



CHAIRMAN

UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D. C. 20555

December 31, 1990

The Honorable J. Danforth Quayle  
President of the Senate  
Washington, D.C. 20510

Dear Mr. President:

The Nuclear Regulatory Commission (NRC) evaluated its system of management controls over program and administrative areas in effect during FY 1990 as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular A-123, "Internal Control Systems." The evaluation was conducted in accordance with "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government" issued by the Director of OMB in consultation with the Comptroller General.

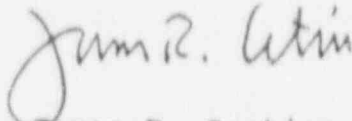
NRC program managers performed 11 detailed internal control reviews in FY 1990. The reviews emphasized technical program areas, including the review of reactor license renewal applications, emergency preparedness licensing and assessment, safety evaluation of licensing actions, and fuel facility and spent fuel storage licensing. Research program reviews included reactor containment safety, regulation development and improvement, and aging of reactor components. The staff also reviewed selected administrative and support areas, such as budget and analysis, the Federal court litigation function, public affairs, and the Federal Women's Program. Two detailed evaluations of agency financial management systems were performed in accordance with OMB "Guidelines for Evaluating Financial Management Accounting Systems" of May 1985, as required by OMB Circular A-127, "Financial Management Systems."

In addition to the reviews conducted under the agency's management control plan, the staff completed an evaluation of measures used to ensure quality in agency operations and a survey of the nuclear industry's and the NRC staff's perceptions of the effect of NRC activities on the safe operation of nuclear power plants. The purpose of the survey was to assist the agency in determining whether its regulatory program requires modification. The NRC also initiated an agency-wide management control review of the use of program support funds, which constitute about 33 percent of NRC's FY 1990 budget, and a program to conduct comprehensive evaluations of selected financial management systems.

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PDR COMMS NRCC  
CORRESPONDENCE PDR

The results of our continuing evaluation are provided in the enclosed report. The Commission believes the evaluation provides reasonable assurance that the NRC, as a whole, complies with Sections 2 and 4 of the FMFIA.

Sincerely,



James R. Curtiss  
Acting Chairman

Enclosures:

- A. Statistical Summary of Performance
- B. Review Process
- C. Progress Report on High Risk Areas
- D. Material Weaknesses/ Corrective Actions
- E. Material Non-conformances/ Corrective Actions

STATISTICAL SUMMARY OF PERFORMANCESECTION 2. INTERNAL CONTROL SYSTEMSOverall compliance:  Yes  No

Year achieved: The NRC has been in compliance since the enactment of the FMFIA.

Number of Material Weaknesses

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending</u>
Prior years	1	0	0
1988 Report	0	1	0
1989 Report	0	0	0
1990 Report	<u>0</u>	<u>0</u>	<u>0</u>
Total	1	1	0

Pending Material Weaknesses

None

SECTION 4. FINANCIAL MANAGEMENT SYSTEMSCompliance Assurance

	<u>Yes</u>	<u>No</u>
Overall compliance with Section 4	X	
o Compliance with financial information standards	X	
o Compliance with systems functional standards	X	

Year achieved: The NRC has been in compliance since the enactment of the FMFIA.

Pending Non-conformances

None

Number of Section 4 Systems in Operation

<u>Type of System</u>	<u>1989</u>	<u>1990</u>
Core financial system	1	1
Subsidiary systems*		
Budget planning/formulation	1	1
Payroll/personnel	1	1
Purchasing/grants	0	0
Credit management	1	1
Cash management	0	0
Property/inventory	1	1
Travel/small purchases	0	0
Other:		
License Fee Management System	1	1
Program systems**		
Technical Assistance Program		
Support System	1	1
Regulatory Information Tracking		
System	<u>1</u>	<u>1</u>
Total	8	8

\*Efforts are ongoing to incorporate the credit management system into the License Fee Management System. The date for completion has been extended to October 1991. The NRC does not intend to incorporate payroll into the core financial system. The remaining systems are small and play a relatively insignificant role in providing data to our fully integrated financial management system.

\*\*In FY 1991, the Internal Control Committee will examine other NRC systems to determine whether they should be categorized as program systems.

REVIEW PROCESS1. SECTION 2o Description of organization and structure of review process:

The internal control review process is described in NRC Manual Chapter 0801, "Internal Controls," which sets forth the manner in which the NRC is to implement the requirements of the FMFIA. An Internal Control Committee (ICC) composed of senior staff from the major components of the agency sets the policy and process for evaluating internal controls and reviews major actions. The Chairman of the ICC, aided by a senior staff member, organizes and monitors the internal control program and prepares the report to the President and the Congress.

The NRC structures its internal control program around a management control plan (MCP). The MCP is based on the programs and program elements in NRC's five-year plan. Internal control reviews are scheduled on the basis of risk assessments of these programs and program elements, with the most vulnerable areas being reviewed first. The goal is to perform an internal control review of each area within a five-year period.

The list of areas planned for review in FY 1990 was modified this year as a result of an updated assessment of programs and program elements. In FY 1990, internal control reviews, including alternative reviews, were performed in all mission areas.

o 1990 statistical data for review process:

Number of assessable units   84

Number of vulnerability assessments

Planned	See comments below
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Conducted	See comments below
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Vulnerability assessments of the agency's programs were conducted in 1987. At that time there were 89 programs. In FY 1990, program offices were asked to reevaluate their risk

ratings. The first step in this reevaluation process was to determine whether the assessable units identified in 1987 should be broken down into smaller assessable units to facilitate more accurate assessments or changed to correspond to the structure of the NRC's current five-year plan.

The second step in the process was to reevaluate the risk ratings assigned to the individual risk factors used in the 1987 questionnaire. Managers were asked to determine whether the ratings were still valid in view of changed conditions or additional information obtained since the previous assessments.

The third step in the reevaluation was to perform a management assessment of risk in each assessable unit on the basis of management's knowledge and information obtained from management reporting systems, audit reports, management reviews, and previous internal control reviews. The instructions to managers noted the importance of determining whether corrective actions agreed to as a result of previous audits and reviews had been implemented and were effective. Other factors that were to be considered in the reevaluation were the effects of reorganizations and changes in management and other personnel.

Managers then were asked to assign an overall risk rating to each of their assessable units, taking into consideration both risk and safeguards in order to determine real risk. The results of this process are being used to revise and update the MCP.

#### Number of internal control reviews

Planned	14
Conducted	11



## Number of alternative reviews\*

## Internal reviews

	<u>Management</u>	<u>Inspector General</u>
Planned	0	34
Ongoing from plan**	0	6
Ongoing--unscheduled**	0	4
Completed from plan	0	13
Completed--unscheduled	2	1

## External reviews

	<u>General Accounting Office</u>
Planned	***
Ongoing	8
Completed	1

\*Although Inspector General and General Accounting Office audits sometimes replace or supplement internal control reviews, there are instances where the scope of an audit does not include a detailed review of internal controls. NRC management generally does not know if a detailed review of internal controls has been included until the audit is completed; therefore, it is possible that some audits reported in this section cannot be substituted for internal control reviews.

\*\*As of September 30, 1990.

\*\*\*Information not available in the NRC.

Percentage of assessable units reviewed 15%

o Comment on results versus plan:

Alternative reviews were conducted by NRC management in two of the areas planned for review in FY 1990. One internal control review was deferred until early 1991.

o Agency efforts in special areas of interest:

The Office of the Inspector General reported to the Commission on an inspection of the NRC staff's 1988 review of offsite emergency preparedness (EP) at the Pilgrim Nuclear Station. In response to this report, the NRC established a task force to identify lessons learned, to evaluate whether any staff omission or error occurred in the Pilgrim EP review, to address the need for any additional staff guidance or procedures should the circumstances arise for the staff to again conduct a review of this unique type. The Executive Director for Operations (EDO) provided recommendations to the Commission based upon the findings of the task force. The Commission is implementing the EDO's recommendations.

2. SECTION 4

o Description of organization and structure of review process:

NRC Manual Chapter 1103, "Financial Management Systems," addresses the agency's requirement under Section 4 of the FMFIA and OMB Circular A-127 to submit an annual report to the President and the Congress regarding the agency's accounting system. The Internal Control Committee and its Chairman have the same responsibilities with respect to the Section 4 review process as they have with respect to the Section 2 review process described earlier.

Each year, managers are asked to perform reviews of their financial management systems. The review and reporting process follows OMB "Guidelines for Evaluating Financial Management/Accounting Systems" of May 1985. OMB requires an annual limited review and a triennial detailed evaluation of financial management systems.

o Inventory of financial management systems:

The NRC has five financial management systems:

Integrated Financial Management Information System  
 Payroll System License Fee Management System (to include the credit management system)  
 Controller Automated Resource Data System  
 Property and Supply System



o 1990 statistical data for review process:

Number of annual reviews	3
Number of detailed cyclical reviews	2

The "Guidelines for Evaluating Financial Management/Accounting Systems" provide that systems that are to be replaced or combined with others within the next two fiscal years need not be subjected to a detailed evaluation. Because efforts are ongoing to review and modify, where appropriate, some of the financial management systems, scheduled detailed A-127 reviews were not performed of the travel and government/commercial modules of the Integrated Financial Management Information System (IFMIS) and the License Fee Management System (LFMS). The following limited reviews were performed in this area:

A comprehensive study was recently completed of NRC's travel system, and a decision has been made to accept a primary recommendation to replace the IFMIS travel module. Given this decision, a detailed review was not performed.

An evaluation of the ADP portion of this module to determine whether it needs to be replaced is underway. In addition, a study of the IFMIS government/commercial module is scheduled for completion in 1991. For these reasons, a detailed A-127 review of the government/commercial module has been deferred until it can be determined whether such a review would be useful in view of the results of the study.

With respect to the LMFS, a new system is being developed and the Inspector General currently is conducting an audit of the existing system. Therefore, a detailed review was not performed.

A limited review of the Payroll System has been performed. The detailed review is scheduled to begin in December 1990.

o Principal findings:

Although detailed A-127 reviews in the travel and government/commercial modules of IFMIS were not conducted this fiscal year, other activities identified potential weaknesses. Based on evaluations of NRC's travel services, operations, and management, the Controller identified significant weaknesses in the travel system, a subsystem of IFMIS. Weaknesses were found in the areas of organizational leadership, decision making, management control, and quality control. Efforts are ongoing to compensate for and correct these problems. These include implementation of

recommendations from a Controller-initiated task force. Implementation of these recommendations will improve organization, staff, and management; travel standards criteria and communications; travel data and reports quality; contractor support; and the travel management/accounting system.

With respect to the payment of interest by the NRC, reviews indicate that some payments are not timely as required by the Prompt Payment Act of 1982, as amended. This appears to be due in part to an increased volume of payments and the agency's method of accounting for obligations. Such actions as implementation of an automated accounts payable system, along with modifications to the way NRC accounts for obligations, are being pursued to resolve this problem.

### 3. OVERALL

- o Agency system for tracking reviews, material weaknesses, material non-conformances, and corrective actions:

The responsibility for tracking reviews, material weaknesses, material non-conformances, and corrective actions is centralized in the Office of the Controller. The Deputy Controller, as Chairman of the Internal Control Committee, maintains a comprehensive tracking system for corrective actions that the agency agrees to implement, including internal control-related actions on audit recommendations by the Inspector General and the General Accounting Office (GAO). Additionally, the Executive Director for Operations (EDO) tracks selected Inspector General and GAO audit recommendations. The EDO generally tracks items that have agency wide significance and are measurable or have specific due dates.

Program managers are asked to provide semiannual status reports on corrective actions that have not been implemented, including the estimated dates for completion. This information, along with the data in the EDO's tracking system, is used by the Internal Control Committee to update its tracking system. Corrective actions are tracked until the responsible office notifies the Chairman of the Internal Control Committee that corrective actions have been completed and describes the actions that were taken.

- o Process for validating corrective actions:

There is no formal process for validating corrective actions resulting from internal control reviews; however, the Inspector General follows up audit reports to ensure corrective actions are implemented and effective.

In addition, any subsequent internal control review of an area by management would include an evaluation of whether previous problems were corrected by the actions taken. In FY 1991, the Internal Control Committee will determine whether management's responsibilities with respect to validating corrective actions need to be clarified.

o Management control training:

In keeping with the government-wide effort to ensure that senior program managers are aware of and participate in the review and reporting process mandated by the FMFIA, training on management controls was provided to office directors in FY 1990. The training was provided by the Government Auditing Training Institute. Guest speakers included representatives from the Office of Management and Budget and NRC's Office of the Inspector General.

Staff members responsible for conducting the FY 1990 internal control reviews attended the training for senior managers. In addition, they attended a one-day training session on the purposes and techniques of performing internal control reviews for compliance with the FMFIA and OMB Circular A-123.

The NRC plans to continue its training program for managers and internal control reviewers in FY 1991.

o Actions taken or planned to ensure accountability for results in identifying and correcting material weaknesses and non-conformances:

Directors of offices and regional administrators are required to provide an annual statement to the Executive Director for Operations giving assurance that their systems of internal control have been evaluated and provide reasonable assurance that obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; revenues and expenditures applicable to agency operations are properly recorded and accounted for; and programs are efficiently and effectively carried out in accordance with applicable law and management policy.

Additionally, office directors are asked to review and sign their offices' semiannual status reports on outstanding corrective actions before they are submitted to the Chairman of the Internal Control Committee. This helps ensure that senior management is aware of the status of corrective actions.

Aggregate data on the number of managers whose performance work plans include a specific element on management controls were not readily available. However, the elements and standards for NRC managers do include management controls in the various elements. For example, the mandatory resource utilization standard requires each senior executive to establish controls to ensure that staff and dollars are accounted for. The elements and standards for the Executive Director for Operations include a requirement to "ensure that personnel, budgetary and other resource allocations are efficiently tailored to the changing needs of the agency and are accounted for through appropriate controls." The Internal Control Committee will evaluate whether the existing elements need to be modified to improve accountability.

PROGRESS REPORT ON HIGH RISK AREAS

The NRC has no areas on the high risk list.

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

Part 1

Summary of material weaknesses: None

Part 2

Description of pending material weaknesses: Not applicable

Part 3

Description of material weaknesses corrected in FY 1990: Not applicable



MATERIAL NON-CONFORMANCES/CORRECTIVE ACTIONS

Part 1

Summary of material non-conformances: None

Part 2

Description of pending material non-conformances: Not applicable

Part 3

Description of material non-conformances corrected in FY 1990:  
Not applicable



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON D.C. 20503

July 5, 1990

MEMORANDUM FOR THE DEPUTY AND UNDER SECRETARIES  
OF EXECUTIVE DEPARTMENTS  
DEPUTY ADMINISTRATOR OF THE ENVIRONMENTAL  
PROTECTION AGENCY  
DEPUTY ADMINISTRATOR OF THE NATIONAL  
AERONAUTICS AND SPACE ADMINISTRATION  
SELECTED HEADS OF INDEPENDENT AGENCIES

FROM: Frank Hodson  
Executive Associate Director *Frank Hodson*

SUBJECT: 1990 Federal Managers' Financial Integrity Act  
(FMFIA) Reporting Requirements

Attached is the guidance to be used in preparing your agency's 1990 FMFIA report to the President and Congress. This guidance should be followed by the agencies listed in Attachment A. Modified guidelines for the smaller independent agencies are being developed and will be sent out shortly.

As you are aware, the FMFIA process is one of the most important tools available to evaluate the management health of government agencies. As you recall, last year the Director of OMB and I asked each of you to provide a personal assessment of your agency's FMFIA program. As we complete the Administration's first full fiscal year, it is particularly important that you personally lend us a hand in assuring that the 1990 FMFIA report reflects the true state of your agency's management risks.

To improve the quality and usefulness of information obtained this year, several changes have been made to the report. These modifications include: incorporation of high risk reporting, priority setting for material weaknesses, and an expanded milestone calendar for correcting material weaknesses.

We appreciated receiving comments from your staff on the draft of these guidelines and incorporated many of the suggestions into the final version.

Questions may be directed to your agency's OMB Management Examiner or the Management Integrity Branch on 395-3993.

Attachments

The following agencies are subject to the Federal Managers' Financial Integrity Act (FMFIA) and the attached guidance:

Department of Agriculture  
Department of Commerce  
Department of Defense  
Department of Education  
Department of Energy  
Department of Health and Human Services  
Department of Housing and Urban Development  
Department of the Interior  
Department of Justice  
Department of Labor  
Department of State  
Department of Transportation  
Department of the Treasury  
Department of Veterans Affairs

ACTION

Agency for International Development  
Appalachian Regional Commission  
Arms Control and Disarmament Agency  
Central Intelligence Agency  
Commission on Civil Rights  
Commodity Futures Trading Commission  
Consumer Product Safety Commission  
Equal Employment Opportunity Commission  
Environmental Protection Agency  
Executive Office of the President  
Farm Credit Administration  
Federal Communications Commission  
Federal Election Commission  
Federal Emergency Management Agency  
Federal Energy Regulatory Commission  
Federal Labor Relations Authority  
Federal Maritime Commission  
Federal Mediation and Conciliation Service  
Federal Retirement Thrift Investment Board  
Federal Trade Commission  
General Services Administration  
International Trade Commission  
Interstate Commerce Commission  
Merit Systems Protection Board  
National Aeronautics and Space Administration  
National Archives and Records Administration  
National Credit Union Administration  
National Endowment for the Arts  
National Endowment for the Humanities  
National Gallery of Art  
National Labor Relations Board  
National Science Foundation

National Transportation Safety Board  
Nuclear Regulatory Commission  
Office of Personnel Management  
Panama Canal Commission  
Peace Corps  
Railroad Retirement Board  
Resolution Trust Corporation Oversight Board -  
Securities and Exchange Commission  
Selective Service System  
Small Business Administration  
U.S. Information Agency  
U.S. Soldier's and Airman's Home

The following agencies are exempt from the provisions of FMFIA but are subject to OMB Circulars No. A-123, Internal Control Systems, and No. A-127, Financial Management Systems, and to the attached guidance:

Export-Import Bank  
Federal Deposit Insurance Corporation  
Neighborhood Reinvestment Corporation  
Overseas Private Investment Corporation  
Pennsylvania Avenue Development Corporation  
Pension Benefit Guaranty Corporation  
Resolution Trust Corporation  
Smithsonian Institution  
Tennessee Valley Authority

GUIDANCE FOR PREPARING 1990 INTEGRITY ACT REPORT

This guidance should be used in preparing your agency's 1990 report to the President and the Congress under the Federal Managers' Financial Integrity Act (FMFIA). The report is similar to the 1989 submission, but there are important revisions. These include: (1) incorporation of high risk area reporting; (2) priority setting for material weaknesses; and (3) an improved milestone calendar for correcting material weaknesses.

The report is due to the President and Congress on December 31, 1990. It should highlight the major management control and financial systems accomplishments and problems of the year ending September 30, 1990, as well as your commitment to future improvements. The report should cover both Section 2 and Section 4 of the FMFIA. Section 2 addresses improving management controls over program and administrative areas -- as well as financial activities -- to protect against fraud, waste or mismanagement. Section 4 requires that financial management systems comply with standards developed by the Comptroller General and implemented by the Executive branch. Additional guidance is provided this year for assessing overall compliance with Section 4.

Your submission should include those material weaknesses in management controls, and material non-conformances in financial systems, significant enough to be of interest to the President and the Congress. This year, it should also take account of recent activities to improve the integrity, availability, and confidentiality of automated information systems. In accordance with the Computer Security Act of 1987, plans for assuring an adequate level of security for sensitive systems were developed last year. In some instances, that process identified significant weaknesses in agency systems along with plans for correcting the weaknesses.

This Administration has placed renewed emphasis on the FMFIA reporting process as a tool to improve the management of government agencies. The process supports planning and budgeting, as well as oversight and review, by describing progress and problems in correcting high risk and other significant areas. It is also one method of providing early warning to agency and OMB management of potential problems before these areas become unmanageable.

This guidance applies to the Cabinet departments and major independent agencies, as listed in Attachment A. Separate instructions will be issued for the other agencies.

Questions may be directed to your agency's OMB Management Examiner or OMB's Management Integrity Branch on 395-3993.

## OBJECTIVES AND FORMAT FOR THE 1990 REPORT

The 1990 year-end management integrity report should consist of a single letter from the agency head to the President and the Congress, with five enclosures:

- A. Statistical Summary of Performance;
- B. Summary of Agency's Management Control Review Process;
- C. Progress Report on High Risk Areas;
- D. Description of Material Weaknesses and Critical Milestones for Corrective Actions; and
- E. Description of Material Non-conformances and Critical Milestones for Corrective Actions.

Please note that Enclosure C is a new addition to the report this year. It seeks information on high risk areas as requested in a memorandum from OMB dated June 18, 1990. The reporting format is similar to that used for the mid-year submission.

### Letter From the Agency Head

Your letter to the President and the Congress should be substantive. It should:

- o state whether there is reasonable assurance that the agency, as a whole, complies with both Sections 2 and 4 of the FMFIA (such assurance may be provided even though limited exceptions are cited);
- o state high risk areas in priority order;
- o state critical material weaknesses and non-conformances other than those identified as high risk areas;
- o describe concisely the impact or potential impact of these problems on agency programs; and
- o summarize corrective actions (including timelines) being taken or planned to address these problems.

### Assessing Materiality of Weaknesses

Recognizing that a relationship may exist between high risk areas and material weaknesses, Enclosure C provides guidance in reporting the status of these areas.

For purposes of determining what constitutes a material weakness in internal control systems (Section 2), the criteria set forth in OMB Circular A-123 should be used. The criteria require reporting weaknesses that:



- o significantly impair the fulfillment of an agency or component's mission;
- o deprive the public of needed services;
- o violate statutory or regulatory requirements;
- o significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or
- o result in a conflict of interest.

Since the above factors are judgmental and can be widely interpreted, the following additional factors should be used to determine whether weaknesses are to be reported to the President and the Congress. Each material weakness should meet one or more of the following additional criteria:

- o merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;
- o exists in a major program or activity;
- o could result in the loss of \$10 million or more, or 5 percent or more of the resources of a budget line item; or
- o its omission from the report could reflect adversely on the management integrity of the agency.

Each material non-conformance (Section 4) should meet one or more of the following criteria:

- o merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;
- o prevents the agency primary accounting system from achieving central control over agency financial transactions and resource balances;
- o prevents compliance of the primary accounting system, subsidiary system or program system with OMB Circular A-127 (Financial Management Systems), the Standard General Ledger, and the Core Financial Systems Requirements; or
- o results in an actual material misstatement (either 5 percent or more of a budget line item or \$10 million or more) in reports required by the OMB, the Treasury Department, or the Congress.

### Assessing Overall Compliance with Section 4

To report compliance with Section 4, agencies must provide reasonable assurance that the quality of both agency budget and accounting information and agency financial systems meets the requirements described below. Agencies may report overall compliance even with a number of material non-conformances, as long as the non-conformances when considered together are not sufficiently serious to prevent compliance. As a general rule, agencies with systems on the OMB high risk list must report non-compliance, or compliance with specific exceptions, until corrective action is completed.

Compliance with information standards requires:

- o implementation of the Standard General Ledger (crosswalks acceptable); and
- o accurate, timely, comparable, useful budget and accounting information for the current and past fiscal years.

Compliance with systems functional standards requires:

- o for the agency (bureau level acceptable):
  - a primary financial system featuring general ledger control (including fund control) over agency resources, obligations and spending;
  - single entry of data (or adequate reconciliation) between primary and subsidiary systems; and
  - appropriate accounting capability for cost and for production units.
- o for individual systems or subsystems:
  - adequate systems documentation and audit trails; and
  - adequate overall performance of assigned mission.

Transmission of Report

The letter and enclosures, addressed to the following persons, must be signed by the agency head and transmitted to the recipients by December 31:

<u>Addressee</u>	<u>Address on letter</u>	<u>Salutation</u>
The President	The President The White House Washington, D.C. 20500	Dear Mr. President
The President of the Senate	Honorable J. Danforth Quayle President of the Senate Washington, D.C. 20510	Dear Mr. President
Speaker of the House of Representatives	Honorable Thomas S. Foley Speaker of the House of Representatives Washington, D.C. 20515	Dear Mr. Speaker:

In addition, fifteen copies of the report to the President should be sent by December 31 to:

Ms. Susan Gaffney  
Chief, Management Integrity Branch  
Office of Management and Budget  
New Executive Office Building, 10th floor  
Washington, D.C. 20503

Agencies should submit one single-spaced ASCII version (65 character line length) on a 5 1/4" (double-sided) or 3 1/2" double-density diskette.

Enclosure A -- Statistical Summary of Performance

Enclosure A to the agency letter should present a statistical summary of the agency's performance under Section 2 (internal controls) and Section 4 (financial systems) using the format on the following pages. The enclosure should, where necessary, describe changes in the definition of material weakness and non-conformance, and any other action that would affect the statistical summary.

This year, the section describing pending material weaknesses includes new categories under "program management" to reflect what is expected to be increased attention to program areas in the agency's reviews.

STATISTICAL SUMMARY OF PERFORMANCE

SECTION 2. INTERNAL CONTROL SYSTEMS

Overall compliance      \_\_\_ Yes      \_\_\_ No      Year achieved \_\_\_

Number of Material Weaknesses  
(same format used in previous reports)

In year indicated, number reported for first time	For that year, number that have been corrected	For that year, number still pending
---	--	---

Prior years  
1988 report  
1989 report  
1990 report

Total :

Pending Material Weaknesses

Category

Number

Program management:  
  Program execution  
  Systems development  
  and implementation  
  Asset disposition  
  Environmental impact  
  Safety, health-related  
  Other (specify)

Functional management:  
  Procurement  
  Grant management  
  Personnel and  
  organizational management  
  ADP security  
  Payment systems  
  and cash management  
  Loan management  
  and debt collection  
  Property and  
  inventory management  
  Other (specify)

Total

SECTION 4. FINANCIAL MANAGEMENT SYSTEMS

Compliance Assurance

	<u>Yes</u>	<u>No</u>	<u>Year Achieved</u>
Overall compliance with Section 4			
o Compliance with financial information standards			
o Compliance with systems functional standards			

Pending Non-conformances

<u>Name of System</u>	<u>Type of Non-conformance</u>	<u>Title of Non-conformance</u>
-----------------------	--------------------------------	---------------------------------

Non-conformance types are as follows:

- o Financial information standards
  - Compliance with SGL
  - Data quality
- o Systems functional standards
  - Primary financial system
  - Effective interfaces
  - Cost accounting
  - Documentation/audit trails
  - Mission performance

Number of Material Non-conformances

	In year indicated, number reported for first time	For that year, number that have been corrected	For that year, number still pending
Prior years			
1988 report			
1989 report			
1990 report			
Total			



Number of Section 4 Systems in Operation

<u>Type of System</u>	<u>1989</u>	<u>1990</u>
Core Financial System		
Subsidiary systems:		
Budget planning/formulation		
Payroll/personnel		
Purchasing/grants		
Credit management		
Cash management		
Property/inventory		
Travel/small purchases		
Other (specify)		
Program systems		
Total		

## Enclosure B -- Review Process

This enclosure should describe the agency's FMFIA review process in the following format. Please use additional pages if necessary.

### 1. Section 2

- o Description of organization and structure of review process:
- o 1990 statistical data for review process:
  - Number of assessable units \_\_\_\_\_.
  - Number of vulnerability assessments planned \_\_\_\_\_. Conducted \_\_\_\_\_.
  - Number of internal control reviews planned \_\_\_\_\_. Conducted \_\_\_\_\_.
  - Number of alternative reviews planned \_\_\_\_\_. Conducted \_\_\_\_\_.
  - Percentage of assessable units reviewed \_\_\_\_\_.
- o Comment on results versus plan:  
*See below.*

### -2. Section 4

- o Description of organization and structure of review process:
- o Provide an inventory of agency's financial management systems, and indicate the total number of systems:
- o 1990 statistical data for review process:
  - Number of annual reviews \_\_\_\_\_.
  - Number of detailed cyclical reviews \_\_\_\_\_.
- o Indicate principal findings, both positive and negative, of detailed reviews conducted this year. Findings should be organized by individual system and emphasize (1) linkage to related systems; (2) functionality; and (3) data quality.

3. Overall

- o Describe the agency system for tracking reviews, material weaknesses, material non-conformances, and corrective actions:
- o Describe process for validating corrective actions:
- o Briefly describe how the agency provides training in management controls. Please include specific information on:
  - training available to and taken by program managers; and
  - any anticipated changes to the training program in FY 1991.
- o Describe actions taken or planned to ensure accountability for results in identifying and correcting material weaknesses and non-conformances. If available, provide aggregate data on the number of managers whose performance workplans include an element on management controls.

Enclosure C -- Progress Report on High Risk Areas

The following report format should be used by agencies that have a high risk area. It is similar to that used for the mid-year high risk progress report.

The relationship between high risk areas and material weaknesses varies. Some high risk areas have a direct relationship to one or more material weaknesses. For example, a high risk area entitled "procurement" might be comprised of five discrete material weaknesses. Other high risk areas are broadly defined and have not been identified as material weaknesses. High risk areas in the latter category should be reported in this enclosure.

For high risk areas made up of one or more specific material weaknesses, a crosswalk between this enclosure and Enclosure D or E is acceptable. The name of the high risk area and material weakness(es) should be noted in this enclosure, but the detailed information about the weakness(es) should be included in Enclosure D or E.

High Risk Area:

Describe problem/weakness. If the area is on the high risk list, that description should be used. If a new high risk area is reported here, prior consultation with OMB on the description is advised.

Bureau/Appropriation:

Year Identified:

Original Targeted Correction Date:

Targeted Correction Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Strategy:

Briefly describe how the agency is correcting the problem/weakness.

Critical Milestones

Completion Date  
Original Plan Current Plan Actual

In the format presented below, provide a complete plan of action for correcting the high risk area. Provide detailed information for actions over the next year and a broad outline of longer term corrective actions. Include the original planned completion date. As events are completed, enter the actual date. If it is necessary to revise a planned date, enter under current plan.

A. Completed Actions/Events

Describe actions taken since mid-year report to OMB.

B. Planned Actions/Events (short term - next 12 months)

Identify critical milestones and dates for the next 12 months. If it is necessary to revise the original planned date, explain the reason for the change, and identify actions to minimize further slippage in the Assessment of Progress section of report.

C. Planned Actions/Events (longer term)

Identify critical longer term milestones and dates through achievement of final corrective action. The milestones listed here should be consistent with the Management Integrity section of the agency's budget submission.

Results Indicators

Describe key results indicators. Results indicators are quantitative and/or qualitative measures to determine whether agency actions have corrected the weakness or deficiency. For example, increase in collections or decrease in debt are results indicators. Project milestones are usually process-oriented; their accomplishment does not, therefore, necessarily ensure that the intended result has been achieved.

Assessment of Progress

Highlight both significant achievements and problems.



Enclosure D -- Material Weaknesses/Corrective Actions

This enclosure consists of three parts: (1) a summary/table of contents of material weaknesses; (2) a description of each pending material weakness in internal controls (Section 2); and, (3) a description of each material weakness that was corrected in 1990.

Part 1. Provide a summary of all pending material weaknesses. The summary should: list the titles of the weaknesses in priority order; provide information on the correction schedule; and indicate the page number of the more detailed description to follow. The following format should be used:

<u>Title</u>	<u>Year</u>		<u>Page</u>
	<u>First Reported</u>	<u>Target for Correction in 1989 FMFIA Report</u>	

Part 2. Describe each pending material weakness and provide a complete plan of action to correct the weakness. Changes in previous corrective action schedules should be explained. Correction is accomplished when the weakness is no longer material. Material weaknesses may be consolidated, so long as the identity and character of the weaknesses are not lost.

The following format shall be followed for each uncorrected weakness. All data elements are required.

Title of Material Weakness:

Functional Category in Statistical Summary:

Bureau/Appropriation/Account Number:

Administrative Activity/Program Activity:

Year Identified:

Original Targeted Correction Date:

Targeted Correction Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):



Description of Material Weakness and Its Impact on Agency Operations:

Source of Discovery of Material Weakness:

Indicate how material weakness was initially discovered, e.g., IG audit or investigation, management review, evaluation. Provide a reference to a specific source document by report number or subject matter and date.

Critical Milestones in Corrective Action:

Provide a complete plan of action to correct/improve the material weakness in the format presented below.

- A. Completed actions/events  
Briefly describe actions taken since the last report to OMB.
- B. Planned actions/events (short term - next 12 months)  
Identify critical milestones scheduled for the next 12 months.
- C. Planned actions/events (longer term)  
Identify critical longer term milestones through achievement of final corrective action.

Validation Process to be Used:

Explain the validation process to be used by management to verify the completion of the corrective action. Describe the role the Inspector General can perform in validating corrective action and identify any other independent validation processes to be used.

Part 3. For each material weakness corrected this year, please provide the following information:

Title of Material Weakness:

Bureau/Appropriation/Account Number:

Year Identified:

Corrective Actions Taken:

Results of Validation Actions Taken:

Enclosure E -- Material Non-conformances/Corrective Actions

This enclosure consists of three parts: (1) a summary/table of contents of material non-conformances; (2) a description of each pending material non-conformance (Section 4); and (3) a description of each material non-conformance that was corrected in 1990.

Part 1. Provide a summary of all pending material non-conformances. The titles of the non-conformances should be listed in priority order. Information on the correction schedule can be broken down either by system or by individual non-conformance. The following format may be used as a model:

	Year		Page
	First Reported	Target for Correction in 1989 FMFIA Report	
Name of system/ Title(s) of non-conformance(s)			

Part 2. Describe each pending material non-conformance and provide a plan of action to correct the non-conformance. Changes in previous corrective action schedules should be explained. Correction is accomplished when the non-conformance is no longer material. Material non-conformances may be grouped (e.g., by system or organizational unit), so long as the identity and character of the deficiencies are not lost.

The following format may be used as a model for uncorrected material non-conformances. Under any circumstances, all data elements are required.

Name of System or Organizational Unit (if appropriate):

Title of Material Non-conformance:

Core Financial System    Subsidiary System    Program System

Functional Category in Statistical Summary:

Bureau/Appropriation/Account Number:

Administrative Activity/Program Activity:

Year Identified:

Original Targeted Correction Date:

Targeted Correction Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Description of Material Non-conformance and Its Impact on Agency Operations:

Source of Discovery of Material Non-conformance:

Indicate how material non-conformance was initially discovered, e.g., IG audit or investigation, management review, evaluation. Provide a reference to a specific source document by report number or subject matter and date.

Critical Milestones in Corrective Action:

Provide a complete plan of action to correct/improve material non-conformance in the format presented below.

- A. Completed actions/events  
Briefly describe actions taken since the last report to OMB.
- B. Planned actions/events (short term - next 12 months)  
Identify critical milestones scheduled for the next 12 months.
- C. Planned actions/events (longer term)  
Identify critical longer term milestones through achievement of final corrective action.

Validation Process to be Used:

Explain the validation process to be used by management to verify the completion of the corrective action. Describe the role the Inspector General can perform in validating corrective action and identify any other independent validation processes to be used.

Part 3. Please provide the following information for any material non-conformances corrected this year:

Name of System or Organizational Unit (if appropriate):

Title of Material Non-conformance(s):

Core Financial System    Subsidiary System    Program System

Bureau/Appropriation/Account Number:

Year Identified:

Corrective Actions Taken:

Results of Validation Actions Taken: