

DEPARTMENT OF NATURAL RESOURCES

FISCAL SERVICES POLICY NO. 04

EFFECTIVE DATE: **APRIL 12, 2018**

SUBJECT: **OUTSOURCING OF KEY INTERNAL CONTROLS**

AUTHORIZATION: **TITLE 39 CHAPTER 17**

I. POLICY

State agencies that intend to contract for services are required to conduct an internal review and certification as part of the procurement process to determine whether a key internal control is being outsourced.

II. PURPOSE

The purpose of this policy is to outline the required procedures regarding the outsourcing of key internal controls and the assurances to be obtained to 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 applies to all Department of Natural Resources Offices (DNR Offices).

IV. DEFINITIONS

- A. **Key Internal Control** - A control measure that, if it fails, means there is at least a reasonable likelihood that a material error in the financial statements would not be prevented or detected in a timely manner.

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 Office individually and on DNR as a whole if the function or process being administered by a contractor fails or is performed improperly. The DNR Office should determine whether the process or function being outsourced represent any of the following criteria:

- The function is critical to the operations of the DNR Office.

- If the function or process failed, will a material error in the financial statements occur?
- Does the function or process have a pervasive effect upon the DNR Office's core mission?
- The function involves sensitive or confidential information.
- Failure to properly administer the function would result in detrimental effects on the DNR Office.

If unsure whether or not a key internal control is being outsourced, DNR Offices should consult with the DNR Fiscal Services section and/or the DNR Internal Auditor.

B. Independent Assurance – A certification by a contractor as to the design, implementation, and operational effectiveness of their internal controls through a Statement on Standards for Attestation Engagements – Reporting on Controls at a Service Organization (SSAE) 16 examination, internal IT audit, or other equivalent assurance. Where warranted, such provisions will be included in Requests for Proposals (RFPs) and contracts.

Assurances come in various forms and may vary depending on the function being performed by the Contractor. Some forms of assurances a DNR Office might obtain include the following:

- An annual independent examination that results in a service organization control (SOC) report could be required. SOC reports replace Statement on Auditing Standards (SAS) 70 reports and provide certain independent assurances on the internal controls of a contracted entity. There are three types of SOC reports available, depending on 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 contracted entity, the party responsible for the cost of obtaining the report is to be specifically addressed in the solicitation and contract.
- The Contractor could be required to provide certain independent assurances during the term of the contract. These assurances may be provided in the form of a quality control plan. DNR Offices should review the Contractor's quality control plans. If this type of assurance is required, the Contractor should be monitored during the life of the contract to ensure that the requirements of the contract are met.
- DNR Offices could also conduct periodic monitoring reviews of the function being performed by the Contractor. The results of any monitoring reviews are to be documented and maintained by the DNR Office.

IV. PROCEDURES

- A. **ASSESSMENT:** Prior to entering into a contract, the individual assigned responsibility for the contract, is responsible for determining whether a process or function being outsourced to a Contractor is a key internal control. Examples of contracts that might include key internal controls are: accounting contracts, purchasing contracts, program implementation contracts, etc. To facilitate this determination, DNR Offices are to complete the *Evaluating Whether Outsourced Functions Represent Key Internal Controls* form (Attachment 1), with the rationale for any such determination fully documented on the *Key Internal Control Outsourcing Certification* form (Attachment 2) prior to the execution of the contract.
- B. **ASSURANCES:** When preparing the contract, the DNR Offices are to identify the assurances (as defined above) that the contractor will be required to provide and the party responsible for the cost of providing the assurances. The DNR Offices will also certify that procedures are in place to monitor compliance that the required assurances are obtained from the Contractor throughout the life of the contract.
- C. **REVIEW/APPROVAL:** The DNR Offices will submit the fully completed Key Internal Control Outsourcing form (Attachment 2) to the DNR Fiscal Administrative Services Program Director for review to determine if the risks associated with the outsourcing of the key internal control are properly identified and to evaluate the sufficiency of the Contractor's assurance to mitigate the risks. If unsure whether the risks have been properly identified and/or the sufficiency of the assurance required of the Contractor, the DNR Fiscal Administrative Services Program Director may consult with the DNR Internal Auditor to address these concerns.
- D. **MONITORING:** DNR Offices are responsible for monitoring the Contractor's compliance with the requirements and assurances defined in the contract. DNR Offices are required to complete, on a quarterly basis, the *Outsourcing of Key Internal Control Status Report* form (Attachment 3). The status report must describe the results of the monitoring review process during the proper reporting period, as well as provide a summary of project accomplishments and performance over the entire life of the contract. The completed status reports are to be submitted to the DNR Fiscal Administrative Services section within 30 days after the close of each reporting period.

If the original contract requires an amendment to change the scope of services, the DNR Fiscal Administrative Services section is to be notified and any such changes documented on the status report.

VII. COMPLIANCE

It is the responsibility of each DNR Office Assistant Secretary (or equivalent) and the DNR Fiscal Services section to ensure compliance with this policy.

VIII. EXCEPTIONS

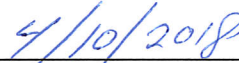
There are no exceptions to this policy without the express approval of the Secretary.

IX. QUESTIONS

Questions regarding this policy should be directed to the DNR Fiscal Administrative Services Program Director.



THOMAS F. HARRIS, SECRETARY



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INITIAL ISSUE DATE: 04/14

REVISION DATE: 04/18