

Office of Inspector General, the Special Inspector General for Afghanistan Reconstruction, and the Government Accountability Office conduct reviews, audits, inspections, and investigations that are considered by management.

The Senior Assessment Team (SAT) provided oversight during 2017 for the internal controls over financial reporting program in place to meet Appendix A to OMB Circular A-123 requirements. The SAT reports to the MCSC and is comprised of 16 senior executives from bureaus that have significant responsibilities relative to the Department's financial resources, processes, and reporting. The SAT also includes executives from the Office of the Legal Adviser and the Office of Inspector General (non-voting). In addition, the Department's Office of Management Controls employs an integrated process to perform the work necessary to meet the requirements of Appendix A, Appendix C (regarding the Improper Payments Information Act, as amended), and the FMFIA. The Department employs a risk-based approach in evaluating internal controls over financial reporting on a multi-year rotating basis, which has proven to be efficient. Due to the broad knowledge of management involved with the Appendix A assessment, along with the extensive work performed by the Office of Management Controls, the Department evaluated issues on a detailed level. The 2017 Appendix A assessment did not identify any material weaknesses in the design or operation of the internal control over financial reporting. The assessment did identify several

significant deficiencies in internal control over financial reporting that management is closely monitoring.

The Department's management controls program is designed to ensure full compliance with the goals, objectives, and requirements of the FMFIA and various Federal laws and regulations. To that end, the Department has dedicated considerable resources to administer a successful management control program. The Department complied with the requirements in OMB Circular A-123 during FY 2017 while working to evolve our existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. Actions were taken during FY 2017 to expand our work on the Green Book requirements that are directly related to testing entity-level controls, which is a primary step in operating an effective system of internal control. Entity-level controls are mostly within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control in the Green Book, which are further required to be analyzed by 17 underlying principles of internal control. For the Department, all five components and 17 principles were operating effectively and supported the Department's unmodified Statement of Assurance.

The Department also places emphasis on the importance of continuous monitoring. It is the Department's policy that any organization with a material weakness or significant deficiency must prepare and implement a corrective action plan to fix the weakness. The plan combined with the individual statements of assurance and Appendix A assessments provide the framework for monitoring and improving the Department's management controls on a continuous basis. Management will continue to direct and focus efforts to resolve significant deficiencies in internal control identified by management and auditors.

During FY 2017, the Department continued to take important steps to transform how the Department will implement an Enterprise Risk Management (ERM) System. A principal element will be to integrate better risk management into our everyday work across all of our operations. The Department's Office of Policy, Rightsizing, and Innovation (M/PRI) leads the Department's ERM implementation. M/PRI, in collaboration with the Office of Budget and Planning and the Office of the Comptroller,

