Exhibit 27 (02/15/16)

Guidelines for Outsourcing of Key Internal Controls

**GUIDELINES FOR OUTSOURCING OF KEY INTERNAL 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, 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 State Procurement (OSP) to ensure that this process is being followed by the Agencies:

* RFP submittal. Upon submittal a of request to use the RFP process, the agency head or their designee must certify in the letter than 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. RFPs will be reviewed to determine that appropriate language is included requiring SSAE 16 review, or its equivalent.

 Following is sample language to be included in the letter to OSP:

*In reference to the enclosed RFP, we do certify the following:*

*An evaluation has been conducted to determine if the RFP outsources a key internal control of the agency. The results of the evaluation are that these services are/are not (Note: Include the appropriate language) the outsourcing of key internal controls and this determination has been documented in the agency’s file and is available for review, upon request. If warranted, the RFP and contract will include provisions which address the need for assurances and/or monitoring of the key internal control.*

Additional reference information is located on the DOA website. Please note that the policies are applicable to DOA contracts. Agencies 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>