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CORRECTIVE ACTION PLANS

I. Purpose

This Management Directive (MD) establishes the Department of Homeland Security's (DHS) vision and direction on the roles and responsibilities for developing, maintaining, reporting, and monitoring corrective action plans (CAPs) specific to the DHS Financial Accountability Act (DHS FAA), Federal Managers' Financial Integrity Act (FMFIA), and related Office of Management and Budget (OMB) guidance. CAPs are intended to enable DHS to remediate control deficiencies related to: (1) efficiency and effectiveness of operations, (2) reliability of financial reporting, and (3) compliance with laws and regulations.

II. Scope

This MD applies to all DHS Components and Offices.

III. Authorities

- A. Chief Financial Officers Act of 1990 (CFO Act), P.L. 101-576, as amended.
- B. Clinger-Cohen Act of 1996, P.L. 104-106, Division E.
- C. Department of Homeland Security Financial Accountability Act (DHS FAA), P.L. 108-330.
- D. Federal Acquisition Regulation.
- E. Federal Financial Management Improvement Act of 1996 (FFMIA), P.L. 104-208.
- F. Federal Information Security Management Act of 2002 (FISMA), P.L. 107-347, Title III.
- G. Federal Managers' Financial Integrity Act of 1982 (FMFIA), P.L. 97-255.
- H. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, 11/1999.

- I. Government Performance and Results Act of 1993 (GPRA), P.L. 103-62.
- J. Homeland Security Acquisition Regulation.
- K. Improper Payments Information Act of 2002 (IPIA), P.L. 107-300.
- L. Inspector General Act of 1987 (IG Act), P.L. 95-452, as amended.
- M. OMB Circular A-11, Preparation, Submission and Execution of the Budget, Revised 11/02/2005.
- N. OMB Circular A-21, Cost Principles for Educational Institutions, 5/10/2004.
- O. OMB Circular A-50 Audit Follow-up, 9/29/1982.
- P. OMB Circular A-87, Cost Principles for State and Local Governments, 5/10/2004.
- Q. OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Amended 8/29/1997.
- R. OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Amended 9/30/1999.
- S. OMB Circular A-122, Cost Principles for Non-Profit Organizations, 5/10/2004.
- T. OMB Circular A-123, Management's Responsibility for Internal Control, Revised, 12/21/2004.
- U. OMB Circular A-127, Financial Management Systems, Revised 12/1/2004.
- V. OMB Circular A-130, Management of Federal Information Resources, Revised 11/28/2000.
- W. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 6/27/2003.
- X. Reports Consolidation Act of 2000, P. L. 106-531.
- Y. Single Audit Act, P.L. 104-156, as amended.

IV. Definitions

- A. **Component**: All the entities that report to the Office of the Secretary, which includes the Secretary, Counselors and their staff, Deputy Secretary and his or her staff, and Chief of Staff and his or her staff.
- B. **Control Deficiency**: Control deficiencies exist when the design or operation of a control does not allow management or employees to, in the normal course of performing their assigned functions, prevent or detect misstatements on a timely basis. Of the two types of deficiencies:
1. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met, and
 2. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.
- C. **Corrective Action Plan (CAP)**: The plan management formulates to document the procedures and milestones identified to correct control deficiencies.
- D. **Internal Control**: An integral component of an organization's management that provides reasonable assurance the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.
- E. **Material Weakness**: Material weaknesses for FMFIA overall include reportable conditions in which the Secretary or Component Head determines to be significant enough to report outside of the Department. Material weakness in internal control over financial reporting is a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.
- F. **Non-conformance**: Instances in which financial management systems do not substantially conform to financial systems requirements. Financial management systems include both financial and financially-related (or mixed) systems.
- G. **Plan of Action and Milestones (POA&M)**: A FISMA mandated corrective action plan to identify and resolve information security weaknesses.

H. **Reportable Condition**: Reportable conditions for FMFIA overall include a control deficiency, or combination of control deficiencies, that in management's judgment, should be communicated because they represent significant weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. Reportable conditions in internal controls over financial reporting include a control deficiency, or combination of control deficiencies, that adversely affects the Component's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Component's financial statements, or other significant financial reports, which is more than inconsequential, will not be prevented or detected.

V. Responsibilities

A. The **Secretary** shall design and implement Department-wide internal controls and will provide annual assurance statements (in the annual Performance and Accountability Report (PAR)) related to FMFIA Section 2, Section 4, and internal control over financial reporting as required by the DHS FAA, in a single FMFIA report entitled "Management Assurances." The FMFIA report will include the annual assurance statements and a summary of material weaknesses, non-conformances, and corrective action plans. Finally, the Secretary is responsible for assuring that management officials throughout the Department support the audit process and are responsive to audit recommendations and shall designate a top management official to oversee audit follow-up, including resolution and corrective action.

B. **Audit Followup Official** will be responsible for resolving disagreements with audit organizations to achieve unified DHS decisions and consensus.

C. **Component Heads** will provide annual assurance statements and a summary of material weaknesses, non-conformances, and corrective action plans to support the Secretary's annual assurance statements as noted above. In addition, Component Heads have dual accountability and responsibility for corrective actions with the DHS Chief Financial Officer and Senior Management Council. Component Heads are also responsible for assuring that management officials throughout their Component support the audit process and are responsive to audit recommendations. Finally, Component Heads should establish Senior Management Council's consistent with the construct described below. Component Senior Management Council representation should also include Chief Operations Officers and Program Managers who have responsibility over internal controls for the operations and programs they manage.

- D. The **DHS Senior Management Council (DHS SMC)** will:
1. Be responsible for:
 - a. Ensuring the Department's commitment to an appropriate system of internal control;
 - b. Providing input for the level and priority of resource needs to correct internal control deficiencies;
 - c. Assessing and monitoring deficiencies in internal control;
 - d. Identifying and ensuring correction of systemic weaknesses relating to their respective functions;
 - e. Recommending to the Secretary which reportable conditions are deemed to be material weaknesses to the Department as a whole and reported in the Secretary's annual assurance statements;
 - f. Overseeing the timely implementation of corrective actions related to material weaknesses;
 - g. Determining when sufficient action has been taken to declare that a reportable condition or material weakness has been corrected;
 - h. Exercising influence and control over their respective functions in accordance with related lines of business directives referenced below to develop and implement CAPs;
 - i. Informing the Secretary, Component Heads, and Audit Followup Official of unresolved, delayed, or ineffective CAPs; and
 - j. Appointing Corrective Action Accountability Officials from Senior Component Management.
 2. Be comprised of:
 - a. The **Under Secretary for Management (USM)**, who will address management accountability and related issues within the broader context of Department operations.

- b. The **DHS Chief Financial Officer (CFO)**, who will, on behalf of the Secretary, have responsibility for: designing and implementing Department-wide internal controls and internal controls within the Financial Management Line of Business (MD 0005); assessing Department-wide internal controls; ensuring corrective action plans for all DHS programs and operations are developed, implemented and managed; developing policies and procedures for preparing the Secretary's Assurance Statements; and developing policies and procedures for developing and maintaining corrective actions as described in the **DHS Corrective Action Planning Process Guide**.
- c. The **DHS Chief Procurement Officer (CPO)**, who will have responsibility for internal controls within the Acquisition Line of Business (MD 0003).
- d. The **DHS Chief Information Officer (CIO)**, who will have responsibility for: internal controls within the Information Technology Integration and Management Line of Business (MD 0007); and ensuring corrective action plans for all DHS Information Technology programs and systems are developed, implemented and managed.
- e. The **DHS Chief Information Security Officer (CISO)**, who will have responsibility for: managing the DHS POA&M Process and developing policies and procedures for developing and maintaining corrective actions as described in the **DHS Office of DHS Information Security Program Plan of Action and Milestones (POA&M) Process Guide**.
- f. The **DHS Chief Administrative Services Officer (CASO)**, who will have responsibility for internal controls within the Administrative Services Line of Business (MD 0004).
- g. The **DHS Chief Human Capital Officer (CHCO)**, who will have responsibility for internal controls within the Human Capital Line of Business (MD 0006).
- h. The **DHS Chief Security Officer**, who will have responsibility for internal controls within the Security Line of Business (MD 11080).

E. **Corrective Action Accountability Officials (CAAO)** will be responsible for:

1. The prompt and proper resolution of identified material weaknesses, reportable conditions, and non-conformance conditions that exist in the official's functional area, including the development, maintenance, monitoring and reporting of CAPs;
2. Maintaining accurate records of the status of the identified material weakness, reportable condition, and non-conformance through the entire process of resolution and corrective action;
3. Assuring that the corrective action plans are consistent with laws, regulations, and Administration policy; and
4. Assuring that performance appraisals of appropriate officials reflect effectiveness in resolving or implementing corrective action for identified material weaknesses, reportable conditions, and non-conformances.
5. Keeping the DHS SMC informed of status, unresolved issues, and actions that need to be taken.

VI. Policy and Procedures

A. **Policy**: It is DHS policy that the DHS CFO, SMC, the head of each Component, and CAAOs implement the CAP process required by OMB Circular A-123 for the correction of auditor and management identified:

1. Material weaknesses;
2. Reportable conditions;
3. Non-conformances; and
4. Control deficiencies.

Corrective action efforts should be coordinated with OMB Circular A-50 to avoid duplicate efforts.

B. **Procedures**: DHS will standardize corrective action plan implementation procedures across the Department to ensure the design and implementation of Department-wide internal controls. This will be an ongoing effort. Specific procedures for:

1. Preparing the Secretary's and Component Head's Assurance Statements are provided within the DHS PAR Guide.

2. DHS FAA and FMFIA related Material Weakness, Reportable Conditions, and Control Deficiency corrective actions are provided in the DHS Corrective Action Plan Process Guide.

3. FISMA related non-conformances corrective actions are provided within the DHS Office of DHS Information Security Program Plan of Action and Milestones (POA&M) Process Guide.

VII. Questions

Questions or concerns regarding this MD should be addressed to the Office of the DHS CFO.