



U.S. DEPARTMENT OF
TRANSPORTATION

**Federal Highway
Administration**

Order

Subject

**FINANCIAL INTEGRITY REVIEW
AND EVALUATION (FIRE) PROGRAM**

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4560.1C	April 21, 2014	HCF-1

Par.

1. What is the purpose of this directive?
2. Does this directive cancel an existing FHWA directive?
3. What authorities govern this directive?
4. What key terms are used in this directive?
5. What are the timeframes?
6. What are the objectives?
7. What are the responsibilities assigned?
8. What is the FIRE program work plan and what must it include?
9. What are the FIRE oversight requirements?
10. What are the monitoring and corrective action plan requirements?
11. What are the annual certification requirements?
12. What are the documentation requirements?
13. Is other assistance available to the AUs in carrying out this directive?

1. **What is the purpose of this directive?** This directive establishes the Financial Integrity Review and Evaluation (FIRE) program, a risk-based financial management oversight program that each Assessable Unit (AU) (i.e., Federal-aid division office, Federal Land's division office, Headquarters office, and the Office of Technical Services) is required to execute. The FIRE Program supports the Federal Highway Administration's (FHWA) annual assurances, certifications, and financial reporting. This directive consolidates FHWA's various financial management oversight requirements and responsibilities.
2. **Does this directive cancel an existing FHWA directive?** Yes. This directive cancels FHWA Order 4560.1B, Financial Integrity Review and Evaluation (FIRE) Program for the Federal-aid Division Offices, dated November 10, 2008. It also cancels FHWA Order 1300.3B, Management Control Systems, dated August 3, 1992.
3. **What authorities govern this directive?**
 - a. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires executive agency managers to establish and maintain internal controls and to annually evaluate and report on the control and financial systems that protect the integrity of Federal programs. It also requires the Government Accountability Office (GAO) to issue standards for internal control in government (GAO's Standards for Internal Control in the Federal Government).

- b. The Chief Financial Officer Act of 1990 requires Federal agencies to establish and assess internal control related to financial reporting. The Act also requires the preparation and audit of financial statements.
- c. The Cash Management Improvement Act of 1990 requires Federal agencies to improve their processes for transferring funds to the States.
- d. Office of Management and Budget (OMB) Circular A-50, Audit Follow-up (or equivalent if superseded), provides the policies and procedures for use by executive agencies when considering reports issued by the Inspectors General, other executive branch audit organizations, GAO, and non-Federal auditors where follow-up is necessary.
- e. OMB Circular A-123, Management's Responsibility for Internal Control, requires Federal managers to (1) implement cost effective internal controls, (2) assess the adequacy of internal controls in Federal programs and operations, (3) assess and document internal controls over financial reporting, (4) identify needed improvements, (5) take corrective actions, and (6) report annually on internal control through management assurance statements.
- f. Title 2, Code of Federal Regulations (CFR), Part 200, Subpart F – Audit Requirements. This part sets forth standards for obtaining consistency and uniformity among Federal agencies and the audit of non-Federal entities expending Federal awards.
- g. Department of Transportation (DOT) Order 8000.1C, Office of Inspector General Audit and Investigation Report Findings, Recommendations, and Follow-up Action, establishes Office of Inspector General (OIG) reporting requirements.
- h. Improper Payments Elimination and Recovery Improvement Act of 2012, requires Federal agencies to intensify efforts to identify and recover improper payments to prevent payment error, waste, fraud, and abuse within Federal spending.
- i. 23 CFR 630, Subpart A, Project Authorization and Agreement.
- j. DOT Order 5100.4B, Management Control Systems establishes policies and standards for Secretarial offices and Operating Administrations to comply with the requirements of Section 2 and 4 of the FMFIA.
- k. FHWA Order 1324.1B, FHWA Records Management, establishes policy, responsibilities, and procedures for the management of Federal records in all formats.

4. What key terms are used in this directive?

- a. **Assessable Unit** – An FHWA organizational subdivision whose processes can be individually documented, assessed and reported. The AU represents an entity level that performs key annual risk and internal control assessments. FHWA maintains an inventory of each AU, which is

updated annually. AU managers are Associate Administrators, Chief Counsel, Chief Financial Officer, Office of Technical Services Director, Office of Innovative Program Delivery Director, Intelligent Transportation Systems/Joint Program Office Director, Division Administrators, and Federal Lands Division Engineers (or equivalent).

- b. **Corrective Action** – An action taken by the audited or reviewed entity that corrects identified deficiencies, produces recommended improvements, or demonstrates that findings are either invalid or do not warrant additional action.
- c. **Documentation** – Internal and/or external documents providing substantiation of transactions and/or processes reviewed and the scope of the review work performed.
- d. **Internal Controls** – Those processes that ensure FHWA programs can measure achieved results against intended results and that FHWA financial and management reports are accurate and timely. Internal controls are the programs, policies, and procedures established to ensure that:
 - 1. Mission and program objectives are efficiently and effectively accomplished;
 - 2. Programs and resources are protected from waste, fraud, abuse, mismanagement, and misappropriation of funds;
 - 3. Laws and regulations are followed;
 - 4. Financial reporting is reliable; and
 - 5. Reliable information is obtained and used for decisionmaking.
- e. **Material Weakness or Instance of Material Non-Conformance** – A systemic deficiency in the design or operation of a program or system or a lack of controls that poses significant risk of one or more of the following occurring:
 - 1. Inability to execute operational services in accordance with the Agency's mission and/or legislation.
 - 2. Errors, omissions, and/or fraud in performance and other financial information or financial statements that would mislead users and/or management in decisionmaking processes.
 - 3. Financial commitments for programs and/or operations that are inconsistent with applicable provisions of law.
 - 4. The inability to properly safeguard assets.
- f. **Reasonable Assurance** – An informed judgment by the head of a unit, based upon all available information, that the internal controls in place

adequately safeguard resources, result in the generation and output of reliable data and advance mission completion. Reasonable assurance does not provide absolute assurance and recognizes that the cost of controls should not exceed the benefits derived from them.

- g. **FIRE Working Papers** – The Office of the Chief Financial Officer (HCF) approved templates to record FIRE Program activities.
5. **What are the timeframes?** The review and oversight activities required under this directive will be accomplished annually within the FHWA's performance year. The results of the FIRE oversight activities will be used for fiscal year assurances, certifications, and financial reporting.
6. **What are the objectives?** The objectives of the FIRE Program are to:
- a. Consistently apply sound financial management and accountability within FHWA's programs;
 - b. Provide a basis for the approval and certification of claims for Federal reimbursement;
 - c. Continuously promote improvements and provide for the effective risk-based management of Federal funds;
 - d. Provide for a systematic and verifiable means of testing internal controls, and administrative, grantee, and sub-grantee compliance with pertinent laws, regulations, and contract provisions; and
 - e. Provide management with a basis for the necessary assurances required by the FMFIA and governmentwide financial reporting requirements.
7. **What are the responsibilities assigned?**
- a. The HCF is responsible for:
 - 1. Providing nationwide leadership, performance targets, and accountability to the FIRE program;
 - 2. Ensuring consistent financial management activities through the development and monitoring of policies, procedures, and guidelines;
 - 3. Interpreting and implementing laws and regulations that may impact the FIRE program; and
 - 4. Identifying financial and/or funds management training needs; ensuring quality and availability of training for FHWA staff responsible for executing the FIRE Program.

- b. The Office of Technical Services Finance Services Team is responsible for:
1. Serving in an advisory and consultant capacity to the HCF regarding the implementation and effectiveness of the FIRE program;
 2. Ensuring consistent financial management activities and practices by verifying, reviewing, and analyzing FIRE plans, documentation, results, and performance metrics;
 3. Coordinating and disseminating best practices and other management improvements;
 4. Conducting risk-based, financial related reviews, as needed and coordinated with HCF;
 5. Providing financial management technical assistance to AUs; and
 6. Developing and delivering training related to sound financial management required to execute the FIRE Program.
- c. AU managers are responsible for administering the FIRE Program within their respective units, which includes:
1. Conducting risk assessment activities in accordance with FHWA's risk-based stewardship and oversight program;
 2. Implementing a risk-based financial management oversight program and executing an annual risk-based FIRE Program work plan to complete the FIRE Program requirements in this directive;
 3. Ensuring processes and procedures are in place to maintain effective internal control;
 4. Ensuring staff across all disciplines are responsible for achieving the FIRE oversight requirements, and have applicable performance objectives;
 5. Ensuring their units are properly staffed and adequately trained to administer the FIRE Program;
 6. Maintaining written standard operating procedures for all internal administrative and financial management activities addressed in the FIRE Program;
 7. Ensuring that timely and appropriate corrective action is taken to address identified ineligible costs, instances of non-compliance, and other review or audit findings and recommendations;
 8. Maintaining documentation of FIRE Program reviews in accordance with the FHWA's record retention policies; and

9. Annually certifying to their unit's compliance with the FIRE Program and the FMFIA.

8. **What is the FIRE Program work plan and what must it include?**

- a. AUs shall prepare an annual FIRE work plan as part of their annual performance planning process. While the FIRE work plan is an integral part of an AUs overall performance plan, the associated work activities must be clearly identified within the FIRE work plan.
- b. The annual FIRE work plan documents how the AU will accomplish the FIRE requirements relative to identified FHWA and AU risks.
- c. The FIRE work plan must be included and maintained in the FHWA's unit level performance plan system, unless HCF directs otherwise.

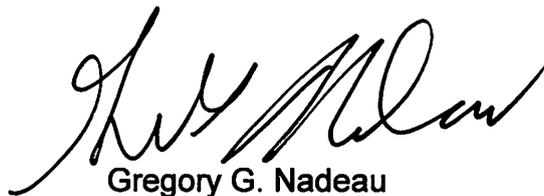
9. **What are the FIRE oversight requirements?**

- a. **Program Office Funds Management Review.** Program offices responsible for administering allocated funds shall ensure proper fund approval, accurate and timely recording of allotments and allocations (e.g., discretionary, earmarks, statutory formula distribution or other allotted funds), and effective monitoring of fund utilization. This requirement will include HCF risk-based directed reviews.
- b. **Obligation Management Review.** AUs shall have a process in place to verify that (a) all Federal requirements have been met prior to authorization; (b) Federal funds obligated or committed align with current cost estimating requirements; (c) sufficient documentation exists to support the obligation or commitment amount; and (d) applicable performance targets are being achieved. AUs shall monitor obligations or commitments executed by their unit to ensure the unexpended amounts which are not supported by a current cost estimate are expeditiously released and that completed agreements or accounts are closed in a timely manner. This requirement may include HCF or third-party obligation validation testing.
- c. **Improper Payments Testing.** AUs shall test a sample of transactions for compliance with applicable laws, regulations, policies, and contract terms as follows:
 1. HCF directed and/or third-party administered annual improper payment testing. AUs may be required to conduct this testing based on the selection of projects by HCF and/or a third-party; and
 2. AU selected transaction testing (i.e., billing reviews). AUs shall conduct billing transaction level testing as required by their annual risk assessment.
- d. **Administrative Self-Assessment.** AUs shall annually assess the application and effectiveness of internal controls over their administrative processes and non-grant funds. The objectives of this self-assessment

are to verify the unit is managing their administrative and non-grant funds in compliance with Federal statutes, regulations, policies, and procedures and to validate that sufficient controls exist to ensure effective fund authorization, cost control, approvals, and monitoring. At a minimum, the self-assessment shall evaluate a unit's funds management and procedures relating to procurement, travel, time and attendance, inventory control, and reimbursement functions.

- e. **Acquisition Management Review.** The HCF's Office of Acquisition and Grants Management in conjunction with the Federal Lands Highway (HFL) Acquisition offices will coordinate a review of the FHWA Headquarters, field, and HFL acquisition programs to ensure proper application of internal controls, compliance with regulation and policy guidance, and identification of best practices. The scope of the review will be determined on an annual basis after a risk assessment. Acquisition transactions identified for review will be tested.
 - f. **Single Audit Compliance.** AUs shall have processes in place to monitor Single Audit compliance by their respective grantees. This includes, but is not limited to, issuing management decisions and analyzing and monitoring of repeat findings. It also includes monitoring activities to ensure that corrective actions are taken.
 - g. **Financial Management Process Review.** AUs shall conduct at least one financial management review annually in response to the results of its risk assessment or other identified internal control weaknesses. This is a comprehensive review of a key process or system, and applicable internal controls, employed to administer Federal funds. This requirement is satisfied by either a stand-alone financial management review or by incorporating a financial component into a program or process review.
 - h. **A-123 Assessment.** AUs shall work with HCF to accomplish the annual A-123 assessment as directed by the Office of the Secretary. This includes, but is not limited to, developing and maintaining FHWA entity and process level documents, completing or updating FMFIA Risk Profiles and Inherent Risk Assessments, and completing process and transaction compliance testing.
 - i. **Federal Audit Follow-up.** AUs shall work with HCF to address GAO or OIG findings and recommendations and to provide the necessary documents.
10. **What are the monitoring and corrective action plan requirements?** AUs shall monitor the FIRE Program findings and recommendations to ensure procedural or internal control weaknesses are corrected. Corrective action plans shall be developed for all procedural and internal control weaknesses, and progress against plans should be periodically assessed and documented in the FIRE working papers. AUs shall monitor progress to ensure timely and effective corrective action has been completed.

- a. Determining actions taken on FIRE results may involve conducting follow-up work.
 - b. Each AU manager must ensure the FIRE working papers are kept up-to-date on the status of the follow-up activities (including costs recovered or to be recovered).
11. **What are the annual certification requirements?** AU managers shall monitor, evaluate, and report annually on the effectiveness of the internal and financial management controls in place for their AU. This annual reporting will be required in response to a call by HCF for an annual FIRE Program certification and FMFIA assurance statement. If an AU manager determines that there is insufficient information available to certify to their assurance, then appropriate reviews should be coordinated with HCF and conducted, which will provide such a basis.
12. **What are the documentation requirements?** A FIRE requirement is not considered complete until the results have been documented and recorded, as prescribed by HCF. Documenting FIRE requirement results must describe the risk category, internal controls and processes assessed, findings, recommendations, and corrective action plans.
- a. AUs shall retain all pertinent reports and other documentation supporting completion of their FIRE requirements in accordance with FHWA record retention requirements.
 - b. AUs shall provide review information as directed by HCF.
13. **Is other assistance available to the AUs in carrying out this directive?** Yes. AUs shall implement the requirement of this directive by using the additional guidance in the FIRE Tool Kit (or equivalent if superseded). The FIRE Tool Kit clearly defines how to consistently complete the FIRE requirements in this directive. The Office of Technical Services Finance Services Team is also available for assistance.



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