

**Department of Natural Resources**

**Contracts and Grants Policy No:** 01-A  
**Effective Date:** April 14, 2014  
**Subject:** Outsourcing of Key Internal Controls  
**Authorization:** Stephen Chustz  
Secretary

**I. POLICY:**

In accordance with La. R.S. 39:1482 et seq., it is the policy of the Department of Natural Resources (DNR) to ensure that mitigating controls are in place when outsourcing key internal controls. In outsourcing a process or function deemed to be a key internal control, the responsible person within each DNR Office shall obtain assurances that the outside service organization (Contractor) is administering its processes and functions in accordance with this policy.

**II. PURPOSE:**

The purpose of this policy is to provide guidance to DNR Offices in requiring assurances that mitigate risks when key internal controls are outsourced to a Contractor. The required assurances must be addressed in the preliminary contracting process prior to execution of the contract.

**III. APPLICABILITY:**

This policy shall be applicable to all DNR Offices.

**IV. PROCEDURE:**

Prior to entering into a contract, the designated individual within each DNR Office is responsible for determining whether a process or function being outsourced to a Contractor is a key internal control. Examples of a contract that might include internal controls are: accounting contracts, purchasing contracts, contracts that facilitate the implementation of the energy program etc. This determination will be made by completing the Outsourced Function Decision Tree (*Attachment 1*), with the rationale for any such determination fully documented on the Key Internal Control

Outsourcing Certification form (*Attachment 2*) prior to the contract being fully executed.

In preparing the contract, the DNR Office shall also identify the assurances the Contractor is required to provide and the party responsible for the cost of providing the assurances. The DNR Office shall also certify that procedures are in place to monitor compliance with the assurances obtained from the Contractor throughout the life of the contract.

The following are non-exclusive assurances a DNR Office may obtain from the Contractor:

- An annual, independent examination that results in a required service organization control (SOC) report. SOC reports replace SAS 70 reports and provide certain independent assurances on the internal controls of a contracted entity. There are 3 types of SOC reports available, depending upon the type of examination needed to obtain assurances on the function being outsourced. If a DNR Office determines that a SOC report is needed from a Contractor, the party responsible for the cost of obtaining the report shall be specifically addressed in the solicitation (where applicable) and contract.
- The Contractor may be required to provide specified independent assurances throughout the contract term. These assurances may be provided in the form of a quality control plan to be monitored by the DNR Office. If this type of assurance is utilized, the Contractor's compliance should be monitored throughout the life of the contract.
- The DNR Office may conduct periodic monitoring reviews of the function being performed by the Contractor. The results of any such monitoring review shall be documented and maintained by the DNR Office.

## **V. REVIEW/APPROVAL**

The DNR Office shall submit the fully completed Key Internal Control Outsourcing Certification form (*Attachment 2*) to the DNR Internal Auditor for review to determine if the risks associated with the outsourcing of the key internal controls are properly identified and to evaluate the sufficiency of the Contractor's assurances to mitigate the risk(s). After review, if satisfied, the Internal Auditor, will forward the form to the Secretary (or designee) for approval. Upon approval, the DNR Office will be notified electronically by the Procurement Division to proceed with the contracting process.

Each DNR Office is responsible for maintaining a record of all forms submitted to and action taken by the DNR Internal Auditor. Additionally, each DNR Office is responsible for monitoring the Contractor's compliance with the requirements and assurances delineated in the contract. If the original contract requires an amendment to change the scope of services, the DNR Procurement Section is to be notified and any such changes documented on the status report.

Once the fully executed contract is received by the DNR Procurement Section, it will be submitted to the DOA Office of Contractual Review (OCR) and/or Office of State Purchasing (OSP) with the Key Internal Control Outsourcing Certification form attached.

**VI. COMPLIANCE:**

It is the responsibility of each Assistant Secretary (or equivalent) and the Procurement Section to ensure compliance with this policy. It is the responsibility of the Internal Auditor to determine each DNR Office's compliance with this policy.

**V. EXCEPTIONS:**

Exceptions to this policy are not allowed.

**VI. QUESTIONS:**

Questions should be directed to the DNR Procurement Division at 225-342-4513.

  
\_\_\_\_\_  
Stephen Chustz, Secretary

5/27/14  
\_\_\_\_\_  
Date

**Outsourced Functions Decision Tree for Proposed RFP/RFQ/CEA/Contract:**

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**1. Is the outsourced function a key internal control?**

DNR Offices must evaluate and determine whether a function being outsourced is a key internal control. This will not be a clear-cut decision and judgment must be exercised.

Some outsourced functions are critical to financial operations, some are critical to the mission of the user entity, and some are of a sensitive nature and involve security over confidential information. When outsourcing the administration of an entire program, system or function to a Contractor, this may represent the outsourcing of a key internal control.

Accounting literature refers to a key internal control as “a control that if it fails, there is a reasonable likelihood that a material error in the financial statements would not be prevented or detected on a timely basis”. A key internal control is also described as a “control that provides reasonable assurance that material errors will be prevented or detected in a timely manner.” Key internal controls are those controls that have a pervasive effect upon the accomplishments of management’s control objectives.

If unsure whether or not a key internal control is being outsourced, DNR Offices should consult other resources within the Department to assist in making this determination.

If the outsourced function meets any of the criteria listed below, it is likely to be a key internal control. DNR Offices should consider the impact on their section individually and on the Department as a whole if the function or process being administered by a Contractor fails or is performed improperly.

Indicate below if the process or function being outsourced represents any of the following (select all that apply).

	Is the function critical to the operation of the office?
	If the function or process fails, may a material error in the financial statements occur?
	Does the function or process have a pervasive effect upon management’s core mission?
	Does the function involve sensitive or confidential information?
	Would the failure to properly administer the function result in detrimental effects upon the Office or Department?

**2. Determination**

In my opinion, based upon the information provided for my review, the core mission and responsibilities of my section, program, process or function being outsourced through this planned contract \_\_\_\_\_ **IS** \_\_\_\_\_ **IS NOT** a “key internal control.” (Check one)

\_\_\_\_\_  
SIGNATURE

\_\_\_\_\_  
PRINTED NAME

\_\_\_\_\_  
DATE

**Department of Natural Resources (DNR)  
KEY INTERNAL CONTROL OUTSOURCING CERTIFICATION FORM**

***Instructions:*** *Prior to services being provided relative to an outsourced function and/or entering into a contract or agreement with an outside service organization/vendor, this form must to be completed by applicable DNR section or agency. Once completed, submit to the Internal Auditor.*

**DNR OFFICE/SECTION:** \_\_\_\_\_

**NAME OF OUTSIDE SERVICE  
ORGANIZATION (CONTRACTOR):** \_\_\_\_\_

1. Provide a detailed description of the scope of services to be provided by the contractor.

2. What is the core mission of the section?

3. Is a key internal control being outsourced? **YES or NO (Attach Decision Tree, See Attachment 1))**





*I certify that the above information is accurate and supports the core mission of the*

*Office of* \_\_\_\_\_

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

**INTERNAL AUDITOR** *review to determine if the risks associated with the outsourcing of the key internal controls are identified and whether the assurances appear to mitigate the risk.*

**YES or NO** *the risks associated with the outsourcing of the key internal controls are identified and whether the assurances appear to mitigate the risk.*

**COMMENTS:** \_\_\_\_\_

*Signature:* \_\_\_\_\_ *Date:* \_\_\_\_\_

**SECRETARY (or Designee) Approval:**

*Signature:* \_\_\_\_\_ *Date:* \_\_\_\_\_