

OUTSOURCING OF KEY CONTROLS

State agencies which contract for services entailing a key internal control for their organization will be required to conduct an internal review and certification as part of the procurement process. If key internal controls are being outsourced, and the agency so determines, those contractors will be required to provide independent assurance as to the design, implementation, and operating and effectiveness of these controls through a SSAE 16 examination, internal IT audit, or other equivalent assurance. Where warranted, such provisions are to be included in RFPs and contracts.

A key internal control is often defined as a control 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 on a timely manner. Agencies must evaluate their internal processes and determine whether the function being contracted for, or outsourced, is a key internal control. Some outsourced functions are critical to financial operations, some are critical to the mission of the user entity, some involve sensitive processes and others involve data security, confidentiality, integrity and availability. If outsourcing the administration of an entire program, system or function, a key internal control may be included in the services being outsourced.

Without independent assurance on key controls, the State may be unable to monitor providers to ensure that systems and processes follow contract terms, comply with regulations, and ensure data confidentiality, integrity and availability. Without this, the State may be unable to prevent or detect unmet requirements, cost overruns, errors, financial misstatements, or fraud.

The contracting agency should ensure there is independent assurance as to the design, implementation, and operating and effectiveness of these controls through a SSAE 16 examination, internal IT audit, or other equivalent assurance.

When preparing an RFP or contract for services under Title 39, Chapter 16, each agency must perform an evaluation of key internal controls. The determination should be made by each agency in consultation with its finance and accounting section, internal audit section, and information technology unit, depending on the services being outsourced.

Checkpoints will be put in place by the Office of Contractual Review to ensure that this process is being followed by the agencies:

- Contract submittal. Upon submittal, each agency head/person with delegated authority for contracting must certify in its letter to OCR that an examination of the key internal

controls for the agency has occurred and that the agency, in its judgment, has taken appropriate measures to ensure independent assurances are in place, if warranted. Contracts will be reviewed to determine that appropriate language is included requiring SSAE 16 review, or its equivalent. Sample contract language will be available on the OCR website.

- RFP review and approval. When preparing RFPs for future services, agencies should conduct an examination of the key internal controls that the agency may be outsourcing.

When reviewing RFPs, OCR will ask the following questions of the agency:

- Have you evaluated, in consultation with your agency finance, IT or internal audit section whether the outsourcing involves a key internal control?
- Based on their judgment, does the program, process or function being outsourced through this planned contract involve a “key internal control”?
- If key internal controls are not being outsourced, has agency included an email from authorized agency personnel, such as the Undersecretary, when the agency submits the RFP.
- If a key internal control is being outsourced, has the agency’s email advised whether the agency will request independent assurances through an SSAE 16 engagement or review or other independent process and advised where in the RFP and sample contract this is addressed? The RFP should also address the cost of the independent assurances and whether it is to be included in the proposer’s cost or will be borne by the agency.

In summary, RFPs will be reviewed to determine that the outsourcing of key controls issue is being addressed at the agency level and appropriate language is included requiring SSAE 16 review, or its equivalent, if warranted. Sample RFP language will be available on the OCR website.

Additional reference information is located on the DOA website. Please note that the policies are applicable to DOA contracts. Your agency should strongly consider developing its own policies governing Outsourcing of Key Controls.

- DOA’s Outsourcing of Key Internal Control Policy No. OFSS-07
http://www.doa.la.gov/ofss/_Forms/Outsourcing%20of%20Key%20Internal%20Control%20Policy.pdf
- Evaluating Outsourced Function Decision Tree
http://www.doa.la.gov/ofss/_Forms/Evaluating%20Outsourced%20Function%20Decision%20Tree.pdf