

DEPARTMENT OF LABOR**[Secretary's Order 14–2006]****Internal Control Program**

1. *Purpose.* To delegate authority and assign responsibilities for the administrative and financial management of Department of Labor (DOL) programs, functions, and resources that ensure effective systems of internal control.

2. *Authorities and Directives Affected.*

A. *Authorities.* This Order is issued pursuant to Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (the FMFIA); OMB Circular A–123, Rev., "Management's Responsibility for Internal Control" (December 21, 2004); the Chief Financial Officers Act of 1990 (the CFO Act); OMB Circular A–50, Rev., "Audit Follow-up" (September 29, 1982); OMB Circular A–127, Rev., "Financial Management Systems" (December 1, 2004); the Federal Financial Management Improvement Act (the FFMIA); the Government Performance and Results Act of 1993 (the GPRA); the Reports Consolidation Act of 2000 (the RCA); Services Acquisition Reform Act of 2003; Chief Human Capital Officers Act of 2002; Clinger-Cohen Act of 1996; 5 U.S.C. 301; 29 U.S.C. 551, *et seq.*; and Reorganization Plan No. 6 of 1950 (5 App. U.S.C.); Federal Information Security Management Act of 2002 (FISMA); OMB Circular A–130, "Management of Federal Information Resources".

B. *Directives Affected.* This Order supersedes and cancels Secretary's Order 2–89, "Internal Control Program" (January 17, 1989).

3. *Policy.* DOL agencies will maintain effective administrative, financial, and program performance reporting control systems for their programs, functions and resources to promote effectiveness and efficiency of operations and to prevent or minimize the occurrence of fraud, waste, abuse, and mismanagement. To this end, effective and efficient preventive measures, evaluation, documentation, and reporting will be used to provide both proactive and reactive means for administering Internal Control Systems within the Department.

4. *Background.* Internal controls are tools to help managers achieve results and safeguard the integrity of their programs through organizational and procedural measures. The FMFIA requires heads of Federal agencies, including the Secretary, to establish systems of internal control. It further requires the Secretary to issue an annual statement to the President and the

Congress, based on an evaluation conducted in accordance with OMB guidelines, which certifies whether the Department's system of internal accounting and administrative control complies with FMFIA and OMB Circular A–123.

The GPRA, in conjunction with the RCA, requires Federal departments and agencies to develop and publish strategic and annual performance plans, to verify and validate the performance data reflected in annual performance budgets, to report to the President and to Congress on an annual basis on (a) the attainment of performance goals, and (b) the completeness and reliability of the data contained in DOL's annual Performance and Accountability Report required under the CFO Act.

5. *Objective.* The objective of DOL's internal control program is to provide, on a continuing basis, a reasonable assurance that:

A. Financial and other resources are safeguarded from unauthorized use or misappropriation;

B. All transactions are executed in accordance with authorizations;

C. All financial, non-financial, performance, statistical records, and related reports are reliable;

D. Applicable laws, regulations and policies are followed; and

E. Resources and programs are efficiently and effectively managed.

6. *Definitions.*

A. *Documentation of Controls.* The written policies and procedures, manuals, organization charts, memoranda, decision papers, assessment determinations, and related materials used to describe internal control methods and measures; communicate responsibilities and authorities for implementing such methods and measures; assess status or progress; and serve as a reference for review of existing internal controls and their functioning.

B. *Documentation of the Assessment Process.* Recordation of the assessment team authority and members, communications with agency management and employees regarding the assessment; key decisions of the assessment team; the assessment methodology; the assessment of internal control; the testing of controls and related results; and identified deficiencies and suggestions for improvements.

C. *Financial Management System.* The Financial Systems and the financial portions of Mixed Systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support

personnel dedicated to the operation and maintenance of system functions.

D. *Financial System.* An Information System, comprised of one or more applications, that is used for (a) collecting, processing, maintaining, transmitting, or reporting data about financial events; (b) supporting financial planning or budgeting activities; (c) accumulating and reporting costs information; or (d) supporting the preparation of financial statements.

E. *Fiscal Integrity.* Financial policies, practices, and controls that ensure that all funds are spent and managed according to the goals, mission and objectives of the organization.

F. *Information System.* The organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual.

G. *Internal Control Board (ICB).* The DOL body responsible for monitoring and providing advice on the Department's internal controls as established in paragraph 7(I) below.

H. *Internal Control Principal (ICP).* The official formally designated as responsible for identifying, documenting, testing, evaluating, monitoring, and reporting internal controls, as well as monitoring corrective actions, for a particular DOL system.

I. *Internal Control System.* The plan of organization and all of the methods and measures adopted relative to the Department as a whole, or one or more of its component agencies, to document policies and procedures for safeguarding resources, ensure the accuracy and reliability of information, comply with applicable laws, regulations and policies, and promote operational economy and efficiency.

J. *Material Weakness.* A specific instance of non-compliance with the FMFIA, which is of sufficient importance to be reported to the President and the Congress. A Material Weakness is one that would: Impair fulfillment of the agency mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets; or result in a conflict of interest. A Significant Deficiency found under FISMA must be reported as a Material Weakness under the FMFIA.

K. *Mixed System.* An Information System that supports both financial and non-financial functions of the Federal Government or components thereof.

L. *Non-Financial System*. An Information System other than a Financial System or a Mixed System.

M. *Significant Deficiency*. A weakness in the Department's overall information systems security or management control structure, or within one or more information systems, that significantly restricts the capability of the Department to carry out its mission or compromises the security of the Department's information, information systems, personnel, or other resources, operations, or assets where the risk is great enough that the Secretary and outside agencies must be notified and immediate or near-immediate corrective action must be taken.

7. *Delegation of Authority and Assignment of Responsibility*.

A. The Deputy Secretary shall:

(1) Chair the ICB.

(2) Ensure that all communications directed to the ICB are distributed to Members and, as appropriate, are provided to Associate Members.

(3) Through the ICB, regularly and at least annually review and designate or re-designate, as appropriate, by published memorandum, the ICP of every Non-Financial System.

(4) Periodically update by published memorandum the roster of ICB Associate Members.

B. The Chief Financial Officer shall:

(1) Exercise overall responsibility for the Department's compliance with FMFIA and for the Department's Fiscal Integrity.

(2) Prepare the Secretary's annual FMFIA report to the President and the Congress from the individual reports submitted by DOL agency heads.

(3) Provide DOL agencies with the guidance necessary for timely preparation of their quarterly and annual FMFIA and FFMA compliance attestations, including the status of internal controls within the respective agency.

(4) Ensure that appropriate internal controls are in place and operating effectively for financial management functions performed within and on behalf of the Department, including the quarterly financial management attestation process.

(5) Provide assistance to agency heads in instituting sound, effective financial management internal control policies and procedures in their agencies, which include preventive as well as corrective measures.

(6) Serve as a Member of the ICB.

(7) Periodically advise the ICB on the status of financial management internal control activity within the Department.

(8) Be responsible for regular evaluation of DOL financial

management operations and coordinate with the appropriate agency heads to implement such controls, modifications and procedures as may be necessary for effective management and efficient functioning.

(9) Serve as the ICP for Financial Systems and for those Mixed Systems that are significantly financial as designated by the Deputy Secretary.

(10) For the functions listed in subparagraph 7(B)(4) above, be responsible for the identification, documentation, testing, evaluation, monitoring, and reporting of internal controls related to the financial systems and for those Mixed Systems that are significantly financial, and providing periodic briefings to the Members of the ICB, as listed in subparagraph 7(I)(1)(a), regarding the results of these activities.

(11) Provide for Documentation of the Assessment Process in paragraph 7(B)(10) above.

(12) Coordinate with the agency heads, ASAM, CIO, CAO, and CHCO where applicable to improve efficiency for all agency internal control reporting requirements.

C. The Assistant Secretary for Administration and Management (ASAM) shall:

(1) Ensure that appropriate internal controls are in place and operating effectively for performance management, property management, security and emergency management, and other business and administrative functions assigned to the ASAM performed within and on behalf of the Department.

(2) Provide assistance to agency heads in instituting sound, effective internal control policies and procedures in their agencies for performance management, property management, security and emergency management, and other business and administrative functions assigned to the ASAM, including preventive as well as corrective measures.

(3) Serve as a Member of the ICB.

(4) Periodically advise the ICB on the status of internal control activity within the Department related to performance management, property management, security and emergency management, and other business and administrative functions assigned to the ASAM.

(5) Be responsible for regular evaluation of DOL performance management, property management, security management, and other business and administrative functions assigned to the ASAM and coordinate with the appropriate agency heads to implement such controls, modifications, and procedures as may be necessary for

effective management and efficient functioning.

(6) As designated by the Deputy Secretary, serve as an ICP for certain Non-Financial Systems and for certain Mixed Systems that are significantly non-financial.

(7) For the functions listed in subparagraph 7(C)(1) above, be responsible for the identification, documentation, testing, evaluation, monitoring, and reporting of internal controls related to the non-financial portions of Mixed Systems and providing periodic attestations to the Members of the ICB, as listed in subparagraph 7(I)(1)(a), regarding the results of these activities.

(8) Provide for Documentation of the Assessment Process in paragraph 7(C)(7) above.

(9) Coordinate with the agency heads, CFO, CIO, CAO, and CHCO where applicable to improve efficiency for all agency internal control reporting requirements.

D. The Chief Information Officer (CIO) shall:

(1) Ensure that appropriate internal controls are in place and operating effectively for information resource management functions performed within and on behalf of the Department.

(2) Provide assistance to agency heads in instituting sound, effective information resource management internal control policies and procedures in their agencies, which include preventive as well as corrective measures.

(3) Serve as a member of the ICB.

(4) Periodically advise the ICB on the status of information resource management internal control activity within the Department.

(5) Be responsible for regular evaluation of DOL information resource management operations and coordinate with the appropriate agency heads to implement such controls, modifications and procedures as may be necessary for effective management and efficient functioning.

(6) As designated by the Deputy Secretary, serve as an ICP for certain Non-Financial Systems and for certain Mixed Systems that are significantly non-financial.

(7) For the functions listed in subparagraph 7(D)(1) above, be responsible for the identification, documentation, testing, evaluation, monitoring, and reporting of internal controls related to the non-financial portions of Mixed Systems and providing periodic attestations to the Members of the ICB, as listed in subparagraph 7(I)(1)(a), regarding the results of these activities.

(8) Provide for Documentation of the Assessment Process in paragraph 7.D(7) above.

(9) Coordinate with the agency heads, CFO, ASAM, CAO, and CHCO where applicable to improve efficiency for all agency internal control reporting requirements.

E. The Chief Acquisition Officer (CAO) shall:

(1) Ensure that appropriate internal controls are in place and operating effectively for acquisition, grants, and cooperative agreements management functions performed within and on behalf of the Department.

(2) Provide assistance to agency heads in instituting sound, effective acquisition, grants, and cooperative agreements management internal control policies and procedures in their agencies, which include preventive as well as corrective measures.

(3) Serve as a member of the ICB.

(4) Periodically advise the ICB on the status of acquisition, grants, and cooperative agreements management internal control activity within the Department.

(5) Be responsible for regular evaluation of DOL operations that relate to acquisition, grants, and cooperative agreements and coordinate with the appropriate agency heads to implement such controls, modifications and procedures as may be necessary for effective management and efficient functioning.

(6) As designated by the Deputy Secretary, serve as an ICP for certain Non-Financial Systems and for certain Mixed Systems that are significantly non-financial.

(7) For the functions listed in subparagraph 7(E)(1) above, be responsible for the identification, documentation, testing, evaluation, monitoring, and reporting of internal controls related to the non-financial portions of Mixed Systems and providing periodic attestations to the Members of the ICB, as listed in subparagraph 7(I)(1)(a), regarding the results of these activities.

(8) Provide for Documentation of the Assessment Process in paragraph 7(E)(7) above.

(9) Coordinate with the agency heads, CFO, ASAM, CIO, and CHCO where applicable to improve efficiency for all agency internal control reporting requirements.

F. The Chief Human Capital Officer (CHCO) shall:

(1) Ensure that appropriate internal controls are in place and operating effectively for human capital management functions performed within and on behalf of the Department.

(2) Provide assistance to agency heads in instituting sound, effective human capital management internal control policies and procedures in their agencies, which include preventive as well as corrective measures.

(3) Serve as a member of the ICB.

(4) Periodically advise the ICB on the status of human capital management internal control activity within the Department.

(5) Be responsible for regular evaluation of DOL human capital operations and coordinate with the appropriate agency heads to implement such controls, modifications and procedures as may be necessary for effective management and efficient functioning.

(6) As designated by the Deputy Secretary, serve as an ICP for certain Non-Financial Systems and for certain Mixed Systems that are significantly non-financial.

(7) For the functions listed in subparagraph 7(F)(1) above, be responsible for the identification, documentation, testing, evaluation, monitoring, and reporting of internal controls related to the non-financial portions of Mixed Systems and providing periodic attestations to the Members of the ICB, as listed in subparagraph 7(I)(1)(a), regarding the results of these activities.

(8) Provide for Documentation of the Assessment Process in paragraph 7(F)(7) above.

(9) Coordinate with the agency heads, CFO, ASAM, CIO, and CAO where applicable to improve efficiency for all agency internal control reporting requirements.

G. DOL Agency Heads shall:

(1) Ensure that appropriate internal controls are in place and operating effectively for their respective agencies.

(2) Include in their agency's ongoing internal control program:

(a) Regular risk assessments;

(b) Reviews of high-risk components and activities;

(c) Cooperation with the Government Accountability Office (GAO) and the DOL Office of the Inspector General (OIG) in the conduct of external reviews and audits of agency components, careful consideration of any findings and recommendations, and proper and timely follow-up on those recommendations;

(d) Follow-through on corrective actions relative to internal control weaknesses in agency systems identified through agency or external reviews, assessments, or other evaluation efforts; and

(e) Maintenance of Documentation and responsive reporting on agency internal control program activities.

(3) Ensure that internal control responsibilities and results are included in performance standards and appraisals of appropriate agency managers.

(4) Upon discovery, immediately report any significant Internal Control System breakdowns to the CFO and the ASAM, CIO, CAO or CHCO as relevant.

(5) In conjunction with the ICB, institute internal agency procedures providing for the review of new program activities, proposed legislation and new or revised regulations, functions, or systems to ensure that adequate controls and safeguards are incorporated for increased efficiency and reduced risk.

(6) Submit to the CFO quarterly and annual FMFIA and FFMIA compliance attestations for their respective agencies in accordance with guidance provided by the CFO, including the status of internal controls within their respective agencies.

(7) Coordinate with the respective Internal Control Principal(s) where applicable to improve efficiency for all agency internal control reporting requirements.

H. Internal Control Principals (ICP), for the systems for which that have been designated as such, shall:

(1) Identify, document, test, evaluate, monitor, and report internal controls, as well as monitor corrective actions.

(2) Periodically brief the ICB on the implementation of corrective actions related to Material Weaknesses, the execution of remediation plans, and the achievement of appropriate internal control deadlines.

(3) Upon discovery, immediately report to the ICB all significant Internal Control System breakdowns.

(4) In coordination with other ICPs, ICB Members, ICB Associate Members, and other officials, as appropriate, direct the performance of reviews of new and/or reorganized functions and systems in the Department and participate in, as appropriate, reviews of other new and/or reorganized functions and systems in the Department. These reviews are to ensure the incorporation of adequate safeguards in regulations and procedures for more efficient operations and reductions in risk.

I. There is hereby established within the Department of Labor an Internal Control Board (ICB).

(1) The ICB shall include:

(a) The following Members:

1. The Deputy Secretary, who shall serve as Chair of the ICB;
2. The Chief Financial Officer;
3. The Assistant Secretary for Administration and Management;

4. The Chief Information Officer, unless otherwise represented by another Member of the ICB;

5. The Chief Acquisition Officer, unless otherwise represented by another Member of the ICB;

6. The Chief Human Capital Officer, unless otherwise represented by another Member of the ICB; and

7. The Solicitor of Labor, who shall serve as the Acting Chair of the ICB in the absence of the ICB Chair; and

(b) Up to six agency heads who may be designated periodically by the ICB Chair as Associate Members.

(2) The ICB shall have the following responsibilities:

(a) Ensure DOL's ongoing commitment and leadership support to an appropriate system of internal control;

(b) Monitor the progress of internal controls assessments throughout the Department that are conducted to achieve the objectives of reliable financial and non-financial reporting, effective and efficient operations, and compliance with applicable laws and regulations;

(c) Advise the Secretary on the materiality of internal control weaknesses for purposes of the disclosures in the annual FMFIA report and the annual Performance and Accountability Report (PAR);

(d) Monitor the implementation of corrective actions related to Material Weaknesses, the execution of remediation plans, and the achievement of appropriate internal control deadlines;

(e) Request briefings, as appropriate, from agency heads and program officials regarding aspects of the internal control program including the implementation of corrective actions;

(f) Advise agency heads when greater commitment, including application of more resources, is recommended in order to resolve and eliminate internal control weaknesses;

(g) Promote the dissemination throughout the Department of best practices and lessons learned through the internal control assessment process; and

(h) Meet quarterly, or at the direction of the Chairperson. Meetings shall be convened by the Chairperson with sufficient advance notice to promote full member preparation and participation.

J. The Inspector General shall:

(1) Serve as an advisor to the Department's ICB.

(2) Monitor implementation of the FMFIA in DOL; ensure the quality and consistency of reviews; and provide technical assistance in agency evaluation and review processes.

(3) Provide input to the design or redesign of activities and systems for increased control, effectiveness and efficiency for DOL management consideration.

(4) Review the Secretary's FMFIA annual reports to ensure the inclusion and appropriate treatment of known significant findings. If the Inspector General does not concur with the Secretary's Annual report, a separate report may be submitted to the President and Congress by the OIG.

K. The Solicitor of Labor is delegated authority and assigned responsibility for:

(1) Providing legal advice and assistance to all officials of the Department relating to the authorities of this Order.

(2) Serving as a Member of the ICB.

(3) Serving as the Acting Chair of the ICB in the absence of the ICB Chair.

8. Reservations of Authority.

A. The submission of reports and recommendations to the President and Congress concerning the administration of statutory or administrative provisions is reserved to the Secretary.

B. Except to the extent stated in this Order, this Secretary's Order does not affect the authorities and responsibilities of the Inspector General under the Inspector General Act of 1978, as amended, or Secretary's Order 04-2006 (February 21, 2006).

C. This Order does not affect any authorities and responsibilities of the Chief Financial Officer under the Chief Financial Officers Act of 1990, any other Federal law or regulation, or any Office of Management and Budget, Government Accountability Office, or U.S. Department of the Treasury policies and publications governing the fiscal responsibilities of Federal departments and agencies.

9. *Effective Date.* This Order is effective immediately.

Dated: June 20, 2006.

Elaine L. Chao,

Secretary of Labor.

[FR Doc. 06-5646 Filed 6-23-06; 8:45 am]

BILLING CODE 4510-23-P