

Examples of breakdowns in internal controls:

- Enron**
- WorldCom**
- Adelphia**



What is internal control?

Internal control is a process designed to achieve management's objectives, which are:

- Reliable Financial Reporting**
- Efficient and Effective Operations**
- Compliance with Laws and Regulations**



Who is responsible for developing internal controls?

Management is responsible for developing and maintaining internal controls. The areas of consideration when developing internal controls are listed below:

- Control Environment**
- Risk Assessment**
- Control Activities**
- Information and Communication**
- Monitoring**



Changes as a result of control failures

Sarbanes Oxley Act in 2002 (SOX) – SEC/ public companies.

OMB Circular A-123, Appendix A - 24 CFO Act Agencies (DOI, DOD, etc.)



OMB Circular A-123, Appendix A

OMB Circular A-123, Appendix A (Appendix A) emphasizes management's responsibility for establishing and maintaining effective internal control over financial reporting by strengthening requirements in the following:

- Documentation**
- Monitoring**
- Reporting**

Appendix A also requires a separate statement of assurance from management on the effectiveness of internal control over financial reporting.



FMFIA required managers to issue a statement of assurance as of September 30th on internal controls within their programs.

- Basis for assertions may or may not have been documented.

Appendix A requires managers to issue a separate assurance statement as of June 30th on internal controls over financial reporting.

- Basis for assurance must be documented extensively.

- Internal controls must be tested and assessed externally.

- The department requires a three-year rolling test plan.



Assurance on Indian Trust

U.S. DEPARTMENT
OF THE INTERIOR



OFFICE OF THE
SPECIAL TRUSTEE
FOR AMERICAN
INDIANS

Members perform cradle to grave testing of receipt transactions and testing of internal controls surrounding the processing of those transactions. Results reflected on DOI reports

Q: Who is responsible for giving an assurance for “All” of Indian trust?

A: DOI Office of Financial Management.

Q: On what basis do they give their assurance statement?

A: Testing, the efforts they employ to resolve material weaknesses within Indian trust, and the assurance statements they receive.

****** DOI’s Intrabureau Test Group ******

BIA Trust and BIA Office of Internal Evaluation and Assessment (OIEA)

OST – Trust Accountability

DOI – Office of Financial Management (PFM)

BLM

MMS

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS



Risk Assessment

- **Define Process**
- **Identify Objectives**
- **Determine risks in achieving those objectives**

When analyzing risks, consider:

Quantitative and qualitative factors

Likelihood of the risk occurring

Severity of the outcome if the risk occurred

Volume

- **Identify and evaluate internal controls or measures in place or that need to be added to mitigate the risk to a reasonable level.**



Financial Statement Assertions

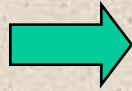
When management prepares Financial Statements, the following assertions are made:

- **Presentation and Disclosure**
- **Existence or Occurrence**
- **Rights and Obligations**
- **Completeness**
- **Valuation and Allocation**

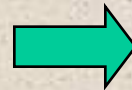


OST Risk Management

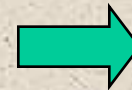
Both statements of assurance, A-123 Appendix A, due as of 6/30, and A-123 FMFIA, as of 9/30, must be further supported. This is done by the following:



- Three Pronged Approach
 - Self-Assessments
 - Office of Trust Review and Audit Program evaluations
 - Independent Outside Audit (KPMG)



- Automated risk management tool (RM-Plus)
- Trust Senior Management Council and Senior Assessment Team (OMB Circular A-123, Appendix-A implementation-Sarbanes-Oxley)



- Risk Based Management Approach
- Intra-Bureau testing (DOI Test Team)



Why is testing necessary, why is Interior trying to provide reasonable assurance?

DOI ultimate goals:

1. Accurate and Timely distribution to beneficiaries.
2. Accurate and timely statements of performance issued to beneficiaries.

Method to achieve those goals:

1. Employ skilled, highly trained, ethical workforce.
2. Monitor and test transactions and processing internal controls to determine effectiveness and efficiency.
3. Perform follow-up and corrective action where discrepancies are found



Financial Statement Assertions

Assertion	Description	Example
Presentation and Disclosure	Financial statement components are properly classified, described, and disclosed.	Management asserts that obligations classified as long term will not mature within one year.
Existence or Occurrence	Assets or liabilities exist at a certain date and recorded transactions occurred during a given period.	Management asserts that finished goods inventory in the balance sheet are available for sale.
Rights and Obligations	All assets are rights of the entity and all liabilities are obligations at a given date.	Management asserts that amounts capitalized for leases represent the cost of the entity's rights and that the corresponding liability represents an obligation.
Completeness	All transactions and accounts that should be included in the financial statements are included.	Management asserts that all purchases of goods and services are recorded and included in the financial statements.
Valuation and Allocation	All assets, liabilities, equity, revenues, and expenses are shown at the appropriate amounts.	Management asserts that accounts receivable are stated at net realizable value.

Exhibit Above (from SAS No. 31) taken from PPC's guide to GAAS, 2004 Edition Page 9.202





Reasonable Assurance

