


**U.S. DEPARTMENT OF JUSTICE
Federal Bureau of Prisons**



**PROGRAM STATEMENT
Internal Auditing**

Approved by	 William K. Marshall III Director, Federal Bureau of Prisons
DPI	PRD
Number	1211.01
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Summary of Changes

Program Statement Rescinded:

- 1210.23 Management Control and Program Review Manual (8/21/2002)

1. PURPOSE AND SCOPE

This program statement is intended to prescribe standards and procedures to establish, maintain, evaluate, and improve Bureau of Prisons (Bureau) internal systems of control. These provisions apply to all Bureau organizational levels and installations, including divisions, regions, institutions, and residential reentry offices.

In accordance with 31 U.S.C. § 351 2 (b)(3), Executive Agency Accounting Systems, and Office of Management and Budget (OMB) Circular A-123, Internal Control Systems, each federal agency is required to establish a continuous process for evaluating and improving its internal control systems.

a. Program Objectives.

- Programs comply with applicable laws, regulations, policies, and procedures.
- Independent internal audits for the Bureau be conducted using the current Generally Accepted Government Auditing Standards (Yellow Book) published by the Government Accountability Office.
- Corrective actions be implemented and monitored for effectiveness to resolve audit findings.
- Weaknesses and deficiencies in financial or administrative controls be identified.
- Efficient management practices be promoted.
- Fraud, waste, abuse, mismanagement, and illegal acts be prevented, detected, and reported.

- Noteworthy accomplishments of programs be identified.

b. **Institution Supplement.** None.

2. DEFINITIONS

a. **Audit Authority.** The management official responsible for ensuring audits are conducted and verifying the effective functioning of management and control systems for their program areas of responsibility.

b. **Common Finding.** A formal finding, observation, or condition of concern that is noted frequently, in large numbers, or that otherwise creates concerns of a systemic issue, warranting broad corrective and/or preventative action.

c. **Component.** Institution, Residential Reentry Management Office, Regional Office, and Divisions within the Bureau.

d. **Corrective Action.** The process of identifying and eliminating the root cause of a detected problem to prevent its recurrence.

e. **Finding.** A reportable deficiency, noncompliance, or fraud identified during an audit, developed by comparing the condition (what is) against criteria (e.g. rules, regulations, policy and/or industry standard).

f. **Internal Control.** A process affected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

g. **Internal Control Audits.** Internal Control Audits (ICA) are an assessment of one or more aspects of an entity's system of internal control that are designed to provide reasonable assurance of achieving effective and efficient operations, and reliability of reporting for internal and external stakeholders. ICA is an evaluation of an organization's policies, procedures, and systems designed to ensure effective risk management, accurate financial reporting, and regulatory compliance. It assesses if controls are properly designed, implemented, and functioning to prevent fraud and errors, ultimately improving operational efficiency.

There are three tiers to the agency's internal control audits (ICA): Component and Agency-wide Audits (Program Review Division Oversight), Area Audits (Regional and/or Divisional Oversight), and Perpetual Audits (CEO Oversight).

h. **Management Response Action Plan (MRAP).** Documentation of corrective action for findings identified during the audit process to reduce the likelihood of recurrence.

- i. **Recommendation.** A formally proposed action made by auditors to management, designed to correct identified deficiencies in internal controls, address findings, or improve efficiency and effectiveness of government programs.
- j. **Risk Assessment.** A systematic process that involves identifying, analyzing and prioritizing risks (specifically those threatening the achievement of operational objectives) to determine the appropriate controls needed to manage them.
- k. **Substantive Comments.** Meaningful concerns regarding methodology, findings, conclusions, or recommendations as outlined in the working draft report.
- l. **Technical Comments.** Technical comments address points of fact or are editorial in nature and do not address substantive issues, such as methodology, findings, conclusions or recommendation as outlined in the working draft report.

3. **GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Component and agency-wide audits conducted by the Program Review Division must comply with Generally Accepted Government Auditing Standards (GAGAS).

- a. **Independence.** Independence is an essential part of auditing to establish credibility, effectiveness, and overall integrity of the auditing process. PRD will follow requirements of GAGAS for auditing internal controls.

In accordance with GAGAS, Independence comprises the following:

- **Independence of mind.** The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- **Independence in appearance.** The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.

Auditors and audit organizations maintain their independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by reasonable and informed third parties.

- b. **Continuing Professional Education.** Continuing Professional Education (CPE) is essential for improving auditor proficiency and maintaining quality audits. PRD staff conducting

Component or Agency-wide audits will follow all requirements identified in GAGAS, Chapter 4, “Competence and Continuing Education.”

GAGAS requires all staff who plan, direct, perform audit procedures, or report on an audit conducted in accordance with GAGAS, to develop and maintain their professional competence by completing at least 80 hours of CPE in every two-year period as follows:

- **24 hours.** Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates.
- **56 hours.** Subject matter that directly enhance auditors’ professional expertise to conduct engagements.

c. **Peer Review.** The peer review process is critical to ensuring the reliability and quality of audits being conducted within our agency. PRD will follow all requirements identified in GAGAS, Chapter 5, Section “External Peer Review.” To comply with GAGAS, PRD must obtain an external peer review by an independent, outside audit organization, every three years.

In accordance with GAGAS, “5.155 Each audit organization conducting engagements in accordance with GAGAS must obtain an external peer review conducted by reviewers independent of the audit organization being reviewed. The peer review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, (1) the reviewed audit organization’s system of quality management was suitably designed and (2) the organization is complying with its system of quality management so that it has reasonable assurance that it is fulfilling its responsibilities in accordance with professional standards and performing and reporting in conformity with such standards in all material respects.”

4. COMPONENT AND AGENCY-WIDE INTERNAL CONTROL AUDITS

A Component ICA is a limited scope audit of potentially high-risk areas or processes of a specific component, conducted by PRD.

PRD conducts Agency-wide ICAs to provide Bureau Executive leadership with an in-depth look at a specific program or process agency wide.

a. **Pre-Audit Work.** Audit work may be conducted prior to official notification of Component ICA.

b. **Notifications.** The PRD Assistant Director will provide notifications of the initiated engagement to the appropriate component as detailed below.

- **Component ICA.** The PRD Assistant Director will provide notification to the CEO of the component being audited for on-site and remote audits. The notification of the on-site audit

will be issued a maximum of 45 days in advance, but generally less than 24 hours of the audit team's arrival on-site.

- **Agency-wide ICA.** The PRD Assistant Director will provide a notification of the initiated engagement to all applicable component CEOs.

c. **Entrance Conference.**

- **Component ICA.** An opening meeting will be conducted with the CEO and audit team. The CEO may invite additional participants at their discretion. The scope of the audit, applicable prior audit work, and on-site process will be discussed.
- **Agency-wide ICA.** An opening meeting will be conducted with the Assistant Director(s), PRD Leadership, and the audit team. The Assistant Director(s) may invite additional participants at their discretion. The purpose of the meeting is to determine primary points of contact for the duration of the audit. The audit work typically does not start until after the entrance conference.

d. **Daily Closeouts.** These meetings are conducted daily with the audit team and the component CEO to provide an overview of the work conducted by the audit team.

- **Component ICA.** Daily closeouts will be conducted with the component CEO.
- **Agency-wide ICA.** Daily closeouts are not typically part of the Agency-wide ICA. However, if on-site visits are conducted as part of an Agency-wide ICA, daily closeouts may be conducted with the CEO and applicable divisions.

e. **Report Process.** There are three stages of the PRD audit report process; the stages are the same for both component and agency-wide ICAs.

- **Working Draft Report.** PRD will issue a working draft audit report to the audited component(s) and applicable stakeholders (regional offices and/or applicable divisions), at the conclusion of the audit. The working draft is watermarked with "DRAFT" and is not signed. The working draft audit report will include a summary, findings identified during the audit, and initial draft recommendations. PRD will provide the audited component(s) and applicable stakeholders, regional office(s) and/or applicable divisions, a deadline to submit any substantive/technical comments to the working draft report.
- **Exit Conference.** Once the working draft has been issued, an exit conference will be scheduled by PRD. The exit conference is an opportunity to discuss the report and address any substantive/technical comments submitted by components. Ordinarily, the exit conference will be held virtually. The Warden/CEO, Regional Director or Senior/Deputy Regional Director, and/or Assistant Director or Senior/Deputy Assistant Director shall attend the exit conference and may invite any subject matter experts at their discretion.
- **Official Draft Report.** PRD will send the audited component(s) and applicable stakeholders (regional offices and/or applicable divisions), an official draft audit report following the exit

conference. The official draft is watermarked with “DRAFT” and is signed by the PRD Assistant Director or designee. The official draft will include revisions made subsequent to the exit conference, if applicable.

The component shall respond to the official draft report by the assigned deadlines in the provided instructions. The response must include an official cover response memorandum and a BP-A1165, Management Response/Action Plan, for each finding and recommendation.

- **Final Report.** The PRD Assistant Director, or designee, will sign and issue the final audit report and provide instructions for the follow-up process to the audited component(s), all Regional and Assistant Directors, and the Director’s Office. The report will include the audit report and all complete BP-A1165 forms, with PRD analysis.

f. **Follow-up Process.** The component will provide a status update for each finding on the final report utilizing the BP-A1165, Management Response/Action Plan by the identified due date on the final report. The status update must include the evidence requested in the PRD analysis and any other evidence the component believes supports the implementation and effectiveness of the action plan. Responses must be submitted in accordance with the directions outlined in the correspondence. All follow-up responses and action plans will be agreed upon by the audited component and the applicable Regional and Assistant Directors.

If the previous action plan is not producing the desired outcomes, the component must complete an updated BP-A1165 explaining the issues with the previous action plan and document the adjustments.

PRD will issue a response to the follow-up, providing an analysis and disposition (open/closed) for each finding on the BP-1165. Findings can be closed individually; closed findings will not require additional follow-up. Subsequent 90-day follow-ups will continue until all findings are closed and the audit closure is issued by PRD.

g. **Audit Closure.** The Assistant Director of PRD or designee will close a finding after verification through follow-up (e.g., re-testing, reviewing documentation, interviewing staff) that management's corrective actions have been fully implemented, are effective, and adequately reduce the risk of recurrence, confirming the original issue is resolved.

After all findings within a report are closed, the audit authority or designee will issue closure for the audit report.

5. COMMON FINDINGS/SYSTEMIC ISSUES

Regions and divisions must monitor findings identified during PRD's component and agency-wide internal control audits. When a common finding is identified, the region and/or division should create an action plan to implement internal controls to address the finding.

When regions or divisions implement regional or agency-wide corrective action, a memorandum must be submitted to PRD to identify the finding and internal control(s) implemented to address the common finding.

At the conclusion of each fiscal year, PRD will compile common findings identified during component and agency-wide internal controls. The report will be shared with all regions and divisions. However, regions and divisions should not wait for this annual report to be issued to implement action plans, if a common finding is identified earlier.

6. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-123

OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control", is a White House OMB policy directive requiring federal agencies to establish, assess, and report on internal controls to improve accountability, reduce fraud, and manage risks. It guides managers to integrate risk management with financial reporting, ensuring effective and efficient operations.

The Federal Managers Financial Integrity Act requires that each federal agency establish, maintain, evaluate, improve, and report on internal controls in its program and administrative areas. All levels of management are involved in ensuring the adequacy of internal controls.

By August 15th of each year, Wardens and Branch Administrators will submit assurance statements to their respective Regional/Assistant Director. The statement will indicate if existing and new program activities under their purview are being managed effectively and efficiently to achieve the agency's goals. The Wardens and Branch Administrators will provide reasonable assurance that government resources are protected against fraud, mismanagement, or misappropriation.

By September 1st of each year, Assistant and Regional Directors will submit an assurance statement to the Director with a copy to the Assistant Director, PRD.

The Director submits an assurance statement to the Attorney General at the end of each fiscal year certifying programs operate effectively and in accordance with applicable law, and systems of internal control are adequate to protect resources.

REFERENCES

Bureau Forms Prescribed by 1211.01

BP-A1165 Management Response/Action Plan

Federal Statutes

31 U.S.C. § 3512(b)(3)

Other References

OMB Circular A-123, Management's Responsibility for Internal Control

U.S. Government Accountability Office. (2024). Government auditing standards: 2024 revision (GAO-24-106786)

DOJ Order 2860.3A Implementation of the Federal Manager's Financial Integrity Act (PL 97-255), 1986

ACA Standards

Performance-Based Standards and Expected Practices for Adult Correctional Institutions (5th Edition): 5-ACI-1A-17

Performance-Based Standards and Expected Practices for Adult Local Detention Facilities (5th Edition): 5-ALDF-7D-01, 5-ALDF-7D-03

Standards for Administration of Correctional Agencies (2nd Edition): 2-CO-1A-09, 2-CO-1A-16; 2-CO-1A-17; 2-CO-1A-20, 2-CO-1A-22, 2-CO-1A-23, and 2-CO-1B-07

Records Retention Requirements

Requirements and retention guidance for records and information applicable to this program are available in the Records and information Disposition Schedule (RIDS) on the Bureau's intranet site.