

 MANUAL OF ORDERS Maritime Administration	MARITIME ADMINISTRATIVE ORDER	
	Revokes: MAO 900-3 (12/5/1985) MAO 900-3g (6/1/1984) MAO 900-3g2 (7/1/1983) MAO 900-3g3 (11/1/1999)	No: 900-3
	Effective Date: March 31, 2014	
Subject: MARAD Internal Control Program		

Section 1. Purpose. This order establishes the policy for the Maritime Administration (MARAD) Internal Control Program (MICP). This order establishes MICP policy, guidelines and procedures for all MARAD organizational units and components to: (1) improve the accountability and effectiveness of MARAD programs and operations through the implementation of sound internal control methodologies, and (2) reasonably assure compliance with laws and regulations. The objective of MICP is to advance organizational policies and procedures to help program and financial managers achieve results and safeguard the integrity of programs by reducing the risk of adverse activities, including loss or damage from waste, fraud, abuse, or mismanagement. MICP includes agency activity complying with requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and internal control program implementation consistent with Office of Management and Budget (OMB) Circular A-123 guidance. MARAD organizations and components have the discretion, where necessary, to supplement this policy guidance by developing additional unit-specific instructions.

Section 2. Scope. This order applies to all programs, financial, and administrative activities at all organizational levels of the Maritime Administration, including the United States Merchant Marine Academy (USMMA).

Section 3. Criticality. Internal control is required of government agencies by law and mandate. Notwithstanding the requirement, internal control is a priority for this agency because it is essential for day-to-day activities for MARAD. Effective internal control not only helps this agency avoid waste and fraud, but it also helps the agency achieve its program objectives for the public. Consequently, internal control is mission-critical.

Section 4. Authority

- (a) OMB Circular No. A-123, Management's Responsibility for Internal Control, December 21, 2004
- (b) Federal Managers' Financial Integrity Act of 1982 (FMFIA), 31 U.S.C. 3512
- (c) Chief Financial Officers Act of 1990, P.L. 101-576, November 15, 1990
- (d) Government Performance and Results Modernization Act of 2010 (GPRAMA), P.L. 111-352, January 4, 2011
- (e) Government Performance and Results Act of 1993 (GPRA), P.L. 103-62, August 3, 1993
- (f) Federal Financial Management Improvement Act of 1996 (FFMIA), P.L. 104-208, September 30, 1996
- (g) Federal Information Security Management Act of 2002 (FISMA), 44 U.S.C. 3541 et seq
- (h) OMB Circular No. A-136, Financial Reporting Requirements, October 21, 2013
- (i) Department of Transportation Guidance Manual for OMB Circular A-123 Assessments, May 2012

Section 5. References. Internal control references are attached to this order as Appendix 1.

Section 6. Overview. The Congress, OMB, and the Government Accountability Office (GAO) have directed attention to the need for federal agencies to establish and maintain sound internal control systems as a primary means of providing greater accountability. Internal control, in the broadest sense, includes the plan of organization, methods and procedures adopted by the agency to meet its goals. Thus, internal control includes processes for planning, organizing, directing, controlling and reporting on agency operations. MICP recognizes that internal controls are not a stand-alone effort, but are the underlying governance and management mechanisms which help ensure the agency's mission, policies and procedures are executed efficiently and effectively. MARAD views internal control as integral to program and agency management, and as having the following objectives:

- (a) Effectiveness and efficiency of operations,
- (b) Reliability of financial reporting, and
- (c) Compliance with applicable laws and regulations.

MICP defines risk as "an event or circumstance that may cause unpredictable or unacceptable variation in the achievement of an objective". MICP has as a basic premise that internal control is integral to program performance and effectiveness, with the agency's strategic objectives providing the basis and focus for evaluation and risk assessment and risk mitigation. MICP integrates internal control and risk management with program performance management and evaluation and budget, in order that the mutually-reinforcing processes advance agency results-orientation and stewardship.

Section 7. Internal Control Standards. GAO report *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) provides standards for use in establishing and maintaining systems of internal control. These standards provide the framework for the MICP. They outline quality standards for control systems for the agency's programs, systems and operations, and provide the basis for evaluation. These standards assist MARAD managers and leaders in determining the adequacy of internal controls in place.

7.01 GAO Standards for Internal Control

- (a) Control Environment. Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.
- (b) Risk Assessment. A precondition to risk assessment is the establishment of clear, consistent agency and program goals and objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans. Risk assessment forms the basis for determining how risks should be treated and includes risk identification and analysis and evaluation.
- (c) Control Activities. Internal control activities are the policies, procedures, techniques and mechanisms that help ensure that management's directives are carried out to mitigate risks identified during the risk assessment process.
- (d) Information and Communication. Components must have relevant, reliable information, both financial and non-financial, relating to external and internal events. That information should be recorded and communicated to management

and others within the agency who need it and in a form and within a timeframe that enables them to carry out their internal control and operational responsibilities. Additionally, the agency needs to make sure that the forms of communication are broad-based and that information technology management assures useful, reliable, and continuous communications.

(e) Monitoring. Internal control monitoring addresses present and potential program performance deficiency and/or non-compliance with policy and requirements over time and ensures that the findings of audits and other reviews are resolved promptly.

Section 8. Internal Control Program Plan (ICPP). MICP will be guided by an agency Internal Control Program Plan. The MARAD ICPP is a two-year plan outlining and highlighting the agency's program of activities and operations for improving conditions consistent with internal control standards identified at Section 7, including implementing the requirements of OMB Circular A-123 and FMFIA. The MARAD ICPP will be updated and refreshed as needed, but not less than once every two years.

Section 9. Implementation of OMB Circular A-123. Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibilities for Internal Control," defines management's responsibility for internal control in federal agencies. OMB Circular A-123 and the FMFIA, the statute it implements, are at the center of existing federal requirements to improve internal controls. The OMB Circular: (1) provides guidance for federal managers on improving the accountability and effectiveness of federal programs; (2) provides internal control standards and specific requirements for conducting management's assessment of the effectiveness of internal controls over financial reporting; and (3) emphasizes the need to integrate and coordinate internal control assessments with other internal control-related activities.

Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling cost, mitigating adverse aspects of agency operations and assuring that programs are managed with integrity and in compliance with applicable law. OMB guidance is for managers to continuously monitor and improve the effectiveness of controls in their respective areas. This involves the systematic review and assessment of controls and their effectiveness.

The agency internal control process is outlined in the process flow diagram at Appendix 2.

9.01 Assessing Internal Control. MARAD and the USMMA are identified as entities within the Department's OMB Circular A-123 internal control program, which includes systematic self-assessment, review and evaluation of controls at the entity level, for key business processes, and at the transaction level, testing of controls, identification of corrective actions for identified gaps or process exceptions, and monitoring and reporting on the progress of corrective actions remediating deficiencies. DOT's OMB Circular A-123 internal control program activities will be detailed in the MARAD ICPP addressed and outlined in Section 8. MARAD and/or USMMA may undertake additional activities beyond the Department's program, consistent with OMB Circular A-123 as may be appropriate to strengthen controls, address or resolve risk conditions, or implement improvements for program effectiveness. OMB Circular A-123 internal control or management reviews shall be conducted in accordance with DOT and MARAD guidance.

The Department's program identifies key business processes for systematic review. These processes are subject to change as they are informed and prioritized by risk information. Key business processes are examined on a rotating basis. MARAD and/or the USMMA may conduct management or control reviews

beyond the DOT focus processes, as may be warranted by risk conditions or management challenges, in accordance with DOT and MARAD guidance.

Based on the results of risk assessments, identified gaps or vulnerabilities or management challenges, and/or leadership emphases, management or internal control reviews may be scheduled and conducted for assessable units or business processes to assess the adequacy and effectiveness of internal controls and compliance with the objectives and standards for internal control as prescribed by GAO and OMB Circular A-123.

9.02 Federal Managers Financial Integrity Act (FMFIA) of 1982. FMFIA identifies management as having a fundamental responsibility for the development and maintenance of effective internal controls, with an emphasis on risk management. The law applies to operating and administrative programs, as well as accounting and financial management. FMFIA requires agencies to have and maintain administrative controls sufficient to provide reasonable assurance that:

- (a) Obligations and costs are in compliance with applicable law;
- (b) Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- (c) 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.

MARAD participates in the Department's standardized and systematic FMFIA program, including identification of components and assessable units (AUs), conducting risk assessments, risk analysis, identification of corrective actions for identified deficiencies or vulnerabilities and annual Statement of Assurance. Specific FMFIA program activities will be detailed in the MARAD ICPP addressed and outlined in Section 8. MARAD may undertake additional internal control or risk management activities beyond the Department's program, consistent with FMFIA, as may be appropriate to strengthen agency risk management, address or resolve risk conditions, or implement improvements for program effectiveness. Assessments shall be conducted in accordance with DOT and MARAD guidance.

MARAD components represent the agency's primary program areas for the assessment of risk and review and evaluation of controls. A component groups together similar activities which have similar inherent risks and is generally headed by a senior executive. Components may conduct program operations in many locations, with each location following and using the controls prescribed by the component head, consistent with Federal, Departmental, and agency internal control policy and protocols.

MARAD AUs are programmatic or functional divisions of a component enabling program performance and internal control analysis and evaluation. From the perspective of program performance and evaluation, AUs may also be viewed as performance segments. AUs will often have one or more subordinate functional areas that need to be considered together in risk and control assessment for the AU. Some AUs may have several functional areas or sub-segments. AUs will also be identified and defined by: (1) essential functional areas; (2) sources and uses of funds, including budget accounts, budget line items, operating plan line items, and Budget Program Activity Codes (BPACs); (3) program performance measures; and (4) associated information systems.

Consistent with a dynamic risk-based system, the MARAD component and assessable unit framework will be reviewed annually. MARAD components and assessable units are established by MARAD Bulletin referencing this administrative order.

Section 10. Annual Statement of Assurance. The agency's annual Statement of Assurance to the Secretary provides the Maritime Administrator's reasonable assurance as to the overall adequacy and effectiveness of management and internal controls within the agency and assessment of conformance of agency financial management systems with government-wide requirements. The annual Statement of Assurance is a requirement of OMB Circular A-123 and FMFIA. The Statement of Assurance addresses agency OMB Circular A-123 and FMFIA internal control and risk management program efforts, audit and review findings, management challenges, and progress of corrective actions addressing and remediating identified deficiencies. The Statement of Assurance addresses any observed material weaknesses.

10.01 Control Deficiencies and Materiality. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct operational process deviations or misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal controls, 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.

Section 11. Correcting Internal Control Deficiencies. Ultimately, the objective for systematic MICP risk assessment, management and process reviews, testing and monitoring, ideally, is to validate that robust and effective controls are in place and that deficiencies do not threaten or jeopardize the accomplishment of agency objectives for the public. The expectation is that systematic review and continuous process improvement will mitigate deficiencies. However, reviews can result in identification of deficiencies, weaknesses or vulnerabilities requiring corrective action and/or process improvement. Deficiencies can include audit findings and recommendations, management challenges, exception memoranda and notices of finding and recommendation (NFRs). Deficiencies can be identified by internal review processes, or by external reviewers or auditors, including GAO and OIG and others. Priority emphasis will be given to timely and effective corrective actions addressing and resolving all deficiencies.

11.01 Corrective Actions. Recommendations resulting from risk assessments and internal control reviews and significant weaknesses identified shall be considered by management on a timely basis and appropriate corrective actions taken as promptly as possible. The Office of Program Performance and Internal Control shall establish and maintain a system that logs and tracks recommendations and target dates, provide assistance for development of plans for implementation of the corrections, monitor whether improvements are made as scheduled and provide reports to management and leadership on the progress of agency actions addressing and resolving deficiencies.

11.02 Supporting Documentation. AU managers are responsible for the provision of documentation supporting actions taken to address and resolve deficiencies, for review by the Chief Financial Officer (CFO) office. Supporting documentation will be retained as part of the record for agency response to the respective deficiency.

Section 12. Information System Control Standards. MARAD internal control extends to agency information systems. It is vital for MARAD to have effective information system controls to reduce the risk of unauthorized system access, prevent improper use of MARAD resources, safeguard sensitive government information, and verify the accuracy of financial data. Information Technology (IT) controls

work together with manual controls to establish a strong control environment across the agency. IT controls generally fall under two broad objectives:

- (a) Ensure data security – These IT controls are designed to prevent unauthorized access to government data and prevent data loss. These controls can include access controls such as password protection and automatic data backups in case of a natural disaster.
- (b) Ensure data accuracy – These IT controls are designed to verify the completeness and accuracy of data being processed at MARAD. These controls can include system edit checks and pre-populated fields to verify that all required information are included and catch data entry errors.

MICP is responsible for monitoring the effectiveness of IT controls across the agency. IT system security and privacy controls will follow National Institute of Standards and Technology (NIST) Special Publication 800-53, “Security and Privacy Controls for Federal Information Systems and Organizations”, and the GAO Federal Information System Controls Audit Manual (FISCAM - GAO Publication #09-232G).

Section 13. Responsibilities. AU employees have a responsibility to make internal control an integral part of their position and duties. Internal control extends to all processes and functions at all levels across the agency.

Further, all MARAD component and AU managers directing or controlling resources or program operations are responsible for establishing, maintaining, evaluating, improving and reporting on controls for their assigned areas.

13.01 Associate Administrator for Budget and Programs/Chief Financial Officer (CFO). The Associate Administrator/Chief Financial Officer has primary responsibility for managing agency compliance with the CFO Act, Government Performance and Results Act Modernization Act (GPRAMA), and the laws and guidance related to internal control. The MARAD CFO will:

- (a) Coordinate, monitor, manage, direct, evaluate and report on internal control efforts within the agency, including agency-wide efforts under OMB Circular A-123, FMFIA and the Federal Financial Management Integrity Act (FFMIA).
- (b) Work with each component to encourage advancement of an internal control-conscious environment that provides a disciplined atmosphere in which managers are aware of the need to establish systematic controls, monitor their application and periodically review their effectiveness; and
- (c) Advance the development and implementation of prompt, effective corrective actions by components addressing identified weaknesses, vulnerabilities and/or deficiencies.

13.02 Office of Program Performance and Internal Control. The office has primary responsibility for managing the MICP for MARAD, including development and implementation of the agency’s Internal Control Program Plan (ICPP) and preparing and submitting the agency’s annual Statement of Assurance to the Secretary. The Office of Program Performance and Internal Control will:

- (a) Recommend internal control and risk management policies and procedures, and provide oversight and guidance to components and assessable units concerning the maintenance of effective controls;
- (b) Implement internal control policy and operations strengthening agency control environment, risk assessment, control activities, information and communication, and monitoring;
- (c) Maintain a tracking system with specific data including milestones for correction of deficiencies;
- (d) Provide regular, periodic reports to management and leadership on the status of agency actions addressing or responding to identified weaknesses, vulnerabilities, deficiencies and/or management challenges; and
- (e) Coordinate with component heads to formally designate an Internal Control Officer.

13.03 Component Heads. The heads of MARAD components are responsible for establishing and maintaining a system of internal control for their components in accordance with GAO's *Standards for Internal Control in the Federal Government* and this policy. Component heads will:

- (a) Maintain an internal control process that enables the responsible official to provide reasonable assurance that the objectives of control, as described in OMB Circular A-123 and the FMFIA, are being achieved;
- (b) Institutionalize the MICP within their organizations;
- (c) Establish as priorities the identification, correction, and reporting of management or internal control deficiencies or material weaknesses;
- (d) Dedicate appropriate resources and emphasis to process improvements or corrective actions to address and resolve identified deficiencies; and
- (e) Designate an Internal Control Officer (ICO) to coordinate the component's internal control program; and implement internal control policy, guidelines and plans issued by the CFO.

13.04 Internal Control Officer (ICO). ICOs are designated and appointed by component heads to coordinate component internal control efforts consistent with the MARAD ICPP, this policy, and mandate. ICOs have responsibility for implementation of MICP within their respective components, including MICP internal control and risk management efforts and component operations carrying out provisions of OMB Circular A-123 and FMFIA. ICOs will:

- (a) Coordinate the evaluation of component controls on an ongoing basis, and support and participate in audits, internal and management control reviews, risk assessments, and other evaluations;

- (c) Work within the component to identify and resolve weaknesses and monitor timely correction and validation of all component deficiencies;
- (d) Monitor and provide reporting to the Office of Program Performance and Internal Control on the progress of component process improvements or corrective actions responding to identified weaknesses, vulnerabilities, or deficiencies; and
- (e) Provide supporting documentation (and retain record copies) for component corrective actions or responses to management challenges.

A handwritten signature in black ink, reading "Paul N. Jaenicke". The signature is written in a cursive style with a large, prominent initial "P".

Paul N. Jaenicke
Acting Maritime Administrator

References

- (a) Section 1, 1101, 3512, and 7501 of Title 31, United States Code.
- (b) Government Accountability Office, “Standards for Internal Control in the Federal Government,” November 1999.
- (c) Government Accountability Office, “Internal Control Management and Evaluation Tool,” August 2001.
- (d) Office of Management and Budget Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004.
- (e) Public Law 111-5, “The American Recovery and Reinvestment Act of 2009,” February 17, 2009.
- (f) Office of Management and Budget, “Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” current version.
- (g) Sections 3534 and 3544 of title 44, United States Code (also known as the Federal Information Security Management Act of 2002).
- (h) Title 8 of Public Law 104-208, “The Federal Financial Management Improvement Act of 1996,” September 30, 1996.
- (i) Office of Management and Budget Memorandum, “Conducting Acquisition Assessments under Circular No. A-123,” May 21, 2008.
- (j) Department of the Treasury Federal Accounting Standards Advisory Board (FASAB) Generally Accepted Accounting Principles, as amended.
- (k) Department of the Treasury Financial Manual, Volume 1, “Federal Agencies,” current edition.
- (l) United States Standard General Ledger, current edition.
- (m) Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” current edition.
- (n) National Institute of Standards and Technology (NIST) Special Publication 800-53, “Security and Privacy Controls for Federal Information Systems and Organizations,” current edition.
- (o) Government Accountability Office, GAO-09-232G, “Federal Information System Controls Audit Manual (FISCAM), February 2, 2009.

DOT/MARAD OMB Circular A-123 Internal Control Program Process Flow

MAO 900-3 (2014) and Bulletin 900-03-01 (2014)

