact the FIRE Program; and
 - (5) Ensuring training is developed and available to appropriate FHWA office staff in order to execute the FIRE Program.
- b. The Finance Services Team (FST) in the Resource Center is responsible for:
 - (1) Serving in an advisory capacity to the division offices in the overall direction of the FIRE Program;

- (2) Coordinating and disseminating best practices and other significant management improvements and techniques; and
 - (3) Providing financial management technical assistance to division offices.
- c. Division Administrators, Federal Lands Division Engineers, Associate Administrators, Chief Counsel, Chief Financial Officer, and the Resource Center Director are responsible for:
- (1) Ensuring that FHWA offices are properly staffed and trained to administer the FIRE Program;
 - (2) Implementing the FIRE Program in accordance with this directive;
 - (3) Maintaining written standard operating procedures for all internal administrative and financial management activities addressed in the FIRE Program; and
 - (4) Establishing appropriate performance objectives.

8. **What are the components of the FIRE Program?**

- a. **Risk Assessment.** FHWA offices shall conduct an annual Risk Assessment using the Agency's approved risk management strategy (see FHWA's Risk Management Initiative).
- b. **FIRE Program Plan.** FIRE activities, including timeframes and resources, shall be submitted quarterly in the FIRE Work Papers, or incorporated and specifically identified in the Agency's Strategic Implementation Plans.
- c. **Financial Management Review.** A financial management review activity shall be conducted annually in response to the risk assessment. This requirement is satisfied by either a stand-alone financial management review or by incorporating a financial component into a program review activity. Other reviews directed by management may also be required in addition to the financial management review performed as a result of a risk assessment. The reviewer shall prepare a formal report documenting the results of the financial management review.
- d. **Improper Payments Review.**
 - (1) Division offices shall, at a minimum, conduct a review of randomly selected billing transactions provided by Headquarters program offices. This review will:
 - (a) Verify the eligibility and accuracy of costs billed to FHWA,
 - (b) Verify costs were incurred after FHWA approval,

- (c) Verify costs were charged to the correct project,
 - (d) Verify costs were approved by the appropriate State/local official, and
 - (e) Verify that the State has sufficient supporting documentation to substantiate the billing.
 - (2) The division offices shall follow up on any findings of noncompliance and ensure the accomplishment of all required corrective actions. The results of the review and corrective actions taken shall be documented in accordance with the requirements of this directive.
- e. **Inactive Federal-aid Project Review.** The division offices shall work with the State to conduct and document the results of quarterly reviews of inactive projects in accordance with 23 CFR 630, Subpart A, Project Authorizations and Agreements. The division offices shall work with the States to determine the validity of the amount obligated for each project.
- f. **Administrative review.**
- (1) The Office of the CFO (HCF) and the Resource Center shall coordinate the administrative reviews of the Headquarters offices, the Resource Center, and division offices. The reviews shall be conducted on a 3-year cycle unless individual circumstances warrant a more frequent review. The reviews shall be conducted and documented by a team external to the division office being reviewed, and they shall include a selection of transactions drawn from the 12-month period prior to the review. The review will identify the potential risk for waste, loss, unauthorized use, or misappropriation of Federal government resources and include transactions that verify compliance in the following areas:
 - (a) Fund authority – monthly reconciliations of general operating expenses and any program allotments,
 - (b) Purchase orders and administrative contracts,
 - (c) Travel-related transactions,
 - (d) Credit cards and convenience checks,
 - (e) Property inventories and capitalized assets, and
 - (f) Collections (cash/check receipts) and sensitive/controlled documents.
 - (2) The objective of the review is to ensure that internal controls, including written standard operating procedures, are in place. This

includes verifying that sufficient documentation exists to support the transactions, proper management approvals have been obtained, and transactions are properly recorded in the accounting system.

- g. **Single Audit Review.** The division office shall ensure that the audit reports covering the State department of transportation (State DOT) are provided to the Federal Audit Clearinghouse within 9 months following the end of the State's fiscal year. If reports are not submitted by the due date, the division office shall determine if an extension has been granted by the cognizant agency and, if not, shall document the reason for the delay and advise the HCF. The division office shall obtain, at a minimum, a copy of the portion of the single audit report that relates to FHWA programs. The division office shall take the following actions in response to findings related to FHWA programs:
- (1) Obtain a copy of the State DOT corrective action plan including the due dates for the proposed corrective actions;
 - (2) Issue a management decision to the State DOT addressing each FHWA program related finding. The management decision shall be issued in a formal letter to the State DOT and either concur with the State DOT's proposed action plan and/or prescribe that additional or alternative actions be taken to resolve the findings;
 - (3) Monitor activities to ensure that corrective actions are taken; and
 - (4) Document their Single Audit Review and oversight actions.
- h. **Federal Audit Findings Review.** The Office of Inspector General or the Government Accountability Office will notify the FHWA Audit Liaison, Management Analysis and Organization Team (HAIM-13), of any findings requiring resolution. The division offices and Headquarters program offices shall work with the FHWA Audit Liaison to address the findings in accordance with DOT Order 8000.1C, Office of Inspector General Audit and Investigations Report Findings, Recommendations, and Follow-up Action, dated July 20, 1989.
- i. **Program Funds Management Review.** The Office of the CFO (HCF) and the Resource Center shall coordinate program funds management reviews of the Headquarters program offices. The reviews shall be conducted on a 3-year cycle unless individual circumstances warrant a more frequent review. The reviews shall be conducted and documented by a team external to the office being reviewed, and they shall include a selection of transactions drawn from the 12-month period prior to the unauthorized use, or misappropriation of Federal government resources, and transactions that verify compliance with funds allotment, obligation, expenditures, and reconciliation requirements.

j. **Annual Certification**

- (1) Division Administrators, Federal Lands Division Engineers, Associate Administrators, Chief Counsel, Chief Financial Officer, and the Resource Center Director shall annually certify the results of the FIRE Program. The annual certification will satisfy the financial, accounting, and reporting requirements of the FMFIA, Sections 2 and 4.
- (2) The annual certification shall be submitted by June 8 each year and cover the period of October 1 through June 15.
- (3) The annual certification shall either identify all instances of material non-conformance with Federal requirements and effective internal controls, or indicate that none exist.
- (4) Reports and other documentation supporting the certification shall be retained in the applicable offices and shall be available upon request by the CFO or the auditors.

k. **Certification Validation.** Division Administrators, Federal Lands Division Engineers, Associate Administrators, Chief Counsel, Chief Financial Officer, and the Resource Center Director shall submit a validation of the annual certification by September 23 each year (covering the period July 1 through September 30), providing either of the following:

- (1) A validation that no instances of material non-conformance have been identified since the June 8 annual certification, or
- (2) A listing of instances of material non-conformance identified since the June 8th annual certification.

l. **Follow-up activities.** All offices shall implement a systematic process to ensure that findings and recommendations from any of the FIRE components are adequately addressed in a timely manner. All offices shall document all action items, specified deadlines, person(s) responsible for the follow up, and resolutions of findings and recommendations.

9. **What are the documentation requirements to support the FIRE Program?**

- a. All offices shall prepare or obtain and retain documentation supporting FIRE review activities as follows:
 - (1) The principal record of FIRE review work performed and conclusions reached will be entered into the Agency's Standard Working Papers.

- (2) Records external to the working papers shall be obtained and/or retained as evidence of the review work performed or in support of conclusions reached are:
 - (a) Those source documents which, when examined, resulted in a finding or findings; and
 - (b) Formal reports prepared as a result of the review.
 - (3) All offices shall retain copies of all required review documentation for a period of 3 years from the date of the annual certification supported by the review activities.
 - (4) Data in the working papers and other supporting records shall reference the location of all reviewed documents.
- b. Review documentation shall be appropriately organized to provide a clear link to the findings, conclusions, and recommendations.
 - c. Electronic copies of review documentation, when possible, should be retained in lieu of paper copies.

10. **Is other assistance available to offices in carrying out this directive?**

- a. Yes. The FIRE Tool Kits for Federal-aid, Federal Lands and Headquarters/Resource Center have been prepared to provide illustrative guidance to support this directive. Each Tool Kit contains information and examples on the various FIRE components to assist offices in conducting the review program. The Tool Kits are located at the Office of the Chief Financial Officer's Web site.
- b. The FST, under the joint oversight of the Resource Center Director and the CFO, will support the division offices by providing financial management technical assistance, serving as FIRE Program advisors and points of contact, and disseminating best practices and other improvements/techniques.



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