

**U.S. DEPARTMENT OF AGRICULTURE  
WASHINGTON, D.C. 20250**

<b>DEPARTMENTAL REGULATION</b>		<b>NUMBER:</b> 1110-002
<b>SUBJECT:</b>  Management's Responsibility for Internal Control	<b>DATE:</b> June 17, 2013	
	<b>OPI:</b> Office of the Chief Financial Officer	

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**1. PURPOSE**

- a. This regulation provides Department-wide policy that is designed to improve the accountability and effectiveness of agency programs and operations. The policy's intent is to ensure that programs are managed with integrity, and that program operations comply with applicable laws and regulations.
- b. The purpose of this revision is to incorporate changes based on revised Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," dated December 21, 2004. The circular emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities.
- c. A major addition to the revised circular is the Appendix A, Internal Control over Financial Reporting. The appendix requires a separate assurance statement and corrective actions, if applicable, that assert the effectiveness of internal control over financial reporting as of June 30 of each year.

**2. SPECIAL INSTRUCTIONS/CANCELLATION**

- a. This regulation cancels Department Regulation 1110-002, Management Accountability and Control, issued April 14, 2004.
- b. The guidance contained in this regulation supplements and reinforces the statutory

requirements of the Federal Managers' Financial Integrity Act of 1982, (Pub. L. No. 97-255) (FMFIA), Federal Financial Management Improvement Act of 1996 (Pub. L. No. 104-208) (FFMIA), and the policy guidance contained in OMB circulars as amended.

### 3. POLICY

- a. The Department promotes the continuous monitoring of internal controls as part of daily program, administrative, and financial operations to strengthen management accountability and enhance and improve program performance and operations.
- b. Department managers should establish environments where internal controls are understood, encouraged, practiced, and implemented. The Office of the Chief Financial Officer (OCFO) will work with agencies and staff offices to ensure that sound systems of internal controls exist in all programs, and administrative and financial operations to meet FMFIA objectives and related statutes and guidance.
  - (1) USDA agencies and staff offices will establish, maintain, evaluate, improve, and report on systems of controls. These systems should constitute the full range of controls necessary to assist managers in attaining program objectives and protecting and using Government resources efficiently and effectively.
  - (2) Controls will be an integral part of the entire Departmental cycle of planning, budgeting, management, accounting, reporting, and auditing.
  - (3) Systems of internal controls will be evaluated on an ongoing basis. Deficiencies, when detected, will be promptly corrected.
  - (4) Results of evaluations will be documented, maintained, and made available upon request.
  - (5) Agencies will submit an annual certification statement to OCFO by August 31 to help form the basis for the Secretary's Assurance Statement to the President and Congress.

### 4. RESPONSIBILITIES

- a. General. All managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas.
  - (1) The Secretary of Agriculture is responsible for:
    - (a) Ensuring the effectiveness of internal control systems throughout the Department; and

- (b) Reporting annually to the President, Congress, and OMB on the status of systems, plans, and schedules for correcting any material weaknesses.
- (2) Under/Assistant Secretaries, Agency Heads, and Heads of Staff offices are responsible for establishing and maintaining a system of internal control in accordance with the Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government" within their agencies. This responsibility under the leadership of the Chief Financial Officer (CFO) includes:
- (a) Ensuring Department-wide coordination and accountability for correcting identified material deficiencies;
  - (b) Overseeing and assigning staff to conduct the annual assessment of internal control over financial reporting. These assessments are performed within the timeframes established by management and OCFO;
  - (c) Ensuring that adequate resources are sought through the budget process or realigned for correcting material deficiencies;
  - (d) Reviewing periodic status reports on Department-wide progress in achieving corrective action on USDA material deficiencies, and ensuring appropriate follow up is executed as needed;
  - (e) Establishing priorities in identifying, correcting, and reporting material weaknesses and financial management system nonconformances;
  - (f) Establishing a quality assurance process that permits the responsible official to provide reasonable assurance to the Secretary of Agriculture that the objectives of control, as described in OMB Circular No. A-123 and the FMFIA, are being achieved;
  - (g) Institutionalizing the internal control process within their organizations;
  - (h) Establishing quantitative criteria that reflect the relative risk and significance of potential deficiencies, where appropriate, (e.g., grant, loan, and purchase card programs);
  - (i) Ensuring that agency or staff office strategic or annual performance plans address the correction of material deficiencies identified;
  - (j) Designating a Management Control Officer (MCO) to coordinate the internal control program of the agency or staff office;

- (k) Ensuring internal control guidelines issued by the CFO are implemented; and
  - (l) Ensuring that all managers and employees know the importance of internal controls as well as specific program risks and objectives.
- (3) The OCFO oversees Departmental compliance with the Chief Financial Officers Act of 1990, (Pub. L. No. 101-576), the Government Performance and Results Act of 1993, (Pub. L. No. 103-62), and the laws and guidance related to internal control. OCFO is responsible for planning, guidance, training, and quality control of the annual assessment of internal control over financial reporting. The CFO will:
- (a) Coordinate, manage, direct, evaluate, and report on internal control efforts within the Department, including Department-wide efforts under FMFIA, FFMIA, and applicable OMB Circulars;
  - (b) Establish and maintain systems for monitoring the timely correction of material deficiencies reported to the President and Congress;
  - (c) Ensure that each agency and staff office establishes an internal control-conscious environment that provides a disciplined atmosphere in which managers know the need to establish systematic controls, monitor their application, and periodically review their effectiveness;
  - (d) Recommend internal control policies and procedures, and provide oversight and guidance to the agencies and staff offices concerning the maintenance of effective controls; and
  - (e) Keep the Secretary and Sub-Cabinet officials abreast of the status of material deficiencies identified and disclosed.
- (4) The Office of the Inspector General (OIG) evaluates internal controls within the scope of its audits as part of the OIG overall program of audits and investigations, and reports the results in audit reports. In conducting reviews, OIG identifies specific weaknesses and provides advice on materiality for possible inclusion in the Annual Financial Report (AFR). Any weaknesses identified are discussed with the agency and clearly disclosed in the audit report.
- (5) The MCOs are those line management officials charged by agency and staff office senior-level management to establish, evaluate, and report on internal controls within assigned agencies and staff offices in addition to their general control responsibilities as managers. MCOs:
- (a) Coordinate the process to determine annually which programs or functions should be subject to a formal review to supplement

management's judgment as to the adequacy of internal controls;

- (b) Coordinate the evaluation of all internal control systems on an ongoing basis, and ensure that audits, internal control reviews, risk assessments, and other evaluations are coordinated to complement one another with minimal duplicative effort;
  - (c) Identify programs which may be susceptible to significant improper/erroneous payments;
  - (d) Plan, direct, and evaluate the implementation of the provisions in this Regulation and Departmental Manual 1110-2, "USDA Management Control Manual" for Section 2 and Section 4 of FMFIA in their respective organizations;
  - (e) Work within your agency or staff office's structure with OIG to resolve potential material weaknesses disclosed in audit reports, and monitor timely correction and validation of all agency-identified deficiencies;
  - (f) Report to the OCFO (in consultation with the appropriate agency or staff office head) on internal control deficiencies identified in audit reports, internal reviews, and from other sources that could meet Departmental material weakness or system nonconformance criteria; and
  - (g) Maintain a tracking system with specific data including milestones for correction of deficiencies.
- (6) All employees are responsible for the effective operation of controls established by management.
- b. Reporting. The following are internal and external reporting requirements. See Appendix A for a sample agency certification statement and summary of reportable deficiencies template:
- (1) Internal Reporting – Agencies and Staff Offices will:
    - (a) Provide OCFO monthly updates on the status of significant deficiencies and material weaknesses in internal controls; and
    - (b) Submit an annual certification statement (through their Under/Assistant Secretary) along with a summary of reportable deficiencies to the OCFO. This statement of reasonable assurance represents the agency or staff office head's informed judgment as to the overall adequacy and effectiveness of internal controls within the agency or staff office, and whether the agency or staff office's financial management systems conform to Government-wide requirements.

(2) External Reporting – The Secretary will:

(a) Provide an overall Statement of Assurance pursuant to Sections 2 and 4 of FMFIA and FFMIA along with a report on identified material weaknesses and corrective actions. The statement related to the assessment performed under Appendix A is a subset of the overall statement. The assurance statement is included in the AFR no later than 45 days after the end of each fiscal year and must be categorized as either:

- 1 Unqualified – No material weaknesses noted;
- 2 Qualified – Material weaknesses were noted, but not pervasive; or
- 3 Statement of No Assurance – No assessment process in place or noted material weaknesses were pervasive.

5. DEFINITIONS

- a. Agency. An organizational unit of the Department, other than a Staff Office, whose head reports to an Under Secretary.
- b. Staff Office. A Departmental administrative office whose head reports to the Secretary or to an Assistant Secretary.
- c. Internal Control. The organization, policies, and procedures used to reasonably ensure 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 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.
- d. Control Deficiency. A control deficiency exists when there is a weakness in the design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect an inconsequential misstatement in the entity’s financial statements on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective will not be met. An operating deficiency exists when a properly designed control does not operate as intended or when the person performing the control is not qualified or properly skilled to perform the control effectively.

- e. Significant Deficiency. A control deficiency or combination of control deficiencies that is less severe than a material weakness, yet important enough to merit attention by those charged with governance because they represent significant weaknesses in the design or operation of internal controls. Such a deficiency could adversely affect the organization's ability to meet its internal control objectives.
- f. System Non-Conformance. A condition in which financial management systems do not substantially conform to system requirements. Financial management systems include both financial and financially related (or mixed) systems.
- g. Material Deficiency. Encompasses all Section 2 material weaknesses, Section 4 financial management system nonconformances, and FFMIA non-conformances, collectively. It prevents an agency from meeting one or more of the objectives of FMFIA and FFMIA and that the Secretary of Agriculture determines it to be significant enough to report outside the Department. These deficiencies shall be reported to OMB and the Congress. Judgment must be exercised as to the relative risk and significance of such deficiencies.
  - (1) Material Weakness. A deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
  - (2) FMFIA System Nonconformance. A condition in which financial management systems do not substantially conform to Federal Financial Management Systems Requirements for computer security and internal controls.

FFMIA System Nonconformance. Includes FMFIA system nonconformances and conditions in which financial management systems do not comply with core financial systems requirements, federal accounting standards, and application of the U.S. government standard general ledger at the transaction level.
- h. Reasonable Assurance. A satisfactory level of confidence in achieving program, administrative, and financial management objectives effectively and efficiently, and safeguarding Government resources under given considerations of costs, benefits, and risks.
- i. Evaluation of Internal Control System. A review of program and operational processes and associated internal controls to determine compliance with principles, standards, and related requirements from GAO and OMB. This evaluation may be formal or informal. It usually includes an analysis or analyses of the general control environment and inherent risk and factors external to the agency, and a preliminary evaluation of existing safeguards.
- j. Risk Assessment. The identification and analysis of possible risks in meeting the

agency's objectives, and forming a basis for how these risks should be managed or controlled, and the deterrents that should be implemented.

6. OTHER RELATED GUIDANCE

- a. Inspector General Act of 1978, as amended;
- b. Government Management Reform Act of 1994, (Pub. L. No. 103-356);
- c. Clinger-Cohen Act of 1996, (Pub. L. No. 104-106);
- d. Reports Consolidation Act of 2000, (Pub. L. No. 106-531);
- e. Improper Payments Information Act of 2002 (Pub. L. No. 107-300);
- f. Improper Payments Elimination and Recovery Act of 2010, (Pub. L. No. 111-204);
- g. GPRA Modernization Act of 2010, (Pub. L. No. 111-352);
- h. OMB Circular No. A-123, Appendix B, Improving the Management of Government Charge Card Programs;
- i. OMB Circular No. A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments;
- j. OMB Circular No. A-127, Revised, Financial Management Systems;
- k. OMB Circular No. A-130, Appendix III, Security of Federal Automated Information Resources;
- l. Executive Order 13520 Reducing Improper Payments; and
- m. Treasury Financial Manual Volume I, Part 4, Chapter 2100, Submitting Required Improper Payments Information for Publication on the Payment Accuracy.gov Web Site.

-END-

**Appendix A**  
**SAMPLE ANNUAL CERTIFICATION STATEMENT**

TO: Jon M. Holladay  
Deputy Chief Financial Officer

THROUGH: Frank Jones  
Undersecretary

FROM: Mike Smith  
Administrator  
Administration Office

SUBJECT: Administration Office Federal Managers' Financial Integrity Act; Federal Financial Management Improvement Act, the Office of Management and Budget Circular No. A-123, Appendix A Certification Statement

This memorandum provides the Administration Office's (AO) assertions to support the Secretary's annual assurances for the Federal Managers' Financial Integrity Act (FMFIA). The assertions include the assurance statement for Internal Control over Financial Reporting and the Department's certification for the Federal Financial Management Improvement Act (FFMIA).

**Federal Managers' Financial Integrity Act Assertions**

1. Management is responsible for developing and maintaining internal control to ensure the efficiency and effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
2. Internal control encompasses accounting and administrative controls. Such controls include program, operational, and administrative areas as well as accounting and financial management.
3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2011.
4. Based on the results of the evaluations, AO can provide reasonable assurance that internal controls are operating effectively.
5. One new material weakness and one significant deficiency were identified during fiscal year (FY) 2011. No material weaknesses or significant deficiencies were re-determined as no longer material.
6. At the beginning of FY 2011, AO had two material weaknesses and one significant deficiency. Two material weaknesses that were identified in the Office of Inspector General Audit Report No. #####-## for recommendation 6, 9, and 10 were resolved during FY 2011. AO has two material weaknesses remaining. Corrective action plans have been submitted in the OCFO A-123 Document Tracking System. They are identified on the attached Summary of Reportable Deficiencies chart.

## **Internal Control over Financial Reporting Assertions**

1. AO assessed the effectiveness of internal control over financial reporting as of June 30, 2011. The assessment follows USDA guidance and is required by the Office of Management and Budget Circular No. A-123, Appendix A.
2. The assessment included an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following cycles/processes were tested: (list areas)
3. Management recognizes its responsibility for monitoring and correcting all control deficiencies.
4. Management further certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2011.
5. Based on the results of the assessment, AO can provide reasonable assurance that internal controls over financial reporting are operating effectively.
6. One new material weakness, one new significant deficiency, and one new control deficiency that elevates to the Department material weakness for unliquidated obligations were identified during FY 2011. Two material weaknesses or significant deficiencies were corrected or re-determined as no longer material.
7. At the beginning of FY 2011, AO had one existing material weakness and one existing significant deficiency.
8. Corrective action plans have been submitted in the OCFO A-123 Document Tracking System. The plan of action and milestones has been submitted in the Cyber Security Assessment and Management System. The Summary of Reportable Deficiencies chart is attached.

## **Federal Financial Management Improvement Act Assertions**

1. AO management evaluated its financial management systems under FFMIA for the period ended September 30, 2011.
2. Based on the results of our evaluation, we are not in substantial compliance with Section(s) 1, Federal Financial Management Systems Requirements; 2. Applicable Federal Accounting Standards; 3. Standard General Ledger at the Transaction Level; and 4. Information Security, Policies, Procedures, and Practices.
3. The corrective action plans have been submitted in the OCFO A-123 Document Tracking System. They are identified on the attached Summary of Reportable Deficiencies chart.

## **Non-compliance with Laws and Regulations**

1. In FY 2011, AO identified an Anti-deficiency Act violation. The violation related to restrictions on the use of funds. It was reported to the Congress and President on March 1, 2011.

2. The corrective action plans have been submitted in the OCFO A-123 Document Tracking System. They are identified on the attached Summary of Reportable Deficiencies chart.

Attachment

**Fiscal Year 2012**  
**[Mission-area/Agency/Staff Office Name]**  
**Summary of Reportable Deficiencies**

**Federal Managers' Financial Integrity Act**

Federal Managers' Financial Integrity Act Section 2						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weakness						
Significant Deficiency						
Control Deficiency (*Elevates to SD orMW)						
Federal Managers' Financial Integrity Act Section 4						
System Non-compliance						

\*OCFO will assess control deficiencies to determine if a pervasive problem exists across the department that merits external reporting. Individual agencies are required to separately report these control deficiencies.

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
OIG Audit # Rec. #						
OIG Audit # Rec. #						
Section 4						
OIG Audit # Rec. #						

## Internal Control over Financial Reporting

Internal Control over Financial Reporting Section 2						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weakness						
Significant Deficiency						
Control Deficiency (*Elevates to SD or MW)						
Internal Control over Financial Reporting Section 4						
Material Weakness						
Significant Deficiency						
Control Deficiency (*Elevates to SD or MW)						

\*OCFO will assess control deficiencies to determine if a pervasive problem exists across the department that merits external reporting. Individual agencies are required to separately report these control deficiencies.

Identifier	Short Title	Weakness Category (MW, SD, CD)	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 2						
CAP Ref. #						
Section 4						
POAM #						

## Federal Financial Management Improvement Act

Federal Financial Management Improvement Act						
Categories	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Section 1: Federal Financial Management System Requirements						
Section 2: Applicable Federal Accounting Standards						
Section 3: Standard General Ledger at the Transaction Level						
Section 4: Information Security, Policies, Procedures and Practices						

Identifier	Short Title	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date
Section 1: Federal Financial Management Systems Requirements					
OIG Audit # Rec. #					
Section 2: Applicable Federal Accounting Standards					
OIG Audit # Rec. #					
Section 3: Standard General Ledger at the Transaction Level					
OIG Audit # Rec. #					
Section 4: Information Security, Policies, Procedures and Practices					
OIG Audit # Rec. #					

## Non-compliance with Laws and Regulations

Identifier Law/Regulation	Description of Violation	Year Identified	Original Estimated Completion Date	Actual Completion Date	Revised Estimated Completion Date