Office of the Special Trustee for American Indians
Office of Trust Risk Management

Risk Management Handbook for Indian Trust Operations

November 30, 2000

This handbook has been compiled and published by

The

Office of Trust Risk Management
505 Marquette NW Suite 1710
Albuquerque, New Mexico 87102

Phone: 505-248-5638
Fax: 505-248-5645

Original publication 11/30/2000
Revised 12/28/2000
2nd Revision 1/5/2001

Table of Contents

Executive Summary

In July 1998, the Department of the Interior issued the first High Level Implementation Plan (HLIP) for Indian Trust Management Improvement. That plan represented the first step in implementing the strategic plan required by Section 303 of the American Indian Trust Fund Management Reform Act of 1994.

On February 29, 2000 the HLIP was revised and updated outlining progress made toward completing improvements in trust management and laying out additional steps that must be taken to reach the goals and objectives established. This Risk Management Handbook for Indian Trust Operations (Handbook) *is yet another positive step toward eliminating Indian trust management deficiencies within the Department of the Interior.*

The handbook highlights the accountability necessary for the proper discharge of the Secretary's trust responsibilities. It outlines the responsibility of each bureau and agency within the Department to establish and maintain internal controls to assure government and Indian trust assets are protected.

Definitions of risk and internal controls allow managers and other responsible officials to use this handbook as a guide to assess risk and establish the appropriate internal controls within their agencies, thus assuring everything possible is done to protect the assets entrusted to them.

The handbook serves as a resource for self-assessment procedures as well as defining minimum training requirements necessary for understanding risk assessment and the internal control process. It provides a tool for the managers of the various bureaus and agencies within the Department to fulfill their obligation to safeguard the assets of the American Indians.

The handbook is a reference guide, can be used to assist organizations developing their own risk management plan, and will be periodically updated as the Department continues to carry out it's fiduciary responsibilities to the American Indians.

Purpose

The purpose of the Risk Management Handbook (Handbook) is to give managers within the Department of the Interior (Department) who have responsibility for Indian assets an understanding of effective internal control and how it should be applied within their respective programs. The handbook describes the concept of risk as it relates to internal control and the effective operation of Department programs and how to assess and evaluate risk.

One of the primary objectives of program managers of Indian trust assets is to protect the assets from waste, theft, fraud, misuse, and other risks. Simply stated, front line managers are the owners of the risks associated with the assets. The ownership of these risks is ultimately shared throughout the management chain and with all personnel directly involved in process operations. Managers, as risk owners, can improve almost every aspect of their operational areas by understanding the risks that are associated with their mission and objectives, understanding responsibilities related to those risks, and by effectively and efficiently managing those risks. As risk owners, it is important that managers be able to identify the core business objectives of their activities and the risks associated with those objectives. Managers should take advantage of available risk assessment tools that will help identify the relative importance of different risks and should implement internal controls that reduce these risks to acceptable levels.

Management and its employees should be able to identify and rank risks according to relative probability and impact: In other words, how often an event is likely to occur and the consequences of that occurrence. These assessments are fundamental in enabling managers to make better decisions regarding the safeguarding of Indian trust assets.

Background

The Department has adopted the current "best practices" relating to managing and controlling Indian trust assets. These practices are founded on concepts identified by the National Commission on Fraudulent Financial Reporting, known as the Treadway Commission. The Treadway Commission was created in 1985 by various professional institutes of accounting, auditing, and management specialists and its main objective was the identification of causes of fraudulent financial reporting and recommending methods to reduce its occurrence. Later, a task force under the auspices of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission conducted a review of internal control literature and took other actions which culminated in the Treadway Commission publishing its Internal Control – Integrated Framework manual in 1992.

The Treadway Commission manual provides a dynamic internal control model that allows all types of businesses to accurately assess their business needs and take appropriate actions to meet their needs.

The main concepts of the Treadway Commission are:

(1) Everybody in an organization has a responsibility for internal controls, and the control environment emanates from the top departmental managers down to all employees.

(2) Management must identify its most important business objectives and the risks that threaten achievement of those objectives.

(3) Management must determine how to best manage the risks.

(4) Management must take ownership of and be responsible for managing its business risks.

This handbook utilizes the Treadway Commission approach to help enable the Department to manage its Indian trust assets in a manner that is effective and efficient and that meets the fiduciary responsibilities required of such assets.

Employees at all levels of an organization are involved in risk management. Top management "buy-in" and identifying the owners at risk is crucial to the success of a risk management program. Many corporations are establishing risk management teams led by a Chief Risk Officer (CRO), separate from the financial and audit departments, which reports directly to the Board of Directors. Ensuring organizational ethics, efficiency, economy, and effectiveness requires a much broader and more detailed approach today than in the past. Risk Management is the new driver of organizational activity, the organization's strategic response to complex and constantly changing risks. The choice is simple: Keep up or get out; playing "catch up" is no longer an option in today's fast-paced world. The stakes are too high, the potential losses too great.

The new business risk paradigm is the result of rapid changes in globalization, electronic commerce, mergers and acquisitions, and an integrated approach to organizational management. The same technological advances that have delivered a smarter, faster, cheaper work product have necessitated enhanced controls and business practices to protect the organization's assets, protect its information, and safeguard its future. In essence, successful risk management considers an organization's assets and resources and how it goes about accomplishing its strategic and operational objectives.

All organizations encounter risk. Risk affects the organization's ability to attain its mission objectives, to protect its assets, and to maintain the quality of its products or services. There is no practical way to reduce risk to zero. Accordingly, management must continually make judgments as to the level of risk it is willing to accept.

Interdepartmental Responsibilities

The legal responsibility for internal controls in government is vested in the agency heads. Congress mandates they be responsible for maintaining and reviewing controls to assure government and Indian trust assets are protected. Internal control systems were first legislatively mandated in the Accounting and Auditing Act of 1950(31 U.S.C. 3512). Responsibility for regularly evaluating the controls and reporting material weaknesses to the President of the United States and to the U. S. Congress was mandated in the Federal Managers Financial Integrity Act of 1982, Public Law 97-255, (FMFIA). The American Indian Trust Fund Management Reform Act of 1994, created the Special Trustee for American Indians, whose purpose is to see that the trust responsibilities of the United States Government are properly discharged.

The importance of legislative underpinnings for auditing in the Federal government dates back almost half a century to the AAA, holding federal agency heads responsible for internal controls, including appropriate internal audit. The need to strengthen this requirement became evident when, in 1976, the Offices of Inspector Generals of federal agencies (OIG), began to issue a series of reports at 157 offices in 11 major federal organizations. These reports indicated widespread and serious internal control weaknesses resulting in the waste of government money through fraud and mismanagement.

The OIG reported that federal agencies did not use their internal auditors to examine their financial operations and when they did, no action was taken on the auditors' recommendations. The OIG also found that internal audit groups were not independent, they were under funded and understaffed, audit efforts were fragmented among several offices, and problems found by the audits were not communicated to the agency heads. With rare exceptions, the executive agencies had not adequately monitored, assessed, or reviewed their own operations and programs.

The FMFIA was signed into law September 8, 1982 amending the AAA. It requires ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

Department Manual 340 DM 1 provides policy and guidelines for Departmental bureaus and offices in complying with FMFIA of 1982. This policy is designed to assist bureaus in improving the accountability and effectiveness of their programs and operational management controls. The main focus of the policy is the establishment, assessment, correction, and reporting on management controls. The policy is intended to serve as a general framework for the Department's Management Control Program.

The Department Manual used the following four statutes, two Office of Management and Budget (OMB) Circulars, and General Accounting Office (GAO) Internal Control Standards to prepare this policy:

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- Federal Financial Management Improvement Act of 1996 (FFMIA)

- Government Performance and Results Act of 1993 (G PRA)
- Chief Financial Officers Act of 1990 (CFO)
- OMB Circular A-123 Revised, Management Accountability and Control
- OMB Circular A-127 Financial Management Systems
- GAO Standards for Internal Control in the Federal Government

The Chief Financial Officers (CFO) Act of 1990 focused attention on financial management improvements in the Federal government by requiring the identification of a responsible official to address adverse financial management. The law created a framework for financial organizations to focus on the integration of accounting, budget, and other financial activities under one umbrella, the preparation of audited financial statements, and the integration of financial management systems. It also requires federal agencies to prepare a CFO strategic five-year plan. The CFO required 14 Cabinet level Departments and 10 major agencies to establish the position of a CFO who reports to the agency head.

In April 1997, the Office of Special Trustee for American Indians (OST) created a five-year Strategic Plan to implement the reforms required under the American Indian Trust Management Reform Act of 1994. The Reform Act, at Section 101 sets forth the foundation and vision to be achieved by the Strategic Plan as expressed by the Secretary in Secretarial Order No. 3215.

Secretarial Order No. 3215, dated April 28, 2000, provides guidance to the employees of the Department who are responsible for carrying out the Secretary's trust responsibility as it pertains to Indian trust assets. Subsequently, the Special Trustee issued trust asset management policies that include appropriate oversight and review of all trust functions for which it is responsible. The responsibilities of the Office of Trust Risk Management (OTRM) are listed under Departmental Manual 110 DM 30, and which includes technical assistance, coordination, and partnering as well as review and oversight roles department-wide.

The Secretary's proper discharge of the trust responsibilities of the United States shall include the following:

(1) Providing adequate systems for accounting for and reporting trust fund balances.
(2) Providing adequate controls over receipts and disbursements.
(3) Providing periodic, timely reconciliation to assure the accuracy of accounts.
(4) Determining accurate cash balances.
(5) Preparing and supplying account holders with periodic statements of account performance and with balances of the account, which shall be available on a daily basis.
(6) Establishing consistent, written policies and procedures for trust fund management and accounting.
(7) Providing adequate staffing, supervision, and training for trust fund management and accounting.
(8) Appropriately managing the natural resources located within the boundaries of Indian reservations and trust lands.

The Secretarial Order notes that this list of duties is not exhaustive. Therefore, to understand the nature of the Department's duties, we must look to a variety of other sources for guidance.

The Solicitor's Office continues to provide the Department with guidance through formal and informal legal advice regarding its trust responsibility. The most comprehensive document available on this subject is a letter by Solicitor Krulitz, dated November 21, 1978, analyzing the federal government's responsibility concerning Indian property interest. This legal guidance from the Solicitor's Office supports the Departments interpretation of the duties required by treaties, statutes, and Executive orders.

By Secretarial Order No. 3208, dated April 28, 2000, the Secretary reorganized OST to strengthen and clarify certain management responsibilities relating to the supervision of field units including the coordination of the High Level Implementation Plan.

The Special Trustee provided testimony at a Senate Indian Affairs hearing in North Dakota on September 1, 2000. In his testimony, he stressed the important objectives of the OST trust operation; to protect and preserve the assets of the trust clients; to provide accurate record keeping; and, to provide timely services to trust clients.

What is Risk?

Risk is the probability that an event or action may adversely affect an organization's ability to function properly As part of the process of meeting objectives of any program, there is a degree of uncertainty intrinsic to the achievement of those objectives. Risk involves consequences and the likelihood that negative events will take place. To identify risk related to objectives, ask common sense questions like the following:

- What resources need to be protected (i.e. financial records, land records, etc.)?
- Do we have liquid assets or assets which could be used by others easily?
- How could someone steal assets (i.e. oil from oil leases) ?
- How could someone disrupt operations?
- How do we know if we are achieving our objectives?
- What information is most relied upon?
- On what do we spend the most money?
- What decisions require the best judgment?
- What activities are most complex?
- What activities are regulated?
- What is the greatest legal exposure?

Consequences are tangible outcomes of risk associated with decisions, events, or processes related to the successful operation of any particular government program. Consequences involve a cause or event with a related effect. The effect of risk can involve:

- An erroneous decision as the result of using incorrect, u ntimely, incomplete, or otherwise unreliable information.
- Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.
- Failure to adequately safeguard assets.
- Customer dissatisfaction, negative publicity, and damage to the bureau or agency's reputation.
- Failure to adhere to organizational policies and procedures, or not complying with relevant laws and regulations.
- Acquiring resources uneconomically or using them inefficiently or ineffectively.
- Failure to accomplish established objectives and goals for the program.

Assessing Risk

Risk assessment is determining the likelihood that a risk will occur and a measurement of the severity associated with the risk. Severity of risk consequences depends on a number of factors, which can include level of exposure to risk, type of threat to which the organization is exposed, the duration of the threat, etc. Likelihood of occurrence is the probability that a negative event will take place. The measure of the likelihood that a risk will occur is a subjective one based on the knowledge and expertise of the program manager. Management has the on-going responsibility for assessing risks to organizational objectives and managing those risks by implementing and monitoring control activities. Risk assessment consists of:

- Risk Identification - Identifying and classifying business risks and their characteristics.
- Risk Measurement - Measuring the severity of consequences and likelihood of occurrence.
- Risk Prioritization **-** Determining which risks are more critical to the organization.
- Risk Management - Ensuring that control procedures and other management actions adequately address identified risks. Risk management responds to perceived risk by taking various actions such as:
  - Accepting potential consequences of risk without any modification of the program's operations.
  - Minimizing the risk by implementing control policies and procedures, transferring or sharing risk through insurance, bonding, contract provisions, etc.
  - Considering what is perceived as a risk and rejecting it or considering it to be a non-risk.

It is important to understand what risk assessment is because it plays a key role in management activities. There are two categories of risk that must be considered when assessing risk for any organization. Those categories include **business risk and managed risk.**

<u>Business risk</u> is the inherent risk of putting assets to work to achieve established organizational objectives. Business risk refers to the fundamental risks to the organization without considering the effects of the internal control system that is currently in place. In other words, business risk is the inherent risk associated with the activities of an organization, which has no controls to help meet its objectives.

<u>Managed risk</u> relates to the risk associated with meeting the objectives of an organization that has controls in place. Managed risk is the negative impact on an organization given the probability that the controls relied upon fail to prevent negative events. Managed risk is the residual risk after considering internal controls and management actions to lessen the risk.

A precondition to risk assessment is establishment of clear, consistent agency objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, and forming a basis for determining how risks should be managed through proper internal controls.

Management needs to comprehensively identify risks and should consider all significant interactions with other parties as well as internal factors at both the organizational level and activity level. Risk identification methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding what actions should be taken to manage the risk. Being aware of inherent risks and doing something to avoid or prevent the risks from materializing is risk management.

There are two levels of risk assessment. One is at the organizational level, which determines the overall risk, related to the operations of any given organization. Once the overall risk for the entire organization has been determined, risk at the individual unit or activity level within the organization is determined and appropriate controls are put in place to prevent the risk from occurring.

Risk Assessment at the Organizational Level

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The process should provide a means of organizing and integrating professional judgments relating to risk in the overall program. These judgments can be used to prioritize risk from the greatest risk to the least. Once the risks have been prioritized, an internal control structure can be developed to correct the potential risks that exist in the current system. The process usually involves the following five steps:

1. Identify units or activities that have risk potential.
2. Determine the risk factors.
3. Determine weights for risk factors.
4. Assign scale to the risk factors.
5. Determine the higher risk activities to review.

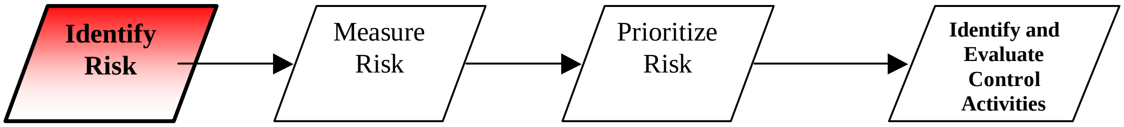
The purpose of risk assessment at the organizational level is to develop a risk assessment plan for specific activities within the organization that is (1) justifiable, (2) based on the higher risk areas of the organization, and (3) of value to management. The risk assessment process includes identification of activities that have high risk potential, identification of the relevant risk factors, and an assessment of their relative significance.

Risk Assessment at the Activity Level

Activity units within a program, which have a high probability for risk, vary in number and type within each governmental unit. It is the job of the program manager to determine what operational units need to be reviewed for risk. Units of high probability for risk can consist of operational groups within a program that can be defined and reviewed to evaluate and test the unit's activi ty for any potential risk. One example of an activity with potential risk is the process used by Bureau of Land Management (BLM) inspectors to verify production from mineral leases. Any operational unit where the potential risk can be defined, evaluated, and tested is an area for potential risk assessment review.

Once the risks of the various units within the program have been determined, risk assessment of specific activities within the program can be performed. Assessing risk at the activity level requires managers to identify the specific risk related to the activity under review. Once the risk is identified it must be measured, prioritized, and then controls need to be identified to avoid consequences that will occur if the risk is not controlled.

Step One - Identifying Risk



There are varying approaches to identifying risk, depending on the nature of the activity being reviewed. Generally, there are five categories of activity that are influenced by risk factors identified within an orga nization. Risk factors will have an effect on at least one of the five general business categories. These categories are:

1. Protection of assets
2. Operational performance
3. Information systems
4. Regulatory and legal issues
5. External and internal environment

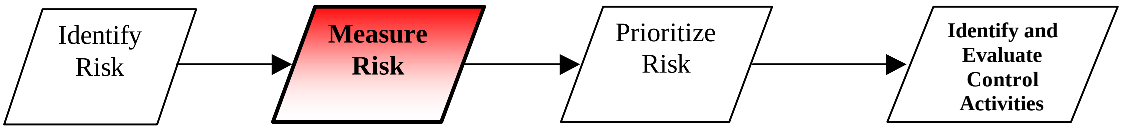
There are five major business objectives that relate to these five categories that need to be considered when assessing risk. Those objectives consist of:

1. Safeguarding of assets
2. Economical and efficient use of resources
3. Accomplishment of established objecti ves and goals for operations or programs
4. Compliance with policies, plans, procedures, laws and regulations
5. Reliability and integrity of information

The following matrix shows the relationship between the business categories and the objectives. As an exam ple, compare the category of assets to the objective of safeguarding assets. The obvious risk to any asset is potential loss or impairment. (An example of an objective is to safeguard the forest held in trust for Indian tribes from potential forest fires or over- cutting of trees for timber.)

	Five General Business Categories				
	Assets	Operational Performance	Information Systems	Regulatory and Legal Issues	External and Internal Environment
Major Objective	Safeguarding assets	Efficient use of resources; Accomplishment of established objectives and goals	Reliability and integrity of financial and operating information	Compliance with laws and regulations	Appropriate strategies for changed laws or regulations
Major Risk	Loss or impairment of assets	Unecono mical, inefficient, ineffective processes	Inaccurate, unreliable, untimely information	Adverse impact of lawsuits due to improper administration of agency duties	Adverse effect on entity; reduction in appropriations to agency

Step Two - Measuring Risk



Once risk has been identified, the next step is to measure the risk. The objective is to determine the most important risk to the achievement of the activity's objectives. As a result, risks need to be measured in some fashion. Risk measurement looks at two dimensions: the **severity** of the risk consequences and the **probability** that the consequences will occur.

<u>Severity</u> of consequences measures the magnitude of a negative event. This can be the dollar exposure or the extent of negative impact on the organization. Likelihood of occurrence is the <u>probability</u> or frequency of the risk event happening. For pure business risk, this is the probability without considering any control procedures implemented by management.

Severity or magnitude of risk consequences can be measured in qualitative terms, on a scale or as a dollar amount. The loss of an asset to theft, for example, can be measured objectively by the recorded value of the asset or by its replacement cost. The dollar loss may be difficult to ascertain when data is not readily available or the risk is intangible, such as the potential loss of reputation.

To more objectively measure the magnitude of risk, assessment should be based on quantitative information when available and collaborate with management to assess the severity of the consequences.

The measures of severity of consequences range from the most qualitative to the most quantitative as shown below:

Most Qualitative	1. Descriptive
	2. Qualitative Scale
	3. Range of Dollars Scale
Most Quantitative	4. Dollars at Risk

Descriptive measures of severity of risk can be conveyed in qualitative terms, such as *low, medium and high*. This measure is essentially a three-point scale in descriptive format. The descriptive measure is the most frequently used, easiest, and least time-consuming method, but provides less information and the least differentiation between risks compared to other methods.

A "Qualitative scale" is a measure of severity using numbers indicating the magnitude of the risk consequences. The number assigned can be based on the value of the importance of the resource to the operations, or the significance of the event to the organization.

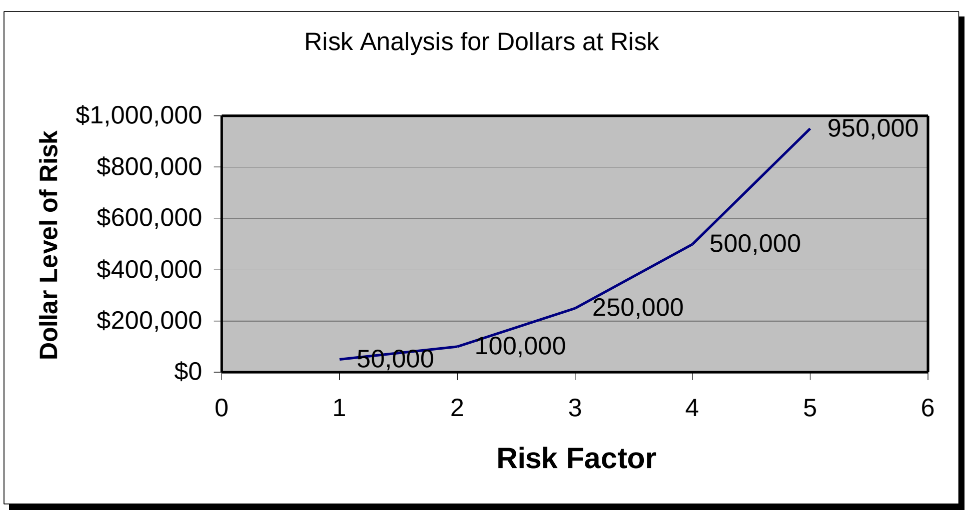
Risk can be measured using a scale similar to the one below:

Low	=	1
Below Average	=	2
Average	=	3
Above Average	=	4
High	=	5

The benefits of the qualitative scale method over the descriptive method is that it provides more information as to the magnitude of the risk, is useful when dollar amounts are difficult to determine, and allows better comparison of one risk to another risk. For example, using a scale from one to five, a risk with a severity level of five would have much more risk assigned to it than a risk assigned the lower level of one.

A “Range of Dollars Scale” is a method that assigns a scale value of one to five based on broad ranges of dollar values. This method is useful when an exact dollar amount is not determinable or not necessary. Since the risk severity is measured in a range of dollars, this method provides a more objective determination of the severity of the risk compared to more qualitative methods.

An example of range of dollars scale is shown in the graph below. The graph indicates the magnitude of the risk related to the dollar value associated with the risk.



A “Dollars at Risk Method” determines the dollar amount at risk or exposure for the value of assets and certain types of losses. Examples of the types of losses to consider are:

Value of the assets
Average cost to repair or replace the assets
Missing or loss of revenues
Fines and penalties due to non-compliance with laws
Judgments that are the result of a breach of trust

Estimated loss of revenues due to production delay
Unearned income due to improper accounting procedures

This method is the most objective but it may not be the most cost-beneficial way to obtain the detailed information needed in order to perform this type of assessment. However this is the most useful method when comparing a loss of one asset to a loss of another asset. The ability to do so makes it easier to convince management of the need to implement the required controls needed to meet the objectives at hand.

The magnitude of the dollar amount can be affected by the duration and timing of the risk event. The loss of potential revenues from timber sales from tribal lands because of a forest fire would depend on how long the event lasted and how much timber was destroyed.

Probability of risk measures the likelihood that a negative event will happen. Note that this is the likelihood of the event before considering whether there are established control procedures to address the risk. For assets, the probability of the risk occurring may be affected by the asset's dollar value, location, physical size, portability, ability to be sold, and types of threats or damage. For example, the likelihood of theft would be higher for laptop computers than for massive production equipment.

The likelihood of occurrence can be measured in qualitative or quantitative terms.

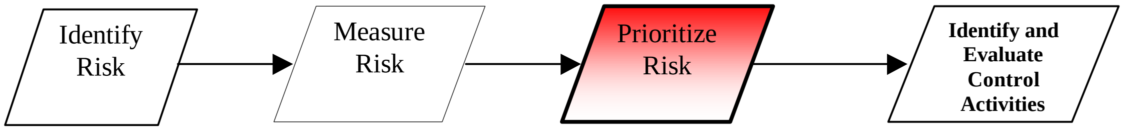
Most Qualitative	Descriptive
	Qualitative Scale
Most Quantitative	Error Rate

The Descriptive method uses descriptive terms, such as low, medium, and high to indicate the likelihood of the risk occurring. This method is the easiest to use and provides less information than other mehtods.

The qualitative scale method is a numbered scale from one (low) to five (high) that indicates the likelihood that the negative event will occur. This method provides more differentation between risks than the descriptitive method and can be combined with rating of severity to calculate an overall score for risk.

Error rate is a specific type of probability, such as the percentage of processing errors in the total number of transactions for a certain period of time. To be meaningful, this method should be based on objective information, such as historical data, prior audit results, or comparable rates in other units. With this method it is difficult to compare this information of risks to information measured by another method, unless the information is converted to a scale.

Step Three - Prioritizing Risk



Managers prioritize risk in order to determine which risks are more important or critical to the organization and deserve more attention. Risks are prioritized in order to devote resources according to the relative importance of the risks to the program objectives. Higher rated risks require stronger control procedures and lower rated risks do not require as strong of internal controls. In some instances it may be determined that the severity of risk is so low that no controls need to be put in place. Essentially, management can decide to accept the risk, and the consequences, and must plan to pay for required corrective actions from the budget.

Prioritizing risks depends on the combination of the severity of the consequences and the likelihood of the risk event occurring. For example, a high dollar value asset with very low probability of theft may have a lower overall risk of loss due to theft when compared to a medium dollar value asset with a high probability of theft. Severity of risk consequences can be expressed in qualitative or quantitative terms and will effect selection of a method for prioritizing risks.

There are three methods used for prioritizing risks. *Relative priority* consists of grouping risks into clusters and assigning an overall rating from low to high. In the *absolute ranking* method, the risks are ranked according to a score, which may be based on multiplying the severity rating times the likelihood rating. *Matrix ranking* is a specialized form of ranking that uses a matrix based on ratings to determine which risks fall into low, medium, and high groupings.

Relative priority classifies risks into broad groups, such as Low, Medium and High. These classifications may be sufficient for assessment purposes where it is more logical to measure risk using descriptive terms rather than numerical values. Two examples of these type methods are the Descriptive Method and the Range Method.

The Descriptive Method is where risk severity and probability are measured in descriptive terms of Low, Medium, and High. This method combines the risk measurements and determines the overall relative importance of the risks. For example, the manager may decide that any combination of High with High or High with Medium would be rated as High overall risk. Visually, this can be seen in the following table:

Severity of Loss	High Probability of Occurrence	Medium Probability of Occurrence	Low Probability of Occurrence
High	High Overall	High Overall	Medium Overall
Medium	High Overall	Medium Overall	Low Overall
Low	Medium Overall	Low Overall	Low Overall

The Range Method uses numeric scores, but clusters the scores into three or more groups, based on pre-defined ranges. The rating for severity is multiplied by the rating for likelihood to calculate a total score. The total scores can be clustered into even groups or can be proportional so that more scores fall into the middle ranges.

Overall Risk is:	If total score is:
Low	1 to 5
Below Average	6 to 10
Medium	11 to 15
Above Average	16 to 20
High	21 to 25

Absolute ranking uses numeric values from risk measurement to take risks in descending order. This method calculates a total score by multiplying numeric ratings for severity of risk times the numeric ratings for likelihood of occurrence. The total scores are then ranked from highest to lowest to show the relative importance of each risk.

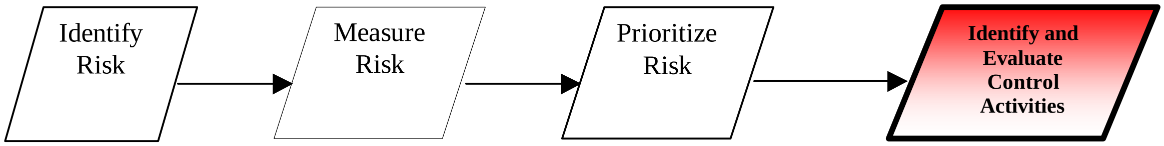
Risk	Severity Rating 1 = low; 5 = high S	Likelihood Rating 1 = low; 5 = high L	Total Score S **x** L	Rank
A	5	2	10	2
B	4	4	16	1
C	3	3	9	3
D	4	1	4	4

Matrix ranking is a specialized type of ranking developed primarily for analyzing threats to computer systems and applications. The various threats to a system, such as errors and omissions, illegal access, loss of data, and physical disasters, are listed at the top row of the matrix. In the left-hand column, the components of the system, including software programs and data files are listed. Shown below is a simplified example:

1. The threats are listed across the top row, from left to right, in order of importance, from highest threat to lowest threat.
2. The components are listed down the left-hand column from highest value or most important component to least important.
3. For each cell, a total score is calculated by multiplying the threat rank by the component rank.
4. The risk is rated as High, Medium or Low based on the total score.

Threats Components	Illegal Access 6	Errors and Omissions 5	Alteration 4	Fraud or Theft 3	Physical Disasters 2	Loss of Data 1
Information 3	18 High	15 High	12 High	9 Medium	6 Medium	3 Low
Hardware 2	12 High	10 High	8 Medium	6 Medium	4 Medium	2 Low
Software 1	6 Medium	5 Medium	4 Medium	3 Low	2 Low	1 Low

Step Four - Identify and Evaluate Control Activities



After risks have been prioritized, the next steps in the risk assessment process are to identify control activities related to those risks and to evaluate the controls.

Identifying Control Activities

This step in the risk assessment process determines whether management has adequately addressed the risks, particularly the higher risks.

The review of control procedures uses narratives, flowcharts and other documentation of the organization's processes to identify the designed controls already in place. The initial phase of risk assessment should concentrate on identifying control activities that relate to the higher risk issues and determining risks where controls need to be developed or strengthened.

Managers may utilize various means to address risk as shown below:

- Internal control policies and procedures which can consist of:

  Approvals and authorizations
  System edits and exception reports
  Verifications and reconciliations
  Physical controls to safeguard assets
  Management review of operations
  Separation of duties
  Policies and procedures
  Training
  Control environment

- Transferring risk through insurance, outsourcing, and contract provisions
- Sharing risk through pooling of resources with other organizations
- Diversification of operations
- Monitoring risk

Documenting Control Activities for Each Risk

For each risk identified it must be determined whether there is a related control or other management activity to mitigate the risk. More effort should be spent on identifying and documenting control activities for the higher and medium risks than for the lower risks. Using an example format for documenting the detailed risk assessment, control procedures/activities can be listed next to each risk as shown below:

Shipping of Products	Risk	Importance of risk: Severity	Likelihood	Overall	Control activities to address risk	Evaluation of control and impact on assessment review
Objective: Process orders accurately and expeditiously	Risk: Improper products or quantities shipped	4	4	Above Average	Scan of items retrieved to compare with order list.	
	Risk: Insufficient Product available	4	4	Above Average	Maintain perpetual inventory records	

The above format is merely one example and can be tailored to the particular needs of an activity.

Evaluating Control Activities in Relation to Risk

In identifying controls for each risk, the program manager, in effect, determines w hether the designed controls appear to adequately address the risk, are weak, or are missing. It is important to determine if the control activities appear to sufficiently mitigate the risk.

When the risk is rated high and the control appears to address the risk, a test of the controls should be performed to determine whether the controls have been effectively implemented. In those instances where the control is missing or weak, tests of details/transactions could be expanded if the risk is for fraud or theft. Additionally, for weak or missing controls, recommendations are made to management to strengthen controls in the area. Where the risk is rated low, consideration should be given to whether there are too many controls for the level of risk incurred .

Control Self Assessment

This section is three fold. First, an overview of Control Self Assessment (CSA) [1] will be presented. Secondly, an overview of the Department's self -assessment program will be presented. Third, OST, OTRM's proposal for CSA wi ll be presented.

Overview

The world's view of internal auditing is undergoing phenomenal change. Today's internal auditors must not only add value to the organization, but must increase their focus in terms of risk management, control, assurance, and or ganizational governance processes. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systemati c, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A part of internal auditing in CSA is a methodology used to review key business objectives, risks involved in achieving the objectives, and internal controls designed to manage those risks. Some CSA proponents expand this description to encompass opportunity as well as risk, strength as well as weakness, and the overall effectiveness of the system in ensuring that the organization's obj ectives are met.

Definition

CSA is a process through which internal control effectiveness is examined and assessed. The objective is to provide reasonable assurance that all business objectives will be met. [2]

The responsibility for the CSA process is s hared among all employees in an organization. CSA is conducted within a structured environment and may use a control framework such as COSO. COSO is the Committee of Sponsoring Organizations of the Treadway Commission. The OST/OTRM has adapted COSO to I ndian trust responsibilities in its *Risk Management Program* issued September 21, 2000. The CSA process allows management and/or work teams directly responsible for a business function to:

- Participate in the assessment of internal controls.
- Evaluate risks.
- Develop action plans to address identified weaknesses.
- Assess the likelihood of achieving business objectives.

The Institute of Internal Auditors (IIA) [3] believes CSA is a process that generates information on internal control that is useful to managemen t and internal auditors in

[1] CSA is also referred to as control/risk self -assessment (CRSA), management self -assessment (MSA), and business self-assessment (BSA).
[2] Professional Practices Pamphlet 98 -2, *A Perspective on Control Self-Assessment* (Altamonte Springs, Florida: The Institute of Internal Auditors, 1998).
[3] The Institute of Internal Auditors is an international association dedicated to the continuing professional development of the individual internal auditor and the internal auditing profession.

judging the quality of control. CSA can also provide a positive influence on the control environment. As operating staff buys into the process, control consciousness increases. Additionally CSA can add value by increasing an operating unit's involvement in designing and maintaining control and risk systems as well as identifying risk exposures and determining corrective action.

The IIA realizes that CSA is a relatively new and growing methodology, the success of which relates directly to the effective involvement of participants. Their response and acceptance are largely a function of organizational culture as reflected in management's attitude toward the guiding principles of CSA.

CSA can be facilitated by any component of an organization, including the internal auditing staff. Regardless of who provides facilitation, the IIA believes CSA improves the control environment of an organization by:

- Increasing awareness of organizational objectives and the role of internal control in achieving goals and objectives.
- Motivating personnel to carefully design and implement control processes and continually improve operating control processes.

Approaches to CSA

The three primary CSA approaches are *facilitated team meetings* (also known as workshops), *questionnaires*, and *management-produced analysis*. Organizations often combine more than one approach to accommodate their self-assessment.

Facilitated team meetings gather internal control information from work teams that may represent multiple levels within an organization. The facilitator is trained in internal control system design as well as generic facilitation techniques. Meetings are often supported by recording and projecting information using personal computer projection units and the use of anonymous voting software. The meeting results are reported to the process owners.

The questionnaire approach uses a survey instrument that offers opportunities for simple yes/no or have/have not responses completed by managers, staff, or other groups. The survey answers are compiled and the process owners use the survey results to assess their control structure.

Management-produced analysis is any approach that does not use a facilitated meeting or survey. Through this approach, management produces a staff study of the business process, function, or area. The CSA specialist (who may be an internal auditor) combines the results of the study with information gathered from sources such as other managers and/or staff interviews. The material is synthesized and reported to process owners.

Research commissioned by the IIA Research Foundation shows that most organizations have selected the CSA workshop approach. The IIA recommends performing an analysis of the organization to determine how effectively it can accept and support candid participant response. If the culture is supportive, the IIA recommends facilitated team meetings. In the event a corporate culture does not support a participative CSA approach, questionnaire responses and internal control analysis can enhance the control environment. Internal auditing should be prepared to validate any internal control representations received.

Facilitated Meeting Formats

There are four basic CSA-facilitated meeting formats:

- Control-based.
- Process-based.
- Risk-based.
- Objective-based.

The *control-based format* focuses on how well the controls in place are actually working within a department or group. CSA specialists determine the objectives and control techniques before the workshop begins, with significant input from upper management. This format produces an analysis of the gap between how controls are working and how management intended these controls to work. In addition, this format can be effective in examining soft controls such as management integrity and ethics.

The *process-based format* examines activities performed within selected business processes. The intent of this workshop is to evaluate, update, and/or streamline selected processes. CSA specialists determine the objectives the selected business processes are intended to achieve before the workshop begins. The process-based format may have greater breadth of analysis (across several departments or work groups) than a control-based format.

The *risk-based format* focuses on identifying and managing risk. This format examines control activities to ensure they are sufficient to manage key business risks. This format easily identifies significant residual risks for corrective action, and may result in more global self-assessments than other methodologies.

The *objective-based format* focuses on the best way to accomplish an objective. The objectives may or may not be decided by specialists, but significant input from the work unit is essential. The intent of the workshop is to identify whether the best control techniques have been selected, and whether these techniques are working effectively and resulting in acceptable levels of residual risk.

All the above formats strengthen the entity's control structure. Each entity should perform an analysis of external opportunities or threats as well as internal strengths and weaknesses to determine which format is most appropriate in the organization. Many CSA users combine one or more formats within a given facilitated meeting to best meet their needs.

Impact on the Role of Internal Auditing

CSA effectively augments internal auditing. One of the primary responsibilities of the senior management of any organization is providing stakeholder assurance through oversight of the organization's activities. Internal auditing, by definition, assists members of the organization in the effective discharge of their responsibilities. Through CSA, internal auditing and operating staff collaborate to produce an assessment of an operation. This synergy helps internal auditing assist in management's oversight function by improving the quantity and quality of available information. The quantity is increased as internal auditing relies on operating employees to actively participate in CSA, thus reducing time spent in information gathering and validation procedures performed during an audit. The quality is increased since participating employees have a more thorough understanding of the process than an auditor can develop over a relatively short period of time.

The synergy created by the interaction of the auditor-facilitator and CSA participants adds increased value to the organization through the internal auditing function. CSA can:

- Increase the scope of coverage of internal control reporting during a given year.
- Target audit work by reviewing high risks and unusual items noted in CSA results.
- Increase the effectiveness of corrective action by transferring ownership to operating employees.

Implementation Issues

There are five major issues an organization considers when effectively implementing CSA.

1. ***Scope (Breadth) of the CSA Process.*** Implementers decide what portion of the entity will use CSA, what functions or objectives to consider, and what level of detail (work group, district, division, etc.) is included in the assessment.
2. ***Impact of Organization's Culture.*** Implementers select a CSA approach and format based on organizational culture analysis. In the event a corporate culture does not support a participative CSA approach, questionnaire responses and internal control analysis can enhance the control environment.
3. ***Use of CSA Results.*** Implementers determine whether CSA risk assessment results will be used to target internal auditing work. Implementers can use the audit process to validate the CSA process and results.
4. ***CSA Process Enhancements.*** Implementers determine what tools, techniques, frameworks, mechanization, documentation, and report formats are used in connection with gathering and reporting CSA information.
5. ***Internal Auditing Involvement.*** Implementers decide whether internal auditing or operating management will drive the CSA process. Some CSA practitioners believe that internal auditing is the arm of management responsible for internal control oversight. If the resources for CSA are internal auditing, then internal auditing may be the appropriate driver of CSA. These internal auditors believe their presence in the facilitated meetings is, in and of itself, an oversight control. Other practitioners believe that self-assessment can only be effectively performed by operating

management and/or work units. Their view is that management will never be accountable for internal control if internal audit maintains its current role.

Internal auditing should actively ensure stakeholder interests are protected. Therefore, the IIA supports active internal auditing CSA participation through:

- Driving the process, *or* sponsoring CSA with transfer to partnering with management.
- Continuing oversight and involvement.

Departmental Self Assessments

Data accuracy, collection, and monitoring are an important aspect of implementing the Government Performance and Results Act (GPRA). In 1999, the Department made significant progress in improving its data collection, verification, and validation strategies.[4] Departmental bureaus have improved their performance measures and the Department has developed an internal reporting and tracking system and improved oversight of performance management activities.

Bureaus and offices developed a variety of approaches to determining the accuracy and reliability of performance data. Information collection and reporting systems were developed to accommodate the specific types of data and mission information needs of each bureau. In 1999, the Department developed a quarterly data reporting system to track progress in achieving GPRA goals. Departmental bureaus are required to electronically submit performance data on a quarterly basis to the Department. The database is presently being upgraded to allow bureaus to provide updates through the Internet. Departmental managers will also be able to access performance information more easily through this new system.

Performance Self Assessments

The Department is developing new tools to help improve the accuracy and reliability of performance information. The Department has developed a verification and validation matrix for use by Interior bureaus and offices as a self-assessment tool to evaluate the controls in place for determining the accuracy and reliability of the performance information. The matrix involves a five-tiered process to determine the accuracy of reporting the data; data standards and definitions; management checks and reviews; system integrity; and system security. As the majority of the data is collected by the bureaus at the field level, the matrix additionally helps define and track the data collection and reporting process by identifying the primary data sources and gathering efforts; data entry; how the data is aggregated and reported; and how that data is to be utilized for GPRA and other documents.

[4] Annual Departmental Report on Accountability, United States Department of the Interior, Fiscal Year 1999.

Program Evaluations

Interior programs are evaluated through a variety of means. Evaluations include performance audits, financial audits, management control reviews, and external reviews. The Department uses self-assessments to verify that performance information and measurement systems are accurate and supportive of the Department's strategic direction and goals. An example of a recent program evaluation is the Alternative Management Control Review (AMCR) of Indian Direct Payments performed by Minerals Management Service (MMS), Royalty Management Program personnel. A member of the OST/OTRM team participated in this AMCR and gained valuable program evaluation experience. The MMS AMCR is an example of a management-produced CSA analysis as discussed earlier.

The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems. Additionally, in accordance with OMB Circular No. A-123, Management Accountability and Control, agencies and individual federal managers must take systematic and proactive measures to:

- Develop and implement appropriate, cost-effective management controls for results-oriented management.
- Assess the adequacy of management controls in federal programs and operations.
- Identify needed improvements.
- Take corresponding corrective action.
- Report annually on management controls.

Departmental Management Control Program

The Department's management control program ensures full compliance with the goals, objectives, and requirements of the Integrity Act and OMB Circular A-123. In Fiscal Year 1999, the Department conducted its annual assessment of the effectiveness of its management, administrative and accounting systems controls in accordance with the Integrity Act and OMB guidelines. The Department conducted assessments of management controls in its programs and administrative functions, as well as relying on the findings and results of OIG internal program audit reports and GAO program audit reports issued during the year.

In October 1996, the Department completed a Management Control Reengineering Laboratory that produced a new automated, less resource-intensive approach for targeting and conducting management control assessments. The automated approach utilizes a comprehensive questionnaire that is modified to provide program specific questions for each individual program assessment. The assessment is conducted electronically over the Internet or e-mail network using an off-the-shelf surveying and analytical software tool (Survey Tracker). There were seven automated assessments conducted in Fiscal Year 1999. The results of the assessments met and or exceeded expectations in each instance. Using the automated assessment approach resulted in a 90 percent overall reduction in staff time required for planning, conducting, analyzing, and reporting the results of the assessment.

Currently each bureau/office Management Control Officer controls the self-assessment program for their respective office. The Department's Office of Financial Management (PFM) assists Bureaus/Offices with their management control programs, and assists with the Survey Tracker software. PFM currently functions in a supporting role and tracks/summarizes the bureaus/offices audit issues, and annual assurance statements. PFM tracts audit issues/recommendations from OIG, GAO and Single Audit Act audits. PFM also tracks the action plans that accompany the annual assurance statements.

A possible future objective may be to use CSA questionnaires at the field office level throughout the Department. Field offices may be targeted for the questionnaire based on OTRM's audit report database or other means. The questionnaire results may be used in a number of ways such as: a springboard to other CSA techniques such as face to face workshops with OST or contract facilitators; an "ice breaker" to assist management with internal controls in a consultative way; or as a risk assessment tool to be utilized by the OTRM staff.

Design of Internal Controls

Control tools used by program managers can include such concepts as objective setting, human resource practices, and any other concrete applications of any of the five components of control. In short, a control tool is anything that is used to help people stay in control of program activities.

A prerequisite to designing good internal controls used by an organization is to have clear, precise, and quantifiable objectives in place. An excellent place to start when identifying objectives is the Strategic Plan and Mission Statement of your agency. Objectives are needed in order to determine what are the necessary controls to put in place and when the controls have been successful. When objectives have been established, the risks associated with accomplishing each objective can be determined. Only when risks associated with the activities involved in completing objectives are identified can the required controls be determined to ensure successful completion of the objectives.

<u>Internal Control Development as it Relates to Risk</u>

OBJECTIVE
(What do you want to accomplish?)

↓

RISK
(What can go wrong to prevent you from accomplishing your objectives?)

↓

CONTROLS
(What can be done to minimize the risks?)

Identification of proper controls is important because missing or ineffective controls increase exposure, while unnecessary controls waste resources. The process of identifying the proper controls to use begins with the risk assessment. The FMFIA requires that agency controls be established in conformity with standards established by the Comptroller General.

Internal Control Defined

Internal control is broadly defined as a process, effected by management and other personnel, designed to provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

1. Effectiveness and efficiency of operations including the use of the entity's resources.
2. Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.

3. Compliance with applicable laws and regulations.
4. Control (safeguarding) of assets.

Internal control is a continuous built-in component of operations. It is an integral part of each system that management uses to regulate and guide its operations rather than as a separate system within an agency. People are what make internal control work. The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen. Management should design and implement internal control based on the related costs and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all agency objectives will be met. (See Appendix A for a detailed listing of primary internal controls)

Standards of Internal Control

The five standards for internal control are:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communications
5. Monitoring

These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance. However, they are not intended to limit or interfere with duly granted authority related to developing legislation, rule making, or other discretionary policy-making in an agency. These standards provide a general framework. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and made an integral part of operations.

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Several key factors affect the control environment. Integrity and ethical values maintained and demonstrated by management and staff is one factor. Agency management plays a key role in providing leadership in this area, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

Another factor is management's commitment to competence. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

Management's philosophy and operating style also affect the environment. This factor determines the degree of risk the agency is willing to take and management's philosophy towards performance-based management. Another factor affecting the environment is the agency's organizational structure. It provides management's framework for planning, directing, and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The environment is also affected by the manner in which the agency delegates authority and responsibility throughout the organization. This delegation covers authority and responsibility for operating activities, reporting relationships, and authorization protocols.

Good human capital policies and practices are another critical environmental factor. This includes establishing appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personnel. It also includes providing a proper amount of supervision.

A final factor affecting the environment is the agency's relationship with Congress and central oversight agencies such as OMB. Congress mandates the programs that agencies undertake and monitors their progress, and central agencies provide policy and guidance on many different matters.

Within Internal Control – Integrated Framework, discussions concerning the control environment involve a single organization. However, it is the task of the Department to have an all-encompassing control environment that connects all bureaus and agencies within the Department. Without cooperation between all organizations included in trust activities, the overall objective of safeguarding Indian assets cannot be met.

Risk Assessment

Internal control should provide for an assessment of the risks the agency faces from both external and internal sources. A precondition to risk assessment is establishment of clear, consistent agency objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, and forming a basis for determining how risks should be managed.

Management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entity-wide and activity level. Risk identification methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken. Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms are needed to identify and deal with any special risks prompted by such changes.

Control Activities

Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing an agency's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks to achievement of the entity's objectives. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Control activities occur at all levels and functions of the organization. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliation, performance reviews, maintenance of security, and the creation and maintenance of related records that provide evidence of execution of these activities as well as appropriate documentation.

There are certain categories of control activities that are common to all agencies. Examples include the following:

- Top level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions and events
- Accurate and timely recording of transactions and events
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

There are also control activities specific for information systems. There are two broad groupings of information systems control – general control and application control. General control applies to all information systems – mainframe, minicomputer, network, and end-user environments. It includes entity-wide security program planning, management, control over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance.

Application control is designed to cover the processing of data within the application software. It is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing.

Information and Communications

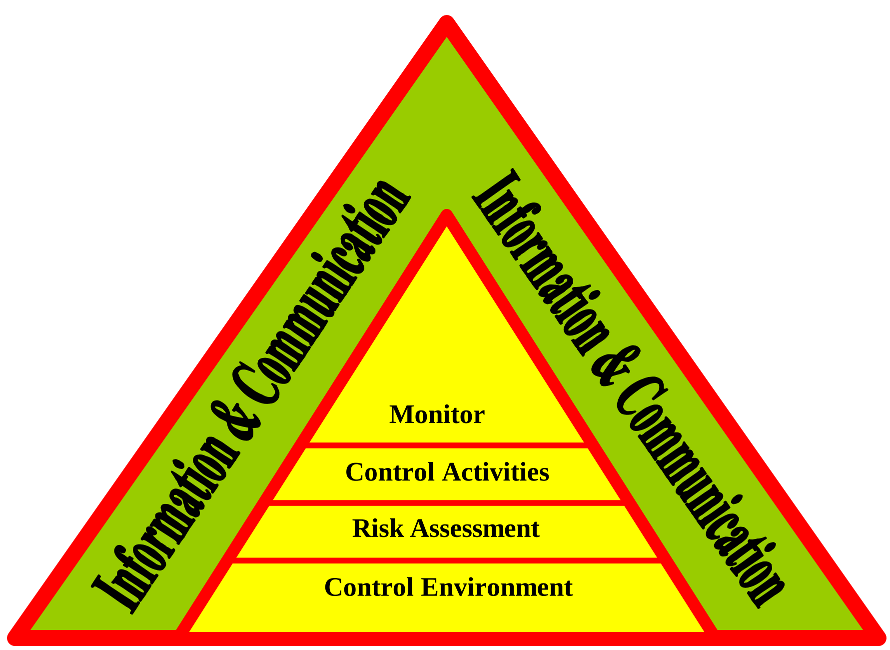
Information should be recorded and communicated to management and others in a form and within a time frame that enables them to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the trust activities at hand. They deal not only with internally generated data, but also information about external events, activities, and conditions necessary to allow informed decision making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the individual bureaus and between bureaus located in the Department. **All personnel must receive the clear message from *top management* that control responsibilities must be taken seriously**. They must understand their own role in the internal control system as well as how individual activities relate to the work of others. Not only must there be a means of communicating significant information upstream within each bureau, but there also needs to be effective communication with parties outside the bureaus, such as Indian tribes, allottees, and other agencies, departments, and branches of the federal government that are tasked with performing trust-related responsibilities.

Monitoring

Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to ensure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliation, self-evaluations, and other actions people take in performing their duties.

Separate evaluations of control are performed by outside parties, including the OTRM evaluation teams, the OIG, GAO, or independent auditors. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved within established time frames. Internal control deficiencies should be reported upstream to an appropriate level, with serious matters investigated and reported to the OST and the Secretary.

Internal Control Components



<u>Limitations of Internal Control</u>

No matter how well designed and operated, internal controls can provide only reasonable assurance as to the achievement of management's stated objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that human judgment in decision-making can be faulty, and that breakdown can occur because of such human failure as simple error or mistake. Controls can also be circumvented by the collusion of two or more people, or management may override the internal controls in place. Another limiting factor is the need to consider controls' relative costs and benefits.

<u>Internal Control is All Encompassing</u>

Everyone in the Department has individual responsibility for internal control. Management is responsible for an entity's entire internal control system. Since the chief executive officers of each bureau or agency are ultimately responsible for internal control of their respective organization, they should assume ***ownership*** of the control system. Financial and accounting officers are central to the way management exercises control, though all management personnel play important roles and are accountable for controlling their agency's control activities. Risk analysts contribute to the ongoing effectiveness of the internal control system, but do not have primary responsibility for establishing or maintaining it. The Secretary of the Interior and OST provide important oversight to the internal control system.

A number of external parties, such as Indian Tribes, allottees, etc., can contribute to the achievement of the agency objectives and provide information useful in effecting internal control. These external parties are not a part of nor are they responsible for the effectiveness of the agency's internal control system. Ultimate responsibility for implementation of an effective internal control system resides with upper management of the Department from the Secretary on down.

Implementation of Treadway Approach for Departmental Indian Trust Operations

The OTRM was created in 2000 to achieve several goals and milestones contained within the HLIP. The OTRM is part of the Department and was established as an independent organization within the OSTA. Part of the mission of OTRM is the establishment of a continuing risk management presence within the Department.

Indian trust risk management is a Departmental responsibility. Each organization bureau and office in the Department may have one or more objectives that are directly or indirectly related to the overall responsibility. Each agency in the Department is responsible for the management of objectives and risks associated with each objective.

The OTRM will systematically address current and historically documented internal control issues to ensure the resolution of cited deficiencies across the entire trust management spectrum within the Department. The OTRM will design and implement a comprehensive trust risk management program to monitor and evaluate the effectiveness of trust operations across the Department. The OTRM will control monitoring activities, including agency self-assessments, contracted evaluations, and evaluations conducted by its own teams. It will establish a review plan to conduct internal control evaluations, on a risk based schedule, of every location actively involved in Indian trust operations. ORM will conduct monitoring and oversight activities t hrough three levels of reviews and evaluations. Many of the reviews will need to be performed by field office program staff and others possibly on special assignments. To ensure consistency in approach, coverage, and reporting, a handbook for use by all organizations and staff assigned to conduct risk review will be published.

Risk Management Training Program

As identified in the HLIP, the Department is developing a training program to increase the efficiency and effectiveness of all employees in the Department that manage or have responsibility for Indian trust assets. This training will provide Departmental managers and employees having trust responsibilities with an awareness of various risks associated with managing the trust assets and methods to adequately manage those risks.

Objectives – To expose Departmental managers and other employees within the Department having Indian trust responsibilities to the concepts and practices of modern risk management and to standardize the application of internal controls over Indian trust assets.

Training Plan – The Department has contracted with Upper Mohawk, Inc. (Upper Mohawk) to assess training needs within the Department and to come up with an annual training plan to provide the needed training. Upper Mohawk has identified approximately 3,000 Departmental employees, including approximately 1,600 employees within the Bureau of Indian Affairs (BIA) needing various types of training. The needed training includes interpersonal skills, management skills, realty management, computer skills, trust management skills, and various other areas. Upper Mohawk will provide all required training and will determine the best method to deliver each course to Departmental trainees based on course content, quality, cost, trainee location, and travel needs.

The OTRM has identified various professional vendors with expertise in the risk management and internal controls areas that can provide Departmental employees with the latest “best practices” relating to risk management and internal controls as they relate to Indian trust assets. These vendors include the IIA, the Graduate School, USDA (Graduate School), Management Concepts, and other vendors. The OTRM is working with the vendors to tailor the risk management and internal control courses to meet Departmental needs and to offer the training at various Departmental sites. The OTRM will provide the information about these courses to Upper Mohawk with a strong recommendation that Upper Mohawk use the vendors to present these courses.

The OTRM believes that mid-level managers in the Department having Indian trust responsibility should initially be targeted for this training. It is anticipated that mid-level managers will attend a combination of formal and/or informal risk management training courses presented by the IIA, the Graduate School, and other professional entities. Upper Mohawk will have the responsibility for determining what training is actually provided and who actually provides such training.

The training identified by the OTRM will give Departmental managers the opportunity to:

- Gain a positive, firm, and broad-based understanding of internal control and control models.
- Analyze and evaluate existing or planned control systems.
- Design cost-effective control systems to minimize risks for business processes.
- Identify business objectives, risks, and the controls needed to mitigate risk.
- Learn and apply the most useful internal control categories and tools.
- Obtain a basic understanding of the who, why, and how of fraud as well as the role of business controls in preventing and detecting fraud.

Initial OTRM recommended training for Departmental managers consists of two courses each that the IIA and the Graduate School, offer. The IIA courses are:

(1) Value-added Business Controls: The Right Way to Manage Risk – the course covers the myths and reality of internal controls, current accepted control models and what control models really mean, a practical understanding of control, controls from a positive perspective, "hard" and "soft" controls in typical business processes, how to talk about internal controls to management, helping management "own" the controlling process, and various other aspects about controls.

(2) Assessing Risk: A Better Way to Audit – the course covers what risk assessment is, defines risk and the nature of risk in relation to business objectives, management's actions to manage and mitigate risk, how risk management fits into accepted control models, and implementing risk assessment in accepted control models.

The Graduate School courses are:

(1) Assessing Financial Related Activities and Controls – The course covers review of the control environment, safeguarding assets, compliance with laws and regulations, control risk assessment in performing financial audits, government requirements for control of financial and related support activities, application of control techniques with respect to objectives sought, formulating recommendations for needed improvements, and various other financial related controls.

(2) Management Accountability and Control (OMB Circular A-123) – The course covers the latest concepts and techniques to develop, evaluate, and report on systems of controls that meet the requirements of the FMFIA, OMB Circular A-123, and related requirements of the Chief Financial Officers Act and GPRA. The course also covers management accountability and control, the relationship of controls to program and service delivery and performance measurement and reporting, GAO and other management standards on controls and how they apply to government operations and programs, the key components in assessing controls, and applying risk assessment requirements and guidance for evaluating controls.

Some mid-level Departmental managers will attend the above courses in their formal setting, where the IIA presents its courses at various places and times throughout the country. Benefits of attending these formal courses include interaction with participants from private industry and other government agencies and the receipt of CPE credits to help meet educational requirements of various programs. However, the IIA can also provide these formal courses on-site for the Department for classes of up to 30 participants, and Upper Mohawk will make the determination of whether and/or where such training is provided.

It is anticipated that other managers not needing to know detailed risk management concepts but needing a basic understanding of risk and the management of risk will attend more informal condensed versions of the above IIA courses, which the IIA can present on-site for large audiences. While these classes will not confer CPE credits on those attending them, they will provide a basic understanding of risk and how to manage it. Upper Mohawk will make the determination of whether and/or where such training is provided.

To minimize travel costs for the Department related to risk management training, OTRM will provide Upper Mohawk with information that would allow the Department to provide the basic information contained in the above-noted IIA courses to various other Departmental employees via CD-ROM, DVD, and/or videotape format and/or by providing correspondence/website courses of risk management concepts.

Over time, OTRM anticipates providing Upper Mohawk with other courses offered by other vendors besides the IIA and the Graduate School that could provide some of the Department's needed risk management training, since various vendors offer differing courses in risk management.

Who Should Attend?

Upper Mohawk will determine who in the Department will attend all training courses.

Certification

When formal courses or acceptable alternates are completed, the vendor providing the training will issue a certificate to the employee attesting to satisfactory training completion.

Developing a Risk Management Plan

One of the prime objectives of program managers of Indian trust assets is to protect the assets from waste, theft, fraud, misuse and other risks. Simply stated, front line managers are the owners of the risks associated with the assets. The ownership of these risks is ultimately shared through out the management chain. Managers, as risk owners, can improve almost every aspect of their operational areas by understanding their risk responsibility and efficiently and effectively managing that risk.

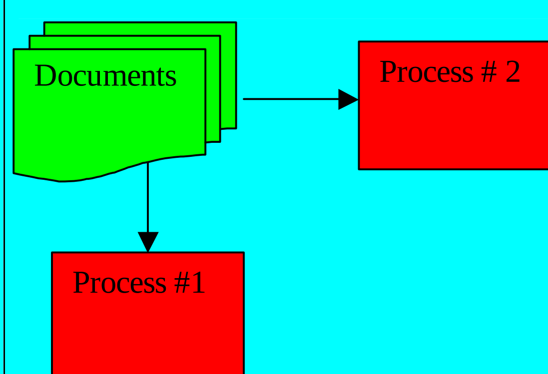
Assessing risks is part of the planning process when making decisions, solving problems and evaluating other business functions. What are risks? It is the probability that an event or action may adversely affect an Indian trust asset. The consequences of risks are tangible outcomes that can be measured by their severity and the likelihood of their occurrence. Risk assessment involves three primary steps: identifying the risks, measuring the risks and prioritizing the risks.

Risk management involves accepting a risk, minimizing a risk or rejecting a risk. All internal controls are designed to lower risks to acceptable levels. Internal controls either reduce risks or mitigate their consequences but do not totally eliminate risks. To establish a risk management program, you must understand what risks you have, be able to assess those risks and evaluate the effectiveness and efficiency of the internal controls.

Risk management is a dynamic and continually important business process. After being identified and refined by the Treadway Commission, businesses in many industries in the world accepted the COSO framework as the primary model for risk management plans. That model was further refined by the COCO report and the following example of a risk management plan will be a hybrid of the Treadway and COCO outlines.

<u>Identify Business Processes and Objectives</u>

Preparing a flowchart is a necessary part of identifying the critical points within any business process and also clarifies the different business objectives. Tools such as "Visio Pro" within the Microsoft Office 2000 Suite can help individuals learning how to flow chart within an operational department. Microsoft Word and other word processing or other software can be used for simple flowcharts. Generally, a flowchart is comprised of a graphical representation accompanied by a narrative explanation.

<table>
<tr><th>Flowchart Narrative</th><th>Graphics</th></tr>
<tr><td>In this simplified flowchart multiple copies of a document are delivered into two distinct processes.</td><td>
</td></tr>
</table>

Once the flowchart is prepared and the critical points within a business process and the business objectives have been identified, the risk assessment portion of the risk management process can begin.

Risk Assessment

When assessing risks several tools exist. However, there are no hard and fast assessment rules. Risks can be assessed based upon qualitative or quantitative measurements. Typically "Internal Control Questionnaires", meeting notes, or other types of interviews are the foundations for creating the narrative explanations that should accompany any risk assessment documents.

Identify Risk – Within any business process or department there will generally be only a few key objectives. Risks are associ ated with those objectives and activities and must be identified. The attached Risk Identification Model is one tool that may be used to identify risks.

Measure Risks – Once risks are identified they need to be measured. Using the attached Risk Factor Model might be one way to measure a risk. The model first assigns a percentage to the risk. This percentage is relative to all the other risks and the total should equal 100 percent. Secondly, the model assigns a descriptive scale to each risk. The low end of the scale has the least impact and the larger number has a greater impact. Notice that the even numbers are omitted forcing the rater to commit to the level of impact in a more definitive way. A "1" for example might mean, "So what", while a number "3" might be a serious problem. Either way the person rating the risk needs to make a real choice as to the true nature of the risk.

Prioritize Risks – Once the likelihood and severity of occurrence is identified, the risks can be ranked and prior itized in relationship to one another. To this point the risks have been assessed with out considering the related internal controls. This type of risk measurement is called "business risk" or "inherent risk" and is a good starting point for new risk assessments or when the internal controls have failed and auditors have found reoccurring problems. To this point both subjective and objective measurements have been made about each risk. These assessments work together and should be documented in notes and through out the risk management process.

Evaluate Control Activities – Once the risks have been identified and prioritized, the internal controls that help reduce these risks to acceptable levels can be evaluated. One internal control may affect more t han one risk and these types of controls that provide protection against multiple risks should be given special consideration since their breakdown may cause multiple problems. At this point internal control questionnaire forms and notes become important since you will want to re -compute both the "Risk Factor Model" and the "Risk Measurement and Priority Model" while considering the effect of the related internal controls.

The final product or the risk management plan would be a report identifying each r isk within a business process and assessments made regarding the related internal controls. The effectiveness of the risk management plan should be evaluated after an OIG or GAO audit and the internal controls modified as needed.

Risk Identification Model

Business Process ________________________

Business Objective	Business Risk	Asset	Operational Performance	Regulatory and Legal Issues	Information Systems	External & Internal Interests
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						

Risk Factor Model

Business Objective______________________ Internal Controls Considered Y / N

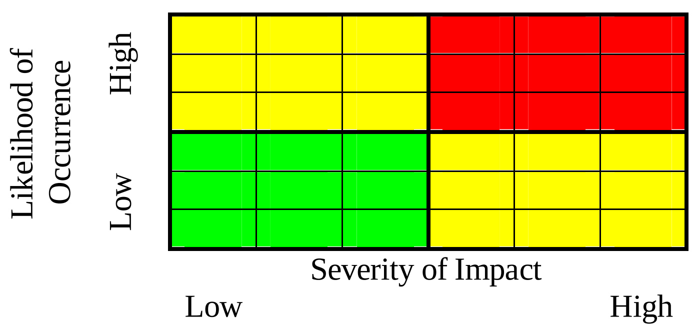
Business Risk	Weight (%)	Description of scale
		1.
		3.
		5.
		1.
		3.
		5.
		1.
		3.
		5.
		1.
		3.
		5.
		1.
		3.
		5.
		1.
		3.
		5.
		1.
		3.
		5.
	100%	

Risk Measurement and Priority Model

Business Objective_____________________ Internal Controls Considered Y / N

Business Risk	Weight (%)	Description of scale	Rank	Comment
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
	100%			

Each Risk might also be shown on the chart below to measure the importance in a different way. This chart would rank the risks that are highly likely to cause problems and if they occurred the effect would be severe in the red quadrant. While low risks would be in the green quadrant. As stated before, there aren't any hard and fast rules and risk management is a dynamic part of the decision making process.



Risk Control Model

Business Risk____________________

Risk	Importance of Risk	Risk Zone (Red, Yellow or Green)	Internal Controls Addressing this Risk	Impact of Controls

Management Control Plan Procedures

Assessing risk and setting up internal controls is just the beginning of establishing a program that will provide a reasonable assurance that I ndian trust assets are being properly controlled. The end of result of the risk assessment and implementation of internal controls is the continued review of the controls put in place for their continued effectiveness over time. Having a Management Contr ol Plan (MCP) that includes a Management Control Review (MCR) and a Corrective Action Plan (CAP) accomplishes that goal. Implementing these procedures also allows the organization to meet the reporting requirements of FMFIA concerning the reporting of int ernal controls effectiveness with the organization.

Management Control Plan

The MCP is a brief written plan summarizing the agency's risk assessments, planned action, and management control evaluations to be accomplished to provide reasonable assurance that controls are in place and working. A review of the MCP is performed by conducting a self-assessment called a MCR, which is a questionnaire that either validates or invalidates the effectiveness of the controls in place. The review is a detailed evaluation of management controls and is used to determine whether necessary controls are in place and producing the intended results.

Managers who have responsibility over a particular area of operations will conduct the MCR. Results will be submitted to a Management Control Administrator (MCA) who will summarize the results of all reviews Department wide and report to Congress as required by FMFIA.

Testing controls allows management to:

- Better understand the control environment
- Have confidence in the con trol system based on hard data
- Spot deficiencies within the control system
- Implement timely corrective measures as deficiencies are identified

The MCR will consist of document analysis, interviews, observations, questionnaires, and transaction testing a s required for the area being tested

Prior to performing a MCR, the MCA will request appropriate information from the Department under review and select sample items to use in testing the controls that are in place. The sample items selected will be iden tified on the testing aids that are distributed to the appropriate manager. The manager then completes the testing and summarizes the results during the quarter.

Corrective Action Plan

The CAP is a plan of action used to correct control deficiencies identified by the MCR.

Corrective Action Plans must:

- Report all management control deficiencies.
- Be written and specify the time frame, resources, and who is responsible for corrections.
- Provide for the periodic assessment of progress against the plans.
- Track the progress of corrections to ensure timely and effective results.
- Specify testing that will be done to ensure corrective actions accomplish their intended purpose.

If after performing the MCR no deficiencies have been identified, the manager will submit a memo to the MCA listing the MCRs performed and the results. The manager will include in the memo a statement of assurance as to the overall adequacy and effectiveness of the management controls.

For all deficiencies identified with the MCRs, perform the following:

- Document the deficiency on the MCR summary report.
- Determine the reason for the deficiency.
- Document the corrective action.
- On a quarterly basis, document any unresolved deficiencies, plans for correcting the deficiency, and report the status to the MCA.

Conclusion

This handbook provides the tools and references necessary for Departmental managers to develop the risk management/ internal control programs referred to in the September 29, 2000, memo from the Special Trustee. The handbook brings together the theory of risk management with the practical application as it relates to the Department. It is anticipated that the processes outlined in this handbook will provide managers with the information necessary to ensure that past mistakes are not repeated and that trust management and reform efforts are sustained.

Future editions of the handbook will include new developments that affect Indian trust asset management. The attachments that follow are included as resources and tools. Other tools can be obtained from the courses listed in the sections on training and from Internal Controls – An Integrated Framework.

Appendix A - Listing Of Primary Internal Controls

Internal control is a process influenced by agency personnel designed to accomplish financial, operational and/or regulatory compliance objectives. It is not a serial process where one component affects only the next but rather a multidirectional interactive process in which almost any component can and will influence another. There are five basic components of any internal control system, the Control Environment, Information and Communication, Control Activities, Risk Assessment and Monitoring. A well-designed internal control system is built into the general business practices and workflow and not simply added onto those procedures. The following list of Internal Control Procedures is not meant to be all-inclusive but rather an example of typical procedures.

Access to Equipment and Data Files : Since information is valuable and often confidential, it must be physically safeguarded against unauthorized access and intentional or unintentional damage. Access devices are designed so that only certain persons can operate them, passwords are used, data is encrypted, computer rooms are locked and protected against fire and heat, files are carefully handled and controlled, data is copied and stored in separate, offsite locations, and other similar procedures are followed.

Audit : The effectiveness of any internal control system must be monitored to be successful. Departmental reviews, quality control auditing, internal auditing and external auditing are the primary means of monitoring an internal control system.

Authorizations for Intended Actions : Allocating resources for future activities require management authorization to ensure the proper use of personnel, office equipment and other assets to avoid waste and minimize possible conflicting needs within an organization.

Approvals for Actions Taken : Many day-to-day activities have built-in segregation of duties and responsibilities and may only require an approval after an action has been taken as a final check and balance.

Commitment to Competence	:	Hiring, training and maintaining the technical skills of employees assigned to complete critical tasks helps eliminate errors in judgment and mistakes due to ignorance. Even the best designed internal control systems or business practices will fail if an employee lacks the skills and training needed to complete a given task.
Communication of the Importance of Internal Controls	:	Agencies can set a tone and influence the behavior of its employees when the highest levels of management stress the importance of the internal controls. Without high-level support, and commitment toward internal control efforts, internal reviews and other self-checks become ineffective.
Documentation of Workflow	:	In larger agencies, or those whose work must be integrated with work completed by another operating unit, flow charting or otherwise documenting the workflow is a key element in maintaining internal control. Critical points where two or more non-integrated information systems must agree or where potential control problems might occur must be identified and control procedures incorporated into the workflow at those points.
Duplication of Activities	:	Since the cost of duplicating critical activities is prohibitive, a good internal control system employs a separation of activities into interrelated segments, which must mesh at critical points within a process. If one segment is off, the other parts should reflect the imbalance.
Closure of Identified Problems	:	The monitoring of any internal control system must include the final resolution of audit findings and other identified weaknesses in a timely manner. Resolving these issues not only strengthens the internal control system but also reinforces management's commitment to and support of the system.
Reports	:	Reports of past events serve as the most significant control by management of its operations. These reports must be timely, complete, concise and accurate. The reports must also be impartial and present an accurate picture of what has actually occurred.
Separation of Duties	:	Separating the operational responsibility from the accountability insures that the same individual is not authorizing and performing a task and also responsible for reporting the results.

Supervision of Critical Activities : Management must identify the points within the Agenc y's operating processes that are most critical and routinely supervise these activities to help ensure the Agency's objectives are being met in a competent manner.

Physical Control and Safe Guards of Assets : All resources have some value and protecting a particular asset from theft or misuse helps insure that the particular asset will be available for its intended used when needed.

Data Input Controls : Input controls are essential to assure that only authorized data is entered into the computer and th at such data is correct. Among the more important types of input controls are; "Key Verification" that allows the typist to re -key in entries to check the data for correctness, and the use of "Check Digits" and "Control Totals" to verify that all of the data put into the computer is processed.

Data Output Controls : With the heightened reliability of today's Electronic Data Processing systems, and reliable Input controls, the need for Output controls is limited to error listings and the physical control o f the reports that are generated.

Appendix B – Example of Identifying and Measuring Risk

Risk Identification Model

Business Process: Provide Legal Services For Native Americans

	Business Objective	Business Risk	Asset	Operational Performance	Regulatory and Legal Issues	Information Systems	External & Internal Interests
1.	Comply With Applicable Laws, Regulations, & Policies Governing Legal Services For Native Americans	Loss Of Revenue From Noncompliance: Civil and Criminal Penalties	X	X	X		X
		Improper unauthorized sources of funds					
2.	Keep Within Legal Services Budget	Overspend on legal services and legal services contracts		X	X		X
		Negative financial impact on other budgeted programs					
3.	Provide effective, timely, efficient legal services to Native Americans	Inadequate, untimely. Inefficient legal services provided to Native Americans.		X			X
		Overpaying for contract legal services					

Risk Factor Model

Business Objective: Comply With Applicable Laws, Regulations, & Policies Governing Legal Services For Native Americans

Business Risk: Loss Of Revenue From Noncompliance: Civil and Criminal Penalties

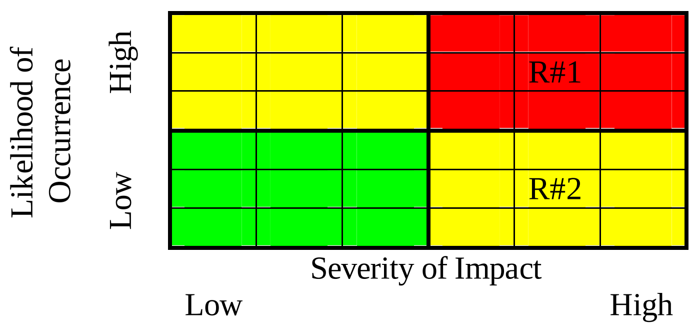
Risk Factor	Weight (%)	Description of scale
Lack of Legal Services Employee Training in applicable laws, regulations, and policies	30	1. Low Risk
		3. Medium Risk
		5. High Risk
Inadequate resources provided to Legal Services Department for Compliance	50	1. Low Risk
		3. Medium Risk
		5. High Risk
Incorrect Reporting	20	1. Low Risk
		3. Medium Risk
		5. High Risk
	100%	

Risk Measurement and Priority Model

Business Objective: Comply With Applicable Laws, Regulations, & Policies Governing Legal Services For Native Americans   Internal Controls Considered? Y / N

Business Risk	Weight (%)	Description of scale	Rank	Comment
1. Loss Of Revenue From Noncompliance: Civil and Criminal Penalties	60	5	3.0	High Risk/High Impact
2. Improper unauthorized sources of funds	40	3	1.2	Low Risk/High Impact
	100%			

Each risk is also shown on the chart below to measure the importance in a different way. This chart would rank the risks that are highly likely to cause problems and if they occurred. The effect would be severe in the red quadrant, while low risks would be in the green quadrant. There aren't any hard and fast rules, as Risk Management is a dynamic part of the decision making process.



Risk Control Model

Business Risk: Loss Of Revenue From Noncompliance: Civil and Criminal Penalties

Risk	Importance of Risk	Risk Zone (Red, Yellow or Green)	Internal Controls Addressing this Risk	Impact of Controls
Loss Of Revenue From Noncompliance Civil and Criminal Penalties	High	Red	1. Periodic training of employees	High
			2. Quality Control Checklists	Medium
			3. Periodic compliance external reviews	High
Improper unauthorized sources of funds	Medium	Yellow	1. Separation of Duties in budgeting, obligating, and spending funds	High
			2. Periodic external reviews of funding sources and spending	High

Appendix C – Abbreviations and References

AAA	Accounting and Auditing Act of 1950
FMFIA	Federal Managers Financial Integrity Act of 1982.
AITFMRA	American Indian Trust Fund Management Reform Act of 1994
OIG	Office of Inspector General
SOL	Office of the Solicitor.
DOI	Department of the Interior
OMB	Office of Management and Budget
GAO	General Accounting Office
FFMIA	Federal Financial Management Improvement Act of 1996.
GPARA	Government Performance and Results Act of 1993
CFO	Chief Financial Officers Act of 1990
OST	Office of the Special Trustee for American Indians.
OTFM	Office of Trust Funds Management
BIA	Bureau of Indian Affairs

Appendix D – List of Websites Related to Indian Trust Assets

http://grad.usda.gov/Catalog/index.cfm
United States Department of Agriculture graduate school site

http://www.managementconcepts.com/main/dhtml_index.asp
Management Concepts training and publication website

http://www3.theiia.org/
Institute of Internal Auditors website

http://www.coso.org/
Committee of sponsoring organizations of the Treadway Commission(COSO){AICPA, American Institute of Certified Public Accountants}

http://www.whitehouse.gov/textonly/OMB/circulars/a123/a123.html
OMB Circular A-123 revised, Management Accountability and Control

http:// www.whitehouse.gov/textonly/OMB/circulars/a127/a127.html
OMB Circular A-127 Financial Management Systems

http://www.ost.doi.gov/reform.html
5 Year strategic plan to implement the reforms required under the American Indian Trust Mgmt Reform, First High Level Implementation Plan (July 1998), and Revised and updated High Level Implementation Plan February 2000

http://elips.doi.gov/elips/
Secretary provides guidance to employees of DOI who are responsible for carrying out the secretary's trust responsibility as it pertains to Indian trust assets.

http://www.ost.doi.gov/Reform -pdf/(F)testa/SLONAK.P DF
Testimony provided by Special Trustee Tom Slonaker at a Senate Indian Affairs hearings in North Dakota on Sept.1, 2000

http://www.npr.gov/library/misc/cfo.html
Chief Financial Officers Act

http://www.fda.gov/oc/reform/fmfia2/ffiasmg.htm
FDA Management Control Program for the integrity act.

http://thomas.loc.gov/
Thomas – Legislative Information on the Internet

http://rmis.com/
Risk Management Internet Services.

Appendix E – The Federal Managers' Financial Integrity Act of 1982

P.L. 97-255 -- (H.R. 1526)

Federal Managers Financial Integrity Act of 1982

September 8, 1982

An Act to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Sec.1. This Act may be cited as the "Federal Managers' Financial Integrity Act of 1982".

Sec.2. Section 113 of the Accounting and Auditing Act of 1950 (31 U .S.C.66a) is amended by adding at the end thereof the following new subsection:

(d) --

(1) --

(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

(i) obligations and costs are in compliance with applicable law

(ii) funds, property, and other assets are safeguarded agai nst waste, loss, unauthorized use, or misappropriation; and

(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

(2) By December 31, 1982 the Director of the Office of Mana gement and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of par agraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.

(3) By December 31, 1983, and by December 31 of each succeeding year, the head of each executive a gency shall, on the basis of an evaluation conducted

in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement --

(A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or

(B) that such systems do not fully comply with such requirements.

(4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

(5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is --

(A) specifically prohibited from disclosure by any provision of law; or

(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs, such information shall be deleted prior to the report or statement being made available to the public".

Sec.3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C.11), is amended by adding at the end thereof the following new subsection:

(k) --

(1) The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1983, a separate statement, with respect to each department and establishment, of the amounts of appropriations requested by the President for the Office of Inspector General, if any, of each such establishment or department.

(2) At the request of a committee of the Congress, additional information concerning the amount of appropriations originally requested by any office of Inspector General, shall be submitted to such committee".

Sec.4. Section 113(b) of the Accounting and Auditing Act of 1950 (31 U.S.C.66a(b)), is amended by adding at the end thereof the following new sentence:

"Each annual statement prepared pursuant to subsection (d) of this section shall include a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of this Act.".

Approved September 8, 1982.

http://web.deskbook.osd.mil/data/001LPDOC.DOC

Appendix F – Department Manual

Department of the Interior
Departmental Manual

Effective Date	:	2/7/00
Series	:	Financial Management
Part 340	:	Management Accountability and Control
Chapter 1	:	General Policy and Responsibilities
Originating Office	:	Office of Financial Management

340 DM 1

1.1 **Purpose**.

A. Objective. This Chapter provides Department of the Interior (Department) policies and guidelines for bureaus and offices in complying with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This policy, for internal use only, is designed to assist bureaus in improving the accountability and effectiveness of their programs and operations management controls. The major focus of the policies is the establishment, assessment, correction, and reporting on management controls. Bureaus have the discretion, where necessary, to supplement this policy guidance by developing additional bureau-specific instructions for use within the bureau.

Policy provided in this Part is intended to serve as a general framework for the Department's Management Control Program. Periodically the Office of Financial Management (PFM) issues specific guidance regarding the Department's Management Control Program.

B. Scope. All bureaus and Departmental offices with program and functional activities are to comply with this policy, except offices whose primary function is the issuance of policy. The subject of management control of funds is governed by another DM Chapter, 328 DM 1-3.

1.2 Authority and Background.

A. General. The Congress, Office of Management and Budget (OMB), and General Accounting Office (GAO) have directed attention to the need for agencies to establish and maintain sound management control systems as a primary means of providing greater accountability, effectiveness and efficiency in achieving program goals and objectives and in preventing fraud, waste, and mismanagement. The Department promotes the continuous monitoring of management controls as a part of daily program and operation management, as a means of strengthening management accountability, enhancing and improving program performance and operations.

The FMFIA and OMB Circular A-123 require the agency head to conduct an ongoing review process of controls and to report annually on the adequacy of agency management and accounting control systems. Under authority provided by the Government Management Reform Act (GMRA), the Department's annual assurance on compliance with the FMFIA is incorporated into the Department's Accountability Report. The Chief Financial Officers (CFO) Act and Government Performance and Results Act (GPRA) reinforce the need for effective management controls. These Acts also call for the development of program performance indicators to monitor management's success in reaching program goals and desired outcomes. Department managers are to establish environments where management controls are understood, encouraged, practiced, and implemented.

B. Authority. The basic authority for establishing and maintaining agency controls is vested in the Accounting and Auditing Act of 1950 (31 U.S.C. 3512), as amended by the FMFIA. Section 113 of the Accounting and Auditing Act of 1950 requires the head of each agency to establish and maintain systems of management controls for all agency programs, organizations, and functions. The Act also stipulates that accounting systems should conform to Federal accounting standards and related requirements. The CFO Act identifies management control related activities as a primary responsibility of the Department's CFO.

The following four statutes, two OMB Circulars, and GAO Internal Control Standards were used to prepare this policy:

(1) Federal Managers' Financial Integrity Act of 1982,
(2) Federal Financial Management Improvement Act of 1996 (FFMIA),
(3) Government Performance and Results Act of 1993,
(4) Chief Financial Officers Act of 1990,
(5) OMB Circular A-123 Revised, Management Accountability and Control,
(6) OMB Circular A-127 Financial Management Systems, and
(7) GAO Standards for Internal Control in the Federal Government.

1.3 Policy.

A. General. Bureaus will establish, maintain, evaluate, improve, and report on their systems of program and operation controls. These systems of control should constitute the full range of controls necessary to assist managers in reaching program goals and objectives, and in using Government resources efficiently and effectively. All levels of management will involve themselves in assuring the effectiveness and adequacy of controls. Also, all systems of management and accounting controls will be evaluated on an ongoing basis, and deficiencies, when detected, will be promptly corrected. The results of evaluations must be documented, maintained and made available upon request to the Office of Inspector General (OIG), GAO or PFM.

B. Control Environment. Each bureau should establish a control-conscious environment. This environment should provide a disciplined atmosphere in which managers are aware of the need to establish systematic controls, monitor their application, and review periodically their effectiveness. The control environment should encourage employee awareness of the existence of controls and their individual responsibilities in the development and implementation of controls.

1.4 Responsibilities.

A. General. All managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas. Effective execution of management controls requires the utmost coordination and cooperation from all segments of the Department.

B. Department.

(1) The Department's Management Control and Audit Follow-up Council (Council) comprised of the Assistant Secretary - Policy, Management and Budget/Chief Financial Officer (Chair), Inspector General (ex officio), Solicitor, and Program Assistant Secretaries, is responsible for the following:
(a) overseeing Departmental FMFIA policy and reporting processes,
(b) establishing priorities in the correction and reporting of program and operation material weaknesses and accounting material non-conformances,
(c) ensuring that appropriate funding for correction of the identified material weaknesses and material non-conformances is requested in the budget process, and
(d) emphasizing the early warning of potential management control deficiencies.

The Council meets periodically (usually semiannually) with bureau and office heads to discuss their respective management control program and plans, identification and correction of program and operation material weaknesses and accounting non-conformances.

(2) The Assistant Secretary - Policy, Management and Budget/CFO has the primary responsibility for managing the Department's compliance with OMB Circulars A-123 and A-127, the FMFIA, the CFO Act, the FFMIA, and the GPRA.

(3) PFM is responsible for: (a) providing staff assistance to the Council; (b) recommending management control policies and procedures; (c) providing oversight and guidance to the bureaus concerning the review, evaluation, and maintenance of effective controls; (d) managing, directing, and evaluating the Department's reporting under OMB

Circulars A-123 and A-127, the FMFIA, the FFMIA, and the CFO Act.

(4) The Office of Acquisition and Property Management (PAM) is responsible for developing and issuing control evaluation guidelines for the acquisition, Federal assistance and property management functional areas, assessing the results of bureau control evaluations in these areas, and providing to PFM annually a summary assessment of the adequacy of bureau controls in these functional areas. PAM is also responsible for overseeing, monitoring, and assessing and recommending for approval to PFM the completion of bureau corrective action plans addressing acquisition and property management material weaknesses.

(5) The Office of Information Resources Management (PIR) is responsible for developing and issuing control evaluation guidelines for conducting reviews of information technology general support systems and major applications; assessing the results of bureau control evaluations in these areas; and providing to PFM annually a summary assessment of the adequacy of bureau controls in these areas.

(6) The Department's Office of Environmental Policy and Compliance, Office of Personnel Policy, Office of Managing Risk and Public Safety, Office for Equal Opportunity, Office of Budget , and PFM are responsible for issuing guidance to assist bureaus in conducting control evaluations of their respective functional areas.

(7) The Office of Planning and Performance Management (PPP) is responsible for developing and issuing guidelines on the preparation of strategic plans, annual performance plans, and annual performance reports. Guidelines include using management control reviews to fulfill GPRA requirements for program evaluations and data verification and validation. PPP also is responsible for review and clearance of GPRA documents prior to publication, and collaborates with PFM on the selection of GPRA goals and measures for the accountability report.

(8) The OIG is responsible for performing routine evaluations of management controls within the scope of internal audits, as part of the OIG overall program of audits and investigations, and reporting the results in its audit reports. In addition, the OIG annually reviews bureaus' administrative and accounting controls as part of its financial statement audits.

C. The Solicitor (SOL), Inspector General, and Program Assistant Secretaries. The Department's Council has proven to be an effective oversight forum for addressing and resolving management control and audit follow-up program issues. The SOL, OIG, and Program Assistant Secretaries are encouraged to establish similar management control and audit follow-up councils or oversight groups in their respective offices to coordinate and monitor the management control and audit follow-up programs. Such councils or oversight groups at a minimum should be responsible for:

(1) institutionalizing the management control process within their organizations,

(2) establishing priorities in identifying, correcting and reporting of management control material weaknesses and accounting non-conformances,
(3) ensuring that funding to correct identified deficiencies is requested in the budget process, and
(4) establishing a quality assurance process that permits the responsible official to provide reasonable assurance to the Secretary of the Interior (Secretary) that the objectives of the FMFIA are being achieved.

D. Bureau Heads. Bureau heads and/or senior-level management officials are responsible for establishing and maintaining the system of management control within their bureaus. This includes determining that the system of control is consistent with standards prescribed in OMB Circular A-123, which are drawn in large part from GAO's Standards for Internal Control in the Federal Government. This also includes determining that the systems of control are functioning as intended; properly documented, modifying the control systems, as appropriate, for changes required; and ensuring that the type, number and quality of control evaluations conducted are sufficient to provide assurance in disclosing the existence of any management control weakness and/or accounting systems non-conformance.

Bureau heads are also responsible for:

(1) determining on an annual basis which programs or administrative functions should be subject to a formal review in order to supplement management's judgment as to the adequacy of management controls;
(2) allocating adequate resources to evaluate their systems of control;
(3) developing detailed procedures, documentation, training, and reporting requirements necessary to review, establish, maintain, test, improve, and report on control systems within their bureau programs and operations;
(4) reporting to the Council, in consultation with their Assistant Secretary, management control deficiencies identified in audit reports, internal reviews, and from other sources that have the potential of meeting the Departmental material weakness criteria;
(5) ensuring timely correction and validation of all identified program and operation deficiencies whether material and/or nonmaterial; and
(6) ensuring management control guidelines issued by PAM and PIR are implemented.

Bureau heads should also specify employee accountability. Program specific management control elements and standards are to be included in all managers' performance evaluations.

E. Program and Other Managers. These management officials are responsible for the establishment and evaluation of management controls within their respective assigned program (s) or operation area(s).

F. Management Control Coordinators. Management control coordinators (MCCs) are the individuals designated by each bureau head or assistant secretary to coordinate and facilitate compliance with the FMFIA and relevant guidance issued by PFM, PAM and PIR. Each bureau MCC or alternate is responsible for coordinating and directing the bureau control evaluation process, advising the bureau head on the operation of the bureau's management control program, the status of planned actions to correct deficiencies, and ensuring adherence to the Departmental management control program guidance. Bureau MCCs also have the discretion to develop any supplemental procedures required to evaluate the effectiveness of bureau control systems and to validate the completion of corrective actions through testing or other means.

G. Dissemination of Information. PFM's home-page for Management Accountability and Control includes (1) a current year schedule of management control program key action dates, (2) current year guidelines, and (3) management control summary information from the Department's Accountability Report such as a listing of open material weaknesses and material accounting non-conformances, and scheduled completion dates. This information is updated periodically. The web site address for accessing the PFM's home-page is www.doi.gov/pfm.

2/7/00 #3294
Replaces 6/7/93 #2976

(Must save this file to Disk when prompted.)
http://elips.doi.gov/elips/wp_docs/3294.WP

Appendix G – The Federal Financial Management Improvement Act of 1996

[[Page 110 STAT. 3001]]

*Public Law 104-208 104th Congress
An Act Making omnibus consolidated appropriations for the fiscal year ending September 30, 1997, and for other purposes. «NOTE: Sept. 30, 1996 - [H.R. 3610]»

Be it enacted by the Senate and House of Representatives of the United States of America «NOTE: Omnibus Consolidated Appropriations Act, 1997.» in Congress assembled,...

TITLE VIII--FEDERAL FINANCIAL «NOTE: Federal Financial Management Improvement Act of 1996. 31 USC 3512 note.» MANAGEMENT IMPROVEMENT

SEC. 801. SHORT TITLE

This title may be cited as the "Federal Financial Management Improvement Act of 1996."

SEC. 802. «NOTE: 31 USC 3512 note.» FINDINGS AND PURPOSES.

(a) Findings.--The Congress finds the following:

(1) Much effort has been devoted to strengthening Federal internal accounting controls in the past. Although progress has been made in recent years, Federal accounting standards have not been uniformly implemented in financial management systems for agencies.

(2) Federal financial management continues to be seriously deficient, and Federal financial management and fiscal practices have failed to--
  (A) identify costs fully;
  (B) reflect the total liabilities of congressional actions; and
  (C) accurately report the financial condition of the Federal Government.

(3) Current Federal accounting practices do not accurately report financial results of the Federal Government or the full costs of programs and activities. The continued use of these practices undermines the Government's ability to provide credible and reliable financial data and encourages already widespread Government waste, and will not assist in achieving a balanced budget.

(4) Waste and inefficiency in the Federal Government undermine the confidence of the American people in the government and reduce the federal Government's ability to address vital public needs adequately.

(5) To rebuild the accountability and credibility of the Federal Government, and restore public confidence in the Federal

[[Page 110 STAT. 3009-390]]

Government, agencies must incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems so that all the assets and liabilities, revenues, and expenditures or expenses, and the full costs of programs and activities of the Federal Government can be consistently and accurately recorded, monitored, and uniformly reported throughout the Federal Government.

(6) Since its establishment in October 1990, the Federal Accounting Stan dards Advisory Board (hereinafter referred to as the "FASAB") has made substantial progress toward developing and recommending a comprehensive set of accounting concepts and standards for the Federal Government. When the accounting concepts and standards developed by FASAB are incorporated into Federal financial management systems, agencies will be able to provide cost and financial information that will assist the Congress and financial managers to evaluate the cost and performance of Federal programs an d activities, and will therefore provide important information that has been lacking, but is needed for improved decision making by financial managers and the Congress.

(7) The development of financial management systems with the capacity to support these sta ndards and concepts will, over the long term, improve Federal financial management.

(b) Purpose--The purposes of this Act are to —

(1) provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards througho ut the Federal Government;

(2) require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;

(3) increase the accountability and credibility of federal financial management;

(4) improve performance, productivity and efficiency of Federal Government financial management;

(5) establish financial management systems to support controlling the cost of Federal Government;

(6) build upon and complement the Chief Financial Officers Act of 1990 (Public Law 101-576; 104 Stat 2838), the Government Performance
and Results Act of 1993 (Publ ic Law 103-62 107 Stat. 285) and the Government Management Reform Act of 1994

(Public Law 103-356; 108 Stat. 3410); and (7) increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of r esources to results of activities.

SEC. 803. «NOTE: 31 USC 3512 note.» IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS.

(a) In General.--Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

(b) Audit Compliance Finding.-

[[Page 110 STAT. 3009-391]]

(1) In general.--Each audit required by section 3521(e) of title 31, United States Code, shall report whether the agency financial management systems comply with the requirements of subsection

(2) Content of Reports. --When the person performing the audit required by section 3521(e) of title 3 1, United States Code, reports that the agency financial management systems do not comply with the requirements of subsection (a), the person performing the audit shall include in the report on the audit -

(A) the entity or organization responsible for the fina ncial management systems that have been found not to comply with the requirements of subsection (a);

(B) all facts pertaining to the failure to comply with the requirements of subsection (a), including—

(i) the nature and extent of the noncompliance including areas in which there is substantial but not full compliance;

(ii) the primary reason or cause of the noncompliance;

(iii) the entity or organization responsible for the non - compliance; and

(iv) any relevant comments from any responsible officer or employee; and (C) a statemen t with respect to the recommended remedial actions and the time frames to implement such actions.

(c) Compliance Implementation.-

(1) Determination.--No later than the date described under paragraph (2), the Bead of an agency shall determine whether the financial management systems of the agency comply with the requirements of subsection (a) . Such determination shall be based on—

(A) a review of the report on the applicable agency - wide audited financial statement
(B) any other information the Head of the agency considers relevant and appropriate

(2) Date of determination. --The determination under paragraph (1) shall be made no later than 120 days after the earlier of —
(A) the date of the receipt of an agency -wide audited financial statement; or
(B) the last day of the fiscal year fo llowing the year covered by such statement.

(3) Remediation plan.—
(A) If the Head of an agency determines that the agency's financial management systems do not comply with the requirements of subsection (a), the head of the agency, in consultation with the Director, shall establish a remediation plan that shall include resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance.
(B) If the determination of the head of the agency differs from the audit compliance findings required in subsection (b), the Director shall review such determinations and provide a report on the findings to the appropriate committees of the Congress.

[[Page 110 STAT. 3009-392]]

(4) Time period for compliance. --A remediation plan shall bring the agency's financial management systems into substantial compliance no later than 3 years after the date a determination is made under paragraph (1), unless the agency, with concurrence of the Director —
(A) determines that the agenc y's financial management systems cannot comply with the requirements of subsection (a) within 3 years
(B) specifies the most feasible date for bringing the agency's financial management systems into compliance with the requirements of subsection (a); and
(C) designates an official of the agency who shall be responsible for bringing the agency's financial management systems into compliance with the requirements of subsection (a) by the date specified under subparagraph (B).

SEC. 804. «NOTE: 31 USC 3512 note.» REPOR TING REQUIREMENTS.

(a) Reports by the Director. --No later than March 31 of each year, the Director shall submit a report to the Congress regarding implementation of this Act. The Director may include the report in the financial management status report and th e 5-year financial management plan submitted under section 3512 (a) (1) of title 31, United States Code.

(b) Reports by the Inspector General --Each Inspector General who prepares a report under section 5(a) of the Inspector General Act of 1978 (5 U.S.C. App.) shall report to Congress instances and reasons when an agency has not met the intermediate target dates established in the remediation plan required under section 3(c). Specifically the report shall include -
  (1) the entity or organization responsible for the non-compliance;
  (2) the facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non -compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and
  (3) a statement of the remedial actions needed to comply.

(c) Reports by the Comptroller General. --No later than October 1, 1997, and October 1, of each year thereafter, the Comptroller General of the United States shall report to the appropriate committees of the C ongress concerning —
  (1) compliance with the requirements of section 3(a) of this Act, including whether the financial statements of the Federal Government have been prepared in accordance with applicable accounting standards; and
  (2) the adequacy of applicable accounting standards for the Federal Government.

SEC. 805. «NOTE: 31 USC 3512 note.» CONFORMING AMENDMENTS.

(a) Audits by Agencies.--Section 3521(f) (1) of title 31, United States Code, is amended in the first sentence by inserting "and the Controller of the Office of Federal Financial Management" before the period.
(b) Financial Management Status Report.--Section 3512 (a) (2) of title 31, United States Code, is amended by —
  (1) in subparagraph (D) by striking "and' after the semicolon;
  (2) by redesignating subparagraph (E) as subparagraph (F); and

[[Page 110 STAT. 3009-393]]

  (3) by inserting after subparagraph (D) the following: (E) a listing of agencies whose financial management systems do not comply substantially with the requirements of Section 3(a) the Federal F inancial Management Improvement Act of 1996, and a summary statement of the efforts underway to remedy the noncompliance; and'

(c) Inspector General Act of 1978. --Section 5(a) of the Inspector «NOTE: 5 USC app.» General Act of 1978 is amended -
  (1) in paragraph (11) by striking "and" after the semicolon;
  (2) in paragraph (12) by striking the period and inserting and"; and

(3) by adding at the end the following new paragraph:(13) the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996."

SEC. 806. «NOTE: 31 USC 3512 note.» DEFINITIONS.

For purposes of this title:

(1) Agency.--The term "agency" means a department or agency of the United States Government as defined in section 901(b) of title 31, United States Code.
(2) Director.--The term "Director" means the Director of the Office of Management and Budget.
(3) Federal Accounting Standards. --The term "Federal accounting standards" means applicable accounting principles, standards, and requirements consistent with section 902 (a) (3) (A) of title 31, United States Code.
(4) Financial management systems.--The term "financial management systems' ' includes the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.
(5) Financial system.--The term "financial system' includes an information system, comprised of one or more applications, that is used for—
    (A) collecting, processing, maintaining, transmitting, or reporting data about financial events;
    (B) supporting financial planning or budgeting activities;
    (C) accumulating and reporting costs information; or
    (D) supporting the prepara tion of financial statements.

(6) Mixed system.--The term "mixed system' means an information system that supports both financial and non -financial functions of the Federal Government or components thereof.

SEC. 807. «NOTE: 31 USC 3512 note.» EFFECTIVE DATE.

This title shall take effect for the fiscal year ending September 30, 1997.

http://www.financenet.gov/financenet/fed/legis/ffmia96.htm

Appendix H – Government Performance and Results Act of 1993

OMB Home

Government Performance Results Act of 1993

Contents

[Although there are minor coding and format problems that resulted from the translation of the original code into ASCII, these should not interfere with the use of this file to gain an understanding of the content of the law.]

One Hundred Third Congress

of the

United States of America

Begun and held at the City of Washington on Tuesday, the fifth day of January, one thousand nine hundred and ninety-three.

An Act

To provide for the establishment of s trategic planning and performance measurement in the Federal Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Government Performance and Results Act of 1993".

SECTION 2. FINDINGS AND PURPOSES.

(a) Findings.-The Congress finds that -

(1) waste and inefficiency in Federal programs undermine the confidence of the American people in the Government and reduces the Federal Government's ability to address adequately vital public needs;
(2) Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance; and
(3) congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.

(b) Purposes.-The purposes of this Act are to -

(1) improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results;
(2) initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress;
(3) improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction;
(4) help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality;
(5) improve congressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending; and
(6) improve internal management of the Federal Government.

SECTION 3. STRATEGIC PLANNING.

Chapter 3 of title 5, United States Code, is a mended by adding after section 305 the following new section:

Sec. 306. Strategic plans

(a) No later than September 30, 1997, the head of each agency shall submit to the Director of the Office of Management and Budget and to the Congress a strategic p lan for program activities. Such plan shall contain-

(1) a comprehensive mission statement covering the major functions and operations of the agency;
(2) general goals and objectives, including outcome -related goals and objectives, for the major functions and ope rations of the agency;
(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;
(4) a description of how the performance goals included in the plan required by section 1115(a) of title 31 shall be related to the general goals and objectives in the strategic plan;
(5) (5) an identification of those key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives; and
(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program eva luations.

(b) The strategic plan shall cover a period of not less than five years forward from the fiscal year in which it is submitted, and shall be updated and revised at least every three years.

(c) The performance plan required by section 1115 of t itle 31 shall be consistent with the agency's strategic plan. A performance plan may not be submitted for a fiscal year not covered by a current strategic plan under this section.

(d) When developing a strategic plan, the agency shall consult with the Congress, and shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan.

(e) The functions and activities of this section shall be considered to be inherently Governmental functions. The dr afting of strategic plans under this section shall be performed only by Federal employees.

(f) For purposes of this section the term 'agency' means an Executive agency defined under section 105, but does not include the Central Intelligence Agency, the General Accounting Office, the Panama Canal Commission, the United States Postal Service, and the Postal Rate Commission.".

SECTION 4. ANNUAL PERFORMANCE PLANS AND REPORTS.

(a) Budget Contents and Submission to Congress. -Section 1105(a) of title 31, United States Code, is amended by adding at the end thereof the following new paragraph:

(29) beginning with fiscal year 1999, a Federal Government Performance plan for the overall budget as provided for under section 1115.".

(b) Performance Plans and Reports.-Chapter 11 of title 31, United States Code, is amended by adding after section 1114 the following new sections:

Sec. 1115. Performance plans

(a) In carrying out the provisions of section 1105(a)(29), the Director of the Office of Management and Budget shall require each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency. Such plan shall -

(1) establish performance goals to define the level of performance to be achieved by a program activity;
(2) express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b);
(3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;
(4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels,and outcomes of each program activity;
(5) provide a basis for comparing actual program results with the established performance goals; and
(6) describe the means to be used to verify and validate measured values.

(b) If an agency, in consultation with the Director of the Office of Management and Budget, determines that it is not feasible to express the performance goals for a particular program activity in an objective, quantifiable, and measurable form, the Director of the Office of Management and Budget may authorize an alternative form. Such alternative form shall-

(1) include separate descriptive statements of -
(A)(i) minimally effective program, and
(ii) a successful program, or
(B) such alternative as authorized by the Director of the Office of Management and Budget, with sufficient precision and in such terms that would allow for an accurate, independent determination of whether the program activity's performance meets the criteria of the description; or

(2) state why it is infeasible or impractical to express a performance goal in any form for the program activity.

(c) For the purpose of complying with this section, an agency may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation for the agency.

(d) An agency may submit with its annual performance plan an appendix covering any portion of the plan that -

(1) is specifically authorized under criteria established by an Executive order to be kept secret in the interest of national defense or foreign policy; and

(2) is properly classified pursuant to such Executive order.

(e) The functions and activities of this section shall be considered to be inherently Governmental functions. The drafting of performance plans under this section shall be performed only by Federal employees.

(f) For purposes of this section and sections 1116 through 1119, and sections 9703 and 9704 the term -

(1) 'agency' has the same meaning as such term is defined under section 306(f) of title 5;

(2) 'outcome measure' means an assessment of the results of a program activity compared to its intended purpose;

(3) 'output measure' means the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner;

(4) 'performance goal' means a target level of performance expressed as a tangible, measurable objective, against

which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate;

(5) 'performance indicator' means a particular value or characteristic used to measure output or outcome;

(6) 'program activity' means a specific activity or project as listed in the program and financing schedules of the annual budget of the United States Government; and

(7) 'program evaluation' means an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended objectives.

Sec. 1116. Program performance reports

(a) No later than March 31, 2000, and no later than March 31 of each year thereafter, the head of eac h agency shall prepare and submit to the President and the Congress, a report on program performance for the previous fiscal year.

(b)

(1) Each program performance report shall set forth the performance indicators established in the agency performance plan under section 1115, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year.

(2) If performance goals are specified in an alternative form under section 1115(b), the results of such progr am shall be described in relation to such specifications, including whether the performance failed to meet the criteria of a minimally effective or successful program.

(b) The report for fiscal year 2000 shall include actual results for the preceding fiscal year, the report for fiscal year 2001 shall include actual results for the two preceding fiscal years, and the report for fiscal year 2002 and all subsequent reports shall include actual results for the three preceding fiscal years.

(c) Each report shall-

(1) review the success of achieving the performance goals of the fiscal year;

(2) evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report;

(3) explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity under section 1115(b)(1)(A)(ii) or a corresponding level of achievement if another al ternative form is used)-

(A) why the goal was not met;
(B) those plans and schedules for achieving the established performance goal; and
(C) if the performance goal is impractical or infeasible, why that is the case and what action is recommended;

(4) describe the use and assess the effectiveness in achieving performance goals of any waiver under section 9703 of this title; and
(5) include the summary findings of those program evaluations completed during the fiscal year covered by the report.

(d) An agency head may include all program performance information required annually under this section in an annual financial statement required under section 3515 if any such statement is submitted to the Congress no later than March 31 of the applicable fiscal year.
(e) The functions and activities of this section shall be considered to be inherently Governmental functions. The drafting of program performance reports under this section shall be performed only by Federal employees.

Sec. 1117. Exemption

The Director of the Office of Management and Budget may exempt from the requirements of sections 1115 and 1116 of this title and section 306 of title 5, any agency with annual outlays of $20,000,000 or less.".

SECTION 5. MANAGERIAL ACCOUNTABILITY AND FLEXIBILITY.

(a) Managerial Accountability and Flexibility.-Chapter 97 of title 31, United States Code, is amended by adding after section 9702, the following new section:

Sec. 9703. Managerial accountability and flexibility

(a) Beginning with fiscal year 1999, the performance plans required under section 1115 may include proposals to waive administrative procedural requirements and controls, including specification of personnel staffing levels, limitations on compensation or remuneration, and prohibitions or restrictions on funding transfers among budget object classification 20 and subclassifications 11, 12, 31, and 32 of each annual budget submitted under section 1105, in return for specific individual or organization accountability to achieve a performance goal. In preparing and submitting the performance plan under section 1105(a)(29), the Director of the

Office of Management and Budget shall review and may approve any proposed waivers. A waiver shall take effect at the beginning of the fiscal year for which the waiver is approved.

(b) Any such proposal under subsection (a) shall describe the anticipated effects on performance resulting from greater managerial or organizational flexibility, discretion, and authority, and shall quantify the expected improvements in performance resulting from any waiver. The expected improvements shall be compared to current actual performance, and to the projected level of performance that would be achieved independent of any waiver.

(c) Any proposal waiving limitations on compensation or remuneration shall precisely express the monetary change in compensation or remuneration amounts, such as bonuses or awards, that shall result from meeting, exceeding, or failing to meet performance goals.

(d) Any proposed waiver of procedural requirements or controls imposed by an agency (other than the proposing agency or the Office of Management and Budget) may not be included in a performance plan unless it is endorsed by the agency that established the requirement, and the endorsement included in the proposing agency's performance plan.

(e) A waiver shall be in effect for one or two years as specified by the Director of the Office of Management and Budget in approving the waiver. A waiver may be renewed for a subsequent year. After a waiver has been in effect for three consecutive years, the performance plan prepared under section 1115 may propose that a waiver, other than a waiver of limitations on compensation or remuneration, be made permanent.

(f) For purposes of this section, the definitions under section 1115(f) shall apply.".

SECTION 6. PILOT PROJECTS.

(a) Performance Plans and Reports. -Chapter 11 of title 31, United States Code, is amended by inserting after section 1117 (as added by section 4 of this Act) the following new section:

Sec. 1118. Pilot projects for performance goals

(a) The Director of the Office of Management and Budget, after consultation with the head of each agency, shall designate not less than ten agencies as pilot projects in performance measurement for fiscal years 1994, 1995, and 1996. The selected agencies shall reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

(b) Pilot projects in the designated agencies shall undertake the preparation of performance plans under section 1115, and progra m performance reports under section 1116, other than section 1116(c), for one or more of the major functions and operations of the agency. A strategic plan shall be used when preparing agency performance plans during one or more years of the pilot period.

(c) No later than May 1, 1997, the Director of the Office of Management and Budget shall submit a report to the President and to the Congress which shall-

(1) assess the benefits, costs, and usefulness of the plans and reports prepared by the pilot agencies in m eeting the purposes of the Government Performance and Results Act of 1993;
(2) identify any significant difficulties experienced by the pilot agencies in preparing plans and reports; and
(3) set forth any recommended changes in the requirements of the provisions o f Government Performance and Results Act of 1993, section 306 of title 5, sections 1105,1115, 1116, 1117, 1119 and 9703 of this title, and this section.".

(b) Managerial Accountability and Flexibility.-Chapter 97 of title 31, United States Code, is amend ed by inserting after section 9703 (as added by section 5 of this Act) the following new section:

Sec. 9704. Pilot projects for managerial accountability and flexibility

(a) The Director of the Office of Management and Budget shall designate not less than five agencies as pilot projects in managerial accountability and flexibility for fiscal years 1995 and 1996. Such agencies shall be selected from those designated as pilot projects under section 1118 and shall reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

(b) Pilot projects in the designated agencies shall include proposed waivers in accordance with section 9703 for one or more of the major functions and operations of the agency.

(c) The Director of the Office of Management and Budget shall include in the report to the President and to the Congress required under section 1118(c)-

(1) an assessment of the benefits, costs, and usefulness of increasing managerial and organizational flexibility, discretion, and authority in exchange for improved performance through a waiver; and

(2) an identification of any significant difficulties experienced by the pilot agencies in preparing proposed waivers.

(d) For purposes of this section the definitions under secti on 1115(f) shall pply.".

(e) Performance Budgeting.-Chapter 11 of title 31, United States Code, is amended by inserting after section 1118 (as added by section 6 of this Act) the following new section:

Sec. 1119. Pilot projects for performance budgeting

(a) The Director of the Office of Management and Budget, after consultation with the head of each agency shall designate not less than five agencies as pilot projects in performance budgeting for fiscal years 1998 and 1999. At least three of the agencies shall be selected from those designated as pilot projects under section 1118, and shall also reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

(b) Pilot projects in the designated agencies shall cover the preparation of performance budgets. Such budgets shall present, for one or more of the major functions and operations of the agency, the varying levels of performance, including outcome -related performance, that would result from different budget ed amounts.

(c) The Director of the Office of Management and Budget shall include, as an alternative budget presentation in the budget submitted under section 1105 for fiscal year 1999, the performance budgets of the designated agencies for this fiscal year.

(d) No later than March 31, 2001, the Director of the Office of Management and Budget shall transmit a report to the President and to the Congress on the performance budgeting pilot projects which shall-

(1) assess the feasibility and advisability of including a performance budget as part of the annual budget submitted under section 1105;

(2) describe any difficulties encountered by the pilot agencies in preparing a performance budget;

(3) recommend whether legislation requiring performance budgets should be proposed and the general provisions of any legislation; and

(4) set forth any recommended changes in the other requirements of the Government Performance and Results Act of 1993, section 306 of title 5, sections 1105, 1115, 1116, 1117, and 9703 of this title, and this section.

(e) After receipt of the report required under subsection (d), the Congress may specify that a performance budget be submitted as part of the annual budget submitted under section 1105.".

SECTION 7. UNITED STATES POSTAL SERVICE.

Part III of title 39, United States Code, is amended by adding at the end thereof the following new chapter:

CHAPTER 28-STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

Sec.

Sec. 2801. Definitions

For purposes of this chapter the term -

(1) 'outcome measure' refers to an assessment of the results of a program activity compared to its intended purpose;
(2) 'output measure' refers to the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner;
(3) 'performance goal' means a target level of performance expressed as a tangible, measurable objective, against which actual achievement shall be compared, including a goal expressed as a quantitative standard, value, or rate;
(4) 'performance indicator' refers to a particular value or characteristic used to measure output or outcome;
(5) 'program activity' means a specific activity related to the mission of the Postal Service; and
(6) 'program evaluation' means an assessment, through objective measurement and systematic analysis, of the manner and extent to which Postal Service programs achieve intended objectives.

"Sec. 2802. Strateg ic plans

(a) No later than September 30, 1997, the Postal Service shall submit to the President and the Congress a strategic plan for its program activities. Such plan shall contain-

(1) a comprehensive mission statement covering the major functions and ope rations of the Postal Service;
(2) general goals and objectives, including outcome - related goals and objectives, for the major functions and operations of the Postal Service;
(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;
(4) a description of how the performance goals included in the plan required under section 2803 sha ll be related to the general goals and objectives in the strategic plan;
(5) an identification of those key factors external to the Postal Service and beyond its control that could significantly affect the achievement of the general goals and objectives; and
(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

(f) The strategic plan shall cover a period of not less than five years forward from the fiscal year in whic h it is submitted, and shall be updated and revised at least every three years.

(g) The performance plan required under section 2803 shall be consistent with the Postal Service's strategic plan. A performance plan may not be submitted for a fiscal year not co vered by a current strategic plan under this section.

(h) When developing a strategic plan, the Postal Service shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Co ngress of the contents of the plan.

Sec. 2803. Performance plans

(a) The Postal Service shall prepare an annual performance plan covering each program activity set forth in the Postal Service budget, which shall be included in the comprehensive statement presented under section 2401(g) of this title. Such plan shall -

(1) establish performance goals to define the level of performance to be achieved by a program activity;
(2) express such goals in an objective, quantifiable, and measurable form unless an alternative form is used under subsection (b);
(3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;
(4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;
(5) provide a basis for comparing actual program results with the established performance goals; and
(6) describe the means to be used to verify and validate measured values.

(b) If the Postal Service determines that it is not feasible to express the performance goals for a particular program activity in an objective, quantifiable, and measurable form, the Postal Service may use an alternative form. Such alternative form shall-

(1) include separate descriptive statements of -
  (A) a minimally effective program, and
  (B) a successful program, with sufficient precision and in such terms that would allow for an accurate, independent determination of whether the program activity's performance meets the criteria of either description; or
(2) state why it is infeasible or impractical to express a performance goal in any form for the program activity.

(d) In preparing a comprehensive and informative plan under this section, the Postal Service may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation.

(e) The Postal Service may prepare a non-public annex to its plan covering program activities or parts of program activities relating to -

(1) the avoidance of interference with criminal prosecution; or
(2) matters otherwise exempt from public disclosure under section 410(c) of this title.

Sec. 2804. Program performance reports

(a) The Postal Service shall prepare a report on program performance for each fiscal year, which shall be included in the annual comprehensive statement presented under section 2401(g) of this title.

(b)

(1) The program performance report shall set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year.
(2) If performance goals are specified by descriptive statements of a minimally effective program activity and a successful program activity, the results of such program shall be described in relationship to those categories, including whether the performance failed to meet the criteria of either category.

(c) The report for fiscal year 2000 shall include actual results for the preceding fiscal year, the report for fiscal year 2001 shall include actual results for the two preceding fiscal years, and the report for fiscal year 2002 and all subsequent reports shall include actual results for the three preceding fiscal years.

(d) Each report shall-

(1) review the success of achieving the performance goals of the fiscal year;
(2) evaluate the performance plan for the current fiscal year relative to the performance achieved towards the performance goals in the fiscal year covered by the report;
(3) explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity under section 2803(b)(2))-
(A) why the goal was not met;
(B) those plans and schedules for achieving the established performance goal; and
(C) if the performance goal is impractical or infeasible, why that is the case and what action is recommended; and

(4) include the summary findings of those program evaluations completed during the fiscal year covered by the report.

Sec. 2805. Inherently Governmental functions

The functions and activities of this chapter shall be considered to be inherently Governmental functions. The drafting of strategic plans, performance plans, and program performance reports under this section shall be performed only by employees of the Postal Service.".

SECTION 8. CONGRESSIONAL OVERSIGHT AND LEGISLATION.

(a) In General.-Nothing in this Act shall be construed as limiting the ability of Congress to establish, amend, suspend, or annul a performance goal. Any such action shall have the effect of superseding that goal in the plan submitted under section 1105(a)(29) of title 31, United States Code.

(b) GAO Report.-No later than June 1, 1997, the Comptroller General of the United States shall report to Congress on the implementation of this Act, including the prospects for compliance by Federal agencies beyond those participating as pilot projects under sections 1118 and 9704 of title 31, United States Code.

SECTION 9. TRAINING.

The Office of Personnel Management shall, in consultation with the Director of the Office of Management and Budget and the Comptroller General of the United States, develop a strategic planning and performance measurement training component for its management training program and otherwise provide managers with an orientation on the development and use of strategic planning and program performance measurement.

SECTION 10. APPLICATION OF ACT.

No provision or amendment made by this Act may be construed as

(1) creating any right, privilege, benefit, or entitlement for any person who is not an officer or employee of the United States acting in such capacity, and no person who is not an officer or employee of the United States acting in such capacity shall have standing to file any civil action in a court of the United States to enforce any provision or amendment made by this Act; or

(2) superseding any statutory requirement, including any requirement under section 553 of title 5, United States Code.

SECTION 11. TECHNICAL AND CONFORMING AMENDMENTS.

(a) Amendment to Title 5, United States Code. -The table of sections for chapter 3 of title 5, United States Code, is amended by adding after the item relating to section 305 the following:

"306. Strategic plans.".

(b) Amendments to Title 31, United States Code. -

(1) Amendment to chapter 11. -The table of sections for chapter 11 of title 31, United States Code, is amended by adding after the item relating to section 1114 the following:

"1115. Performance plans.

"1116. Program performance reports.

"1117. Exemptions.

"1118. Pilot projects for performance goals.

"1119. Pilot projects for performance budgeting.".

(2) Amendment to chapter 97. -The table of sections for chapter 97 of title 31, United States Code, is amended by adding after the item relating to section 9702 the following:

"9703. Managerial accountability and flexibility.

"9704. Pilot projects for managerial accountability and flexibility.".

(c) Amendment to Title 39, United States Code. -The table of chapters for part III of title 39, United States Code, is amended by adding at the end thereof the following new item:

"28. Strategic planning and performance management 2801".
Speaker of the House of Representatives.
Vice President of the United States and President of the Senate.

http://www.whitehouse.gov/textonly/OMB/mgmt-gpra/gplaw2m.html

Appendix I – Chief Financial Officers Act of 1990

Chief Financial Officers Act of 1990

One Hundred First Congress of the United States of America AT THE SECOND SESSION Begun and held at the City of Washington on Tuesday, the twenty-third day of January, one thousand nine hundred and ninety An Act To amend title 31, United States Code, to improve the general and financial management of the Federal Government.
Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I--GENERAL PROVISIONS

SEC. 101. SHORT TITLE.

This Act may be cited as the Chief Financial Officers Act of 1990.

SEC. 102. FINDINGS AND PURPOSES.

(a) Findings.--The Congress finds the following:
1. General management functions of the Office of Management and Budget need to be significantly enhanced to improve the efficiency and effectiveness of the Federal Government.
2. Financial management functions of the Office of Management and Budget need to be significantly enhanced to provide overall direction and leadership in the development of a modern Federal financial management structure and associated systems.
3. Billions of dollars are lost each year through fraud, waste, abuse, and mismanagement among the hundreds of programs in the Federal Government.
4. These losses could be significantly decreased by improved management, including improved central coordination of internal controls and financial accounting.
5. The Federal Government is in great need of fundamental reform in financial management requirements and practices as financial management systems are obsolete and inefficient, and do not provide complete, consistent, reliable, and timely information.
6. Current financial reporting practices of the Federal Government do not accurately disclose the current and probable future cost of operating and investment decisions, including the future need for cash or other, resources, do not permit adequate comparison of actual costs among executive agencies, and do not provide the timely information required for efficient management of programs.

(b) Purposes.--The purposes of this Act are the following:
1. Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.

2. Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.
3. Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.

TITLE II--ESTABLISHMENT OF CHIEF FINANCIAL OFFICERS

SEC. 201. DEPUTY DIRECTOR FOR MANAGEMENT.

Section 502 of title 31, United States Code, as amended by this Act, is amended --

1. by redesignating subsections (c), (d), and (e), as amended by this section, as subsections (d), (e), and (f); and
2. by inserting after subsection (b) the following: (c) The Office has a Deputy Director for Management appointed by the President, by and with the advice and consent of the Sena te. The Deputy Director for Management shall be the chief official responsible for financial management in the United States Government..

SEC. 202. FUNCTIONS OF DEPUTY DIRECTOR FOR MANAGEMENT.

a. Clerical Amendments.--Sections 503 and 504 of title 31, Unite d States Code, are redesignated in order as sections 505 and 506, respectively.
b. Functions of Deputy Director for Management. -Subchapter I of chapter 5 of title 31, United States Code, is amended by inserting after section 502 the following:

Sec. 503. Functions of Deputy Director for Management

a. Subject to the direction and approval of the Director, the Deputy Director for Management shall establish governmentwide financial management policies for executive agencies and shall perform the following financia l management functions:
    1. Perform all functions of the Director, including all functions delegated by the President to the Director, relating to financial management.
    2. Provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements, and by monitoring the establishment and operation of Federal Government financial management systems.
    3. Review agency budget requests for financial management systems and operations, an d advise the Director on the resources required to develop and effectively operate and maintain Federal Government financial management systems and to correct major deficiencies in such systems.
    4. Review and, where appropriate, recommend to the Director cha nges to the budget and legislative proposals of agencies to ensure that they are in accordance with financial management plans of the Office of Management and Budget.

5. Monitor the financial execution of the budget in relation to actual expenditures, including timely performance reports.
6. Oversee, periodically review, and make recommendations to heads of agencies on the administrative structure of agencies with respect to their financial management activities.
7. Develop and maintain qualification standards for agency Chief Financial Officers and for agency Deputy Chief Financial Officers appointed under sections 901 and 903, respectively.
8. Provide advice to agency heads with respect to the selection of agency Chief Financial Officers and Deputy Chief Financial Officers.
9. Provide advice to agencies regarding the qualifications, recruitment, performance, and retention of other financial management personnel.
10. Assess the overall adequacy of the professional qualifications and capabilities of financial management staffs throughout the Government and make recommendations on ways to correct problems which impair the capacity of those staffs.
11. Settle differences that arise among agencies regarding the implementation of financial management policies.
12. Chair the Chief Financial Officers Council established by section 302 of the Chief Financial Officers Act of 1990.
13. Communicate with the financial officers of State and local governments, and foster the exchange with those officers of information concerning financial management standards, techniques, and processes.
14. Issue such other policies and directives as may be necessary to carry out this section, and perform any other function prescribed by the Director.

b. Subject to the direction and approval of the Director, the Deputy Director for Management shall establish general management policies for executive agencies and perform the following general management functions:
   1. Coordinate and supervise the general management functions of the Office of Management and Budget.
   2. Perform all functions of the Director, including all functions delegated by the President to the Director, relating to --
      A. managerial systems, including the systematic measurement of performance;
      B. procurement policy;
      C. grant, cooperative agreement, and assistance management;
      D. information and statistical policy;
      E. property management;
      F. human resources management;
      G. regulatory affairs; and
      H. other management functions, including organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation and demonstration programs.
   3. Provide complete, reliable, and timely information to the President, the Congress, and the public regarding the management activities of the executive branch.
   4. Facilitate actions by the Congress and the executive branch to improve the management of Federal Government operations and to remove impediments to effective administration.

5. Provide leadership in management innovation, through --
   (A) experimentation, testing, and demonstration programs; and
   (B) the adoption of modern management concepts and technologies.
6. Work with State and local governments to improve and strengthen intergovernmental relations, and provide assistance to such governments with respect to intergovernmental programs and cooperative arrangements.
7. Review and, where appropriate, recommend to the Director changes to the budget and legislative proposals of agencies to ensure that they respond to program evaluations by, and are in accordance with general management plans of, the Office of Management and Budget.
8. Provide advice to agencies on the qualification, recruitment, performance, and retention of managerial personnel.
9. perform any other functions prescribed by the Director..

SEC. 203. OFFICE OF FEDERAL FINANCIAL MANAGEMENT.

a. Establishment.--Subchapter I of chapter 5 of title 31, United States Code, as amended by this Act, is amended by inserting after section 503 (as added by section 202 of this Act) the following: Sec. 504. Office of Federal Financial Management
   a. There is established in the Office of Management and Budget an office to be known as the 'Office of Federal Financial Management'. The Office of Federal Financial Management, under the direction and control of the Deputy Director for Management of the Office of Management and Budget, shall carry out the financial management functions listed in section 503(a) of this title.
   b. There shall be at the head of the Office of Federal Financial Management a Controller, who shall be appointed by the President, by and with the advice and consent of the Senate. The Controller shall be appointed from among individuals who possess --
      1. demonstrated ability and practical experience in accounting, financial management, and financial systems; and
      2. extensive practical experience in financial management in large governmental or business entities.
   c. The Controller of the Office of Federal Financial Management shall be the deputy and principal advisor to the Deputy Director for Management in the performance by the Deputy Director for Management of functions described in section 503(a)..
b. Statement of Appropriations in Budget. --Section 1105(a) of title 31, United States Code, is amended by adding at the end the following: (28) a separate statement of the amount of appropriations requested for the Office of Federal Financial Management..
c. Clerical Amendment.--The table of contents at the beginning of chapter 5 of title 31, United States Code, is amended by striking the items relating to sections 503 and 504 and inserting the following: 503. Functions of Deputy Director for Management. 504. Office of Federal Financial Management. 505. Office of Information and Regulatory Affairs. 506. Office of Federal Procurement Policy..

SEC. 204. DUTIES AND FUNCTIONS OF THE DEPARTMENT OF THE TREASURY.

Nothing in this Act shall be construed to interfere with the exercise of the functions, duties, and responsibilities of the Department of the Treasury, as in effect immediately before the enactment of this Act.

SEC. 205. AGENCY CHIEF FINANCIAL OFFICERS.

(a) In General.--Subtitle I of title 31, United States Code, is amended by adding at the end the following new chapter:

Chapter 9--Agency Chief Financial Officers

Sec.
901. Establishment of agency Chief Financial Officers.
902. Authority and functions of agency Chief Financial Officers.
903. Establishment of agency Deputy Chief Financial Officers.

Sec. 901. Establishment of agency Chief Financial Officers

a. There shall be within each agency described in subsection (b) an agency Chief Financial Officer. Each agency Chief Financial Officer shall--
    1. for those agencies described in subsection (b)(1) --
        A. be appointed by the President, by and with the advice and consent of the Senate; or
        B. be designated by the President, in consultation with the head of the agency, from among officials of the agency who are required by law to be so appointed;
    2. for those agencies described in subsection (b)(2) --
        A. be appointed by the head of the agency;
        B. be in the competitive service or the senior executive service; and
        C. be career appointees; and
    3. be appointed or designated, as applicable, from among individuals who possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities.
    4. The agencies referred to in subsection (a)(1) are the following:
       (A) The Department of Agriculture.
       (B) The Department of Commerce.
       (C) The Department of Defense.
       (D) The Department of Education.
       (E) The Department of Energy.
       (F) The Department of Health and Human Services.
       (G) The Department of Housing and Urban Development.
       (H) The Department of the Interior.
       (I) The Department of Justice.
       (J) The Department of Labor.
       (K) The Department of State.
       (L) The Department of Transportation.
       (M) The Department of the Treasury.
       (N) The Department of Veterans Affairs.
       (O) The Environmental Protection Agency.
       (P) The National Aeronautics and Space Administration.

5. The agencies referred to in subsection (a)(2) are the following:
   (A) The Agency for International Development.
   (B) The Federal Emergency Management Agency.
   (C) The General Services Administration.
   (D) The National Science Foundation.
   (E) The Nuclear Regulatory Commission.
   (F) The Office of Personnel Management.
   (G) The Small Business Administration.

Sec. 902. Authority and functions of agency Chief Financial Officers

a. An agency Chief Financial Officer shall--
   1. report directly to the head of the agency regarding financial management matters;
   2. oversee all financial management activities relating to the programs and operations of the agency;
   3. develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which--
      A. complies with applicable accounting principles, standards, and requirements, and internal control standards;
      B. complies with such policies and requirements as may be prescribed by the Director of the Office of Management and Budget;
      C. complies with any other requirements applicable to such systems; and
      D. provides for--
         i. complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management;
         ii. the development and reporting of cost information;
         iii. the integration of accounting and budgeting information; and
         iv. the systematic measurement of performance;
   4. make recommendations to the head of the agency regarding the selection of the Deputy Chief Financial Officer of the agency;
   5. direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations, including--
      A. the preparation and annual revision of an agency plan to -- (i) implement the 5-year financial management plan prepared by the Director of the Office of Management and Budget under section 3512(a)(3) of this title; and (ii) comply with the requirements established under sections 3515 and subsections (e) and (f) of section 3521 of this title;
      B. the development of agency financial management budgets;
      C. the recruitment, selection, and training of personnel to carry out agency financial management functions;
      D. the approval and management of agency financial management systems design or enhancement projects;

   E. the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
6. prepare and transmit, by not later than 60 days afterthe submission of the audit report required by section 3521(f) of this title, an annual report to the agency head and the Director of the Office of Management and Budget, which shall include--
   A. a description and analysis of the status of financial management of the agency;
   B. the annual financial statements prepared under section 3515 of this title;
   C. the audit report transmitted to the head of the agency under section 3521(f) of this title;
   D. a summary of the reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); and
   E. other information the head of the agency considers appropriate to fully inform the President and the Congress concerning the financial management of the agency;
7. monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit to the head of the agency timely performance reports; and
8. review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.
9. In addition to the authority otherwise provided by this section, each agency Chief Financial Officer--
   A. subject to paragraph (2), shall have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material which are the property of the agency or which are available to the agency, and which relate to programs and operations with respect to which that agency Chief Financial Officer has responsibilities under this section;
   B. may request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this section from any Federal, State, or local governmental entity; and
   C. to the extent and in such amounts as may be provided in advance by appropriations Acts, may --
      i. enter into contracts and other arrangements with public agencies and with private persons for the preparation of financial statements, studies, analyses, and other services; and
      ii. make such payments as may be necessary to carry out the provisions of this section.
10. Except as provided in paragraph (1)(B), this subsection does not provide to an agency Chief Financial Officer any access greater than permitted under any other law to records, reports, audits, reviews, documents,

papers, recommendations, or other material of any Office of Inspector General established under the Inspector General Act of 1978 (5 U.S.C. App.).

Sec. 903. Establishment of agency Deputy Chief Financial Officers

a. There shall be within each agency described in section 901(b) an agency Deputy Chief Financial Officer, who shall report directly to the agency Chief Financial Officer on financial management matters. The position of agency Deputy Chief Financial Officer shall be a career reserved position in the Senior Executive Service.
b. Consistent with qualification standards developed by, and in consultation with, the agency Chief Financial Officer and the Director of the Office of Management and Budget, the head of each agency shall appoint as Deputy Chief Financial Officer an individual with demonstrated ability and experience in accounting, budget execution, financial and management analysis, and systems development, and not less than 6 years practical experience in financial management at large governmental entities.. (b) Clerical Amendment. --The table of chapters at the beginning of subtitle I of title 31, United States Code, i s amended by adding at the end the following: 9. Agency Chief Financial Officers.............................. 901..
c. Chief Financial Officers of Department of Veterans Affairs and Department of Housing and Urban Development. --
    1. Designation.--The Secretary of Veterans Affairs and the Secretary of Housing and Urban Development may each designate as the agency Chief Financial Officer of that department for purposes of section 901 of title 31, United States Code, as amended by this section, the officer design ated, respectively, under section 4(c) of the Department of Veterans Affairs Act (38 U.S.C. 201 note) and section 4(e) of the Department of Housing and Urban Development Act (42 U.S.C. 3533(e)), as in effect before the effective date of this Act.
    2. Conforming amendment.--Section 4(c) of the Department of Veterans Affairs Act (38 U.S.C. 201 note) and section 4(e) of the Department of Housing and Urban Development Act (42 U.S.C. 3533(e)), as added by section 121 of Public Law 101-235, are repealed.

SEC. 206. TRANSFER OF FUNCTIONS AND PERSONNEL OF AGENCY CHIEF FINANCIAL OFFICERS.

a. Agency Reviews of Financial Management Activities.-Not later than 120 days after the date of the enactment of this Act, the Director of the Office of Management and Budget shall require each agency listed in subsection (b) of section 901 of title 31, United States Code, as amended by this Act, to conduct a review of its financial management activities for the purpose of consolidating its accounting, budgeting, and other financial manag ement activities under the agency Chief Financial Officer appointed under subsection (a) of that section for the agency.
b. Reorganization Proposal. --Not later than 120 days after the issuance of requirements under subsection (a) and subject to all laws vest ing functions in particular officers and employees of the United States, the head of each agency shall submit to the Director of the Office of Management and Budget a proposal for reorganizing the agency for the purposes of this Act. Such proposal shall include-- (1) a description of all functions, powers, duties, personnel, property, or

records which the agency Chief Financial Officer is proposed to have authority over, including those relating to functions that are not related to financial management activities; and (2) a detailed outline of the administrative structure of the office of the agency Chief Financial Officer, including a description of the responsibility and authority of financial management personnel and resources in agencies or other subdivi sions as appropriate to that agency.

c. Review and Approval of Proposal. --Not later than 60 days after receiving a proposal from the head of an agency under subsection (b), the Director of the Office of Management and Budget shall approve or disapprove the p roposal and notify the head of the agency of that approval or disapproval. The Director shall approve each proposal which establishes an agency Chief Financial Officer in conformance with section 901 of title 31, United States Code, as added by this Act, and which establishes a financial management structure reasonably tailored to the functions of the agency. Upon approving or disapproving a proposal of an agency under this section, the Director shall transmit to the head of the agency a written notice of t hat approval or disapproval.
d. Implementation of Proposal. --Upon receiving written notice of approval of a proposal under this section from the Director of the Office of Management and Budget, the head of an agency shall implement that proposal.

SEC. 207. COMPENSATION.

a. Compensation, Level II. --Section 5313 of title 5, United States Code, is amended by adding at the end the following: Deputy Director for Management, Office of Management and Budget..
b. Compensation, Level III. --Section 5314 of title 5, United States Code, is amended by adding at the end the following: Controller, Office of Federal Financial Management, Office of Management and Budget..
c. Compensation, Level IV. --Section 5315 of title 5, United States Code, is amended by adding at the end the fol lowing:
Chief Financial Officer, Department of Agriculture.
Chief Financial Officer, Department of Commerce.
Chief Financial Officer, Department of Defense.
Chief Financial Officer, Department of Education.
Chief Financial Officer, Department of Energy.
Chief Financial Officer, Department of Health and Human Services.
Chief Financial Officer, Department of Housing and Urban Development.
Chief Financial Officer, Department of the Interior.
Chief Financial Officer, Department of Justice.
Chief Financial Officer, Department of Labor.
Chief Financial Officer, Department of State.
Chief Financial Officer, Department of Transportation.
Chief Financial Officer, Department of the Treasury.
Chief Financial Officer, Department of Veterans Affairs.
Chief Financial Officer, Environmental Protection Agency.
Chief Financial Officer, National Aeronautics and Space Administration.

TITLE III--ENHANCEMENT OF FEDERAL FINANCIAL MANAGEMENT ACTIVITIES

SEC. 301. FINANCIAL MANAGEMENT STATUS REPORT; 5-YEAR PLAN OF DIRECTOR OF OFFICE OF MANAGEMENT AND BUDGET.

(a) In General.--Section 3512 of title 31, United States Code, is amended by striking the heading thereof, redesignating subsections (a) through (f) in order as subsections (b) through (g), and by inserting befor e such subsection (b), as so redesignated, the following:

* * * * *

1. The Director of the Office of Management and Budget shall prepare and submit to the appropriate committees of the Congress a financial management status report and a governmentwide 5 -year financial management plan.
2. A financial management status report under this subsection shall include --
    A. a description and analysis of the status of financial management in the executive branch;
    B. a summary of the most recently completed financial statemen ts-- (i) of Federal agencies under section 3515 of this title; and (ii) of Government corporations;
    C. a summary of the most recently completed financial statement audits and reports --
    (i) of Federal agencies under section 3521 (e) and (f) of this title; and
    (ii) of Government corporations;
    D. a summary of reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255); and
    E. any other information the Director considers appropriate to fully inform the Congress regarding the financial management of the Federal Government.
    6. A governmentwide 5 -year financial management plan under this subsection shall describe the act ivities the Director, the Deputy Director for Management, the Controller of the Office of Federal Financial Management, and agency Chief Financial Officers shall conduct over the next 5 fiscal years to improve the financial management of the Federal Govern ment.
    7. Each governmentwide 5 -year financial management plan prepared under this subsection shall --
        i. describe the existing financial management structure and any changes needed to establish an integrated financial management system;
        ii. be consistent with appl icable accounting principles, standards, and requirements;
        iii. provide a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy, consistency, and timeliness of fin ancial information;

iv. identify and make proposals to eliminate duplicative and unnecessary systems, including encouraging agencies to share systems which have sufficient capacity to perform the functions needed;
v. identify projects to bring existing systems into compliance with the applicable standards and requirements;
vi. contain milestones for equipment acquisitions and other actions necessary to implement the 5 - year plan consistent with the requirements of this section;
vii. identify financial management personnel needs and actions to ensure those needs are met;
viii. include a plan for ensuring the annual audit of financial statements of executive agencies pursuant to section 3521(h) of this title; and
ix. estimate the costs of implementing the governmentwide 5 - year plan.

H. Not later than 15 months after the date of the enactment of this subsection, the Director of the Office of Management and Budget shall submit the first financial management status report and governmentwide 5-year financial management plan under this subsection to the appropriate committees of the Congress.

I. (i) Not later than January 31 of each year thereafter, the Director of the Office of Management and Budget shall submit to the appropriate committees of the Congress a financial management status report and a revised governmentwide 5 -year financial management plan to cover the succeeding 5 fiscal years, including a report on the accomplishments of the executive branch in implementing the plan during the preceding fiscal year. (ii) The Director shall include with each revised governmentwide 5 -year financial management plan a description of any substantive changes in the financial statement audit plan required by paragraph (3)(B)(viii), progress made by executive agencies in implementing the audit plan, and any improvements in Federal Government financial management related to preparation and audit of financial statements of executive agencies.

3. Not later than 30 days after receiving each annual report under section 902(a)(6) of this title, the Director shall transmit to the Chairman of the Committee on Government Operations of the House of Representatives and the Chairman of the Committee on Governmental Affairs of the Senate a final copy of that report and any comments on the report by the Director.

b. Clerical Amendment.--The table of contents at the beginning of chapter 35 of title 31, United States Code, is amended by striking the item relating to section 3512 and inserting the following: 3512. Executive agency accounting and other financial management reports and plans..

SEC. 302. CHIEF FINANCIAL OFFICERS COUNCIL.

a. Establishment.--There is established a Chief Financial Officers Council, consisting of--
   1. the Deputy Director for Management of the Office of Management and Budget, who shall act as chairperson of the council;
   2. the Controller of the Office of Federal Financial Management of the Office of Management and Budget;
   3. the Fiscal Assistant Secretary of Treasury; and
   4. each of the agency Chief Financial Officers appointed under section 901 of title 31, United States Code, as amended by this Act.

b. Functions.--The Chief Financial Officers Council shall meet periodically to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter.

SEC. 303. FINANCIAL STATEMENTS OF AGENCIES.

a. Preparation of Financial Statements.--
   1. In general.--Subchapter II of chapter 35 of title 31, United States Code, is amended by adding at the end the following: Sec. 3515. Financial statements of agencies
      a. Not later than March 31 of 1992 and each year thereafter, the head of each executive agency identified in section 901(b) of this title shall prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year, covering--
         1. each revolving fund and trust fund of the agency; and
         2. to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.
      b. Each financial statement of an executive agency under this section shall reflect--
         1. the overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;
         2. results of operations of those revolving funds, trust funds, offices, bureaus, and activities;
         3. cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
         4. a reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.
      c. The Director of the Office of Management and Budget shall prescribe the form and content of the financial statements of executive agencies under this section, consistent with applicable accounting principles, standards, and requirements.

d. For purposes of this section, the term 'commercial functions' includes buying and leasing of real estate, providing insurance, making loans and loan guarantees, and other credit programs and any activity involving the provision of a service or thing of value for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides.
e. Not later than March 31 of each year, the head of each executive agency designated by the President ma y prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year, covering accounts of offices, bureaus, and activities of the agency in addition to those described in subsection (a)..

2. Effective date of subsection. --Subsection (e) of section 3515 of title 31, United States Code, as added by paragraph (1), shall take effect on the date on which a resolution described in subsection (b)(1) of this section is passed by the Congress and approved by the President.
3. Waiver of requirement.--The Director of the Office of Management and Budget may, for fiscal year 1991, waive the application of section 3515(a) of title 31, United States Code, as amended by this subsection, with respect to any revolving fu nd, trust fund, or account of an executive agency.

b. Resolution Approving Designation of Agencies. --

1. Resolution described.--A resolution referred to in subsection (a)(2) is a joint resolution the matter after the resolving clause of which is as follows: That the Congress approves the executive agencies designated by the President pursuant to section 3515(e) of title 31, United States Code..
2. Introduction of resolution. --No later than the first day of session following the day on which the President submits to the Congress a designation of executive agencies authorized to submit financial statements under section 3515(e) of title 31, United States Code, as added by subsection (a), a resolution as described in paragraph (1) shall be introduced (by request) in the House by the chairman of the Committee on Government Operations of the House of Representatives, or by a Member or Members of the House designated by such chairman; and shall be introduced (by request) in the Senate by the chairman of the Committee on Governmental Affairs of the Senate, or by a Member or Members of the Senate designated by such chairman.
3. Referral.--A resolution described in paragraph (1), shall be referred to the Committee on Governmental Affairs of the Senate and the Committee on Government Operations of the House (and all resolutions with respect to the same designation of executive agencies shall be referred to the same committee) by the President of the Senate or the Speaker of the House of Representatives, as the case may be. The c ommittee shall make its recommendations to the House of Representatives or the Senate, respectively, within 60 calendar days of continuous session of the Congress following the date of such resolution's introduction.
4. Discharge of Committee.--If the committee to which is referred a resolution introduced pursuant to paragraph (2) (or, in the absence of such a resolution, the first resolution introduced with respect to the same

designation of executive agencies) has not reported such resolution or identical resolution at the end of 60 calendar days of continuous session of the Congress after its introduction, such committee shall be deemed to be discharged from further consideration of such resolution and such resolution shall be placed on the appropriate calendar of the House involved.

5. Procedure after report or discharge of committee; vote on final passage. --
    A. When the committee has reported, or has been deemed to be discharged (under paragraph (4)) from further consideration of, a resolution described in paragraph (1), it is at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) for any Member of the respective House to move to proceed to the consideration of the resolution. The motion is highly privileged and is not debatable. The motion shall not be subject to amendment, or to a motion to postpone, or a motion to proceed to the consideration of other business. A motion to reconsider the vote by which the motion is agreed to or disagreed to shall not be in order. If a motion to proceed to the consideration of the resolution is agreed to, the resolution shall remain the unfinished business of the respective House until disposed of.
    B. Debate on the resolution, and on all debatable motions and appeals in connection therewith, shall be limited to not more than 10 hours, which shall be divided equally between individuals favoring and individuals opposing the resolution. A motion further to limit debate is in order and not debatable. An amendment to, or a motion to postpone, or a motion to proceed to the consideration of other business, or a motion to recommit the resolution is not in order. A motion to reconsider the vote by which the resolution is passed or rejected shall not be in order.
    C. Immediately following the conclusion of the debate on the resolution and a single quorum call at the conclusion of the debate if requested in accordance with the rules of the appropriate House, the vote on final passage of the resolution shall occur.
    D. Appeals from the decisions of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedure relating to a resolution described in paragraph (1), shall be decided without debate.
    E. If, prior to the passage by one House of a resolution of that House, that House receives a resolution with respect to the same designation of executive agencies from the other House, then -- (i) the procedure in that House shall be the same as if no resolution had been received from the other House; but (ii) the vote on final passage shall be on the resolution of the other House.
    F. It shall not be in order in either the House of Representatives or the Senate to consider a resolution described in paragraph (1), or to consider any conference report on such a resolution, unless the Director of the Office of Management and Budget submits to the Congress a report under subsection (e).

c. Report on Substantial Commercial Functions.--Not later than 180 days after the date of the enactment of this Act, the Director of the Office of Management and Budget shall determine and report to the Congress on which executive agencies or parts thereof perform substantial commercial functions for which financial statements can be prepared practicably under section 3515 of title 31, United States Code, as added by this section.

d. Pilot Project.--
   1. Not later than March 31 of each of 1991, 1992, and 1993, the head of the Departments of Agriculture, Labor, and Veterans Affairs, the General Services Administration, and the Social Security Administration shall each prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or administration.
   2. Not later than March 31 of each of 1992 and 1993, the head of the Departments of Housing and Urban Development and the Army shall prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department.
   3. Not later than March 31, 1993, the head of the Department of the Air Force, the Internal Revenue Service, and the United States Customs Service, shall each prepare and submit to the Director of the Office of Management and Budget financial statements for the preceding fiscal year for the accounts of all of the offices, bureaus, and activities of that department or service.
   4. Each financial statement prepared under this subsection shall be audited in accordance with section 3521 (e), (f), (g), and (h) of title 31, United States Code.

e. Report on Initial Financial Statements.--Not later than June 30, 1993, the Director of the Office of Management and Budget shall report to the Congress on the financial statements prepared for fiscal years 1990, 1991, and 1992 under subsection (a) of section 3515 of title 31, United States Code (as added by subsection (a) of this section) and under subsection (d) of this section. The report shall include analysis of--
   1. the accuracy of the data included in the financial statements;
   2. the difficulties each department and agency encountered in preparing the data included in the financial statements;
   3. the benefits derived from the preparation of the financial statements; and
   4. the cost associated with preparing and auditing the financial statements, including a description of any activities that were foregone as a result of that preparation and auditing.

f. Clerical Amendment.--The table of sections at the beginning of chapter 35 of title 31, United States Code, is amended by inserting after the item relating to section 3514 the following: 3515. Financial statements of agencies..

SEC. 304. FINANCIAL AUDITS OF AGENCIES.

a. In General.--Section 3521 of title 31, United States Code, is amended by adding at the end the following new subsections: (e) Each financial statement prepared under section 3515 by an agency shall be audited in accordance with applicable generally accepted government auditing standards-- (1) in the case of an agency having an Inspector General appointed under the Inspector General Act of 1978 (5 U.S.C. App.), by the Inspector General or by an independent external auditor, as determined by the Inspector General of the agency; and (2) in any other case, by an independent external auditor, as determined by the head of the agency. (f) Not later than June 30 following the fiscal year for which a financial statement is submitted under section 3515 of this title by an agency, the person who audits the statement for purpose of subsection (e) shall submit a report on the audit to the head of the agency. A report under this subsection shall be prepared in accordance with generally accepted government auditing standards. (g) The Comptroller General of the United States -- (1) may review any audit of a financial statement conducted under this subsection by an Inspector General or an external auditor; (2) shall report to the Congress, the Director of the Office of Management and Budget, and the head of the agency which prepared the statement, regarding the results of the review and make any recommendation the Comptroller General considers appropriate; and (3) may audit a financial statement prepared under section 3515 of this title at the discretion of the Comptroller General or at the request of a committee of the Congress. An audit the Comptroller General performs under this subsection shall be in lieu of the audit otherwise required by subsection (e) of this section. Prior to performing such audit, the Comptroller General shall consult with the Inspector General of the agency which prepared the statement. (h) Each financial statement prepared by an executive agency for a fiscal year after fiscal year 1991 shall be audited in accordance with this section and the plan required by section 3512(a)(3)(B)(viii) of this title..

b. Waiver of Requirements.--The Director of the Office of Management and Budget may waive application of subsections (e) and (f) of section 3521 of title 31, United States Code, as amended by this section, to a financial statement submitted by an agency for fiscal years 1990 and 1991.

SEC. 305. FINANCIAL AUDITS OF GOVERNMENT CORPORATIONS.

Section 9105 of title 31, United States Code, is amended to read as follows: Sec. 9105. Audits

1. The financial statements of Government corporations shall be audited by the Inspector General of the corporation appointed under the Inspector General Act of 1978 (5 U.S.C. App.) or by an independent external auditor, as determined by the Inspector General or, if there is no Inspector General, by the head of the corporation.
2. Audits under this section shall be conducted in accordance with applicable generally accepted government auditing standards.
3. Upon completion of the audit required by this subsection, the person who audits the statement shall submit a report on the audit to the head of the Government corporation, to the Chairman of the Committee on Government Operations of the House of Representatives, and to the Chairman of the Committee on Governmental Affairs of the Senate.
4. The Comptroller General of the United States --
   A. may review any audit of a financial statement conducted under this subsection by an Inspector General or an external auditor;

B. shall report to the Congress, the Director of the Office of Management and Budget, and the head of the Government corporation which prepared the statement, regarding the results of the review and make any recommendation the Comptroller General of the United States considers appropriate; and
C. may audit a financial statement of a Government corporation at the discretion of the Comptroller General or at the request of a committee of the Congress. An audit the Comptroller General performs under this paragraph shall be in lieu of the audit otherwise required by paragraph (1) of this subsection. Prior to performing such audit, the Comptroller General shall consult with the Inspector General of the agency which prepared the statement.

5. A Government corporation shall reimburse the Comptroller General of the United States for the full cost of any audit conducted by the Comptroller General under this subsection, as determined by the Comptroller General. All reimbursements received under this paragraph by the Comptroller General of the United States shall be deposited in the Treasury as miscellaneous receipts.

b. Upon request of the Comptroller General of the United States, a Government corporation shall provide to the Comptroller General of the United States all books, accounts, financial records, reports, files, work papers, and property belonging to or in use by the Government corporation and its auditor that the Comptroller General of the United States considers necessary to the performance of any audit or review under this section.
c. Activities of the Comptroller General of the United States under this section are in lieu of any audit of the financial transactions of a Government corporation that the Comptroller General is required to make under any other law..

SEC. 306. MANAGEMENT REPORTS OF GOVERNMENT CORPORATIONS.

a. In General.--Section 9106 of title 31, United States Code, is amended to read as follows: Sec. 9106. Management reports
    1. A Government corporation shall submit an annual management report to the Congress not later than 180 days after the end of the Government corporation's fiscal year.
    2. A management report under this subsection shall include --
        A. a statement of financial position;
        B. a statement of operations;
        C. a statement of cash flows;
        D. a reconciliation to the budget report of the Government corporation, if applicable;
        E. a statement on internal accounting and administrative control systems by the head of the management of the corporation, consistent with the requirements for agency statements on internal accounting and administrative control systems under the amendments made by the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255);

F. the report resulting from an audit of the financial statements of the corporation conducted under section 9105 of this title; and
G. any other comments and information n ecessary to inform the Congress about the operations and financial condition of the corporation.

a. A Government corporation shall provide the President, the Director of the Office of Management and Budget, and the Comptroller General of the United States a copy of the management report when it is submitted to Congress..

b. Clerical Amendment.--The table of sections for chapter 91 of title 31, United States Code, is amended by striking the item relating to section 9106 and inserting the following: 9106. Management reports..

SEC. 307. ADOPTION OF CAPITAL ACCOUNTING STANDARDS.

No capital accounting standard or principle, including any human capital standard or principle, shall be adopted for use in an executive department or agency until such standard has been r eported to the Congress and a period of 45 days of continuous session of the Congress has expired.

http://www.npr.gov/library/misc/cfo.html

Appendix J – OMB Circular A-123

OMB Circular A-123
OMB Home

Revised
June 21, 1995

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS
FROM: Alice M. Rivlin, Director
SUBJECT: Management Accountability and Control

1. **Purpose and Authority.** As Federal employees develop and implement strategies for reengineering agency programs and operations, they should design management structures that help ensure accountability for results, and include appropriate, cost-effective controls. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

The Circular is issued under the authority of the Federal Managers' Financial Integrity Act of 1982 as codified in 31 U.S.C. 3512.

The Circular replaces Circular No. A-123, "Internal Control Systems," revised, dated August 4, 1986, and OMB's 1982 "Internal Controls Guidelines" and associated "Questions and Answers" document, which are hereby rescinded.

2. **Policy.** Management accountability is the expectation that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

3. **Actions Required.** Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective management controls for results-oriented management; (ii) assess the adequacy of management controls in Federal programs and operations; (iii) identify needed improvements; (iv) take corresponding corrective action; and (v) report annually on management controls.

4. **Effective Date.** This Circular is effective upon issuance.

5. **Inquiries.** Further information concerning this Circular may be obtained from the Management Integrity Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, 202/395-6911.

6. **Copies.** Copies of this Circular may be obtained by telephoning the Executive Office of the President, Publication Services, at 202/395-7332.

7. **Electronic Access.** This document is also accessible on the U.S. Department of Commerce's FedWorld Network under the OMB Library of Files.

- The Telnet address for FedWorld via Internet is "fedworld.gov".

- ?? The World Wide Web address is "http://www.fedworld.gov/ftp.htm#omb".
- ?? For file transfer protocol (FTP) access, the addres s is "ftp://fwux.fedworld.gov/pub/omb/omb.htm".

The telephone number for the FedWorld help desk is 703/487 -4608.
Attachment

Note to Internet Users: This document, with associated explanatory material, was published in the Federal Register on June 29, 1995, Volume 60, Number 125, pages 33876-33872. This can be accessed from the Federal Register Online via GPO Access [wais.access.gpo.gov].

I. INTRODUCTION

The proper stewa rdship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent wi th agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement.
To support results -oriented management, the **Government Performance and Results Act** (GPRA, P.L. 103-62) requires agencies to develop s trategic plans, set performance goals, and report annually on actual performance compared to goals. As the Federal government implements this legislation, these plans and goals should be integrated into (i) the budget process, (ii) the operational manageme nt of agencies and programs, and (iii) accountability reporting to the public on performance results, and on the integrity, efficiency, and effectiveness with which they are achieved.
Management accountability is the expectation that managers are responsi ble for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.
Management controls -- organization, policies, and procedures -- are tools to help program and financial managers achieve results and safeguard the integrity of their programs. This Circular provides guidance on using the range of tools at the disposal of agency managers to achieve desired program results and meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA, referred to as the Integrity Act throughout this document).

Framework. The importance of management controls is addressed, both explicitly and implicitly, in many statutes and executive documents. **The Federal Managers' Financial Integrity Act** (P.L. 97-255) establishes specific requirements with regard to management controls. The agency head must establish controls that reasonably ensure that: (i) obligations and costs comply with applicable law; (ii) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures are properly recorded and accounted for. 31 U.S.C. 3512(c)(1). In addition, the agency head annually must evaluate and report on the control and financial systems that protect the integrity of Federal programs. 31 U.S.C. 3512(d)(2). The Act encompasses program, operational, and administrative areas as well as accounting and financial management. Instead of considering controls as an isolated management tool, agencies should integrate their efforts to meet the requirements of the Integrity Act with other efforts to improve effectiveness and accountability. Thus, management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

For instance, good management controls can assure that performance measures are complete and accurate. As another example, the management control standard of organization would align staff and authority with the program responsibilities to be carried out, improving both effectiveness and accountability. Similarly, accountability for resources could be improved by more closely aligning budget accounts with programs and charging them with all significant resources used to produce the program's outputs and outcomes.

Meeting the requirements of the **Chief Financial Officers Act** (P.L. 101-576, as amended) should help agencies both establish and evaluate management controls. The Act requires the preparation and audit of financial statements for 24 Federal agencies. 31 U.S.C. 901(b), 3515. In this process, auditors report on internal controls and compliance with laws and regulations. Therefore, the agencies covered by the Act have a clear opportunity both to improve controls over their financial activities, and to evaluate the controls that are in place.

The **Inspector General Act** (P.L. 95-452, as amended) provides for independent reviews of agency programs and operations. Offices of Inspectors General (OIGs) and other external audit organizations frequently cite specific deficiencies in management controls and recommend opportunities for improvements. Agency managers, who are required by the Act to follow up on audit recommendations, should use these reviews to identify and correct problems resulting from inadequate, excessive, or poorly designed controls, and to build appropriate controls into new programs.

Federal managers must carefully consider the appropriate balance of controls in their programs and operations. Fulfilling requirements to eliminate regulations (**"Elimination of One-Half of Executive Branch Internal Regulations,"** Executive Order 12861) should reinforce to agency managers that too many controls can result in inefficient and ineffective government, and therefore that they must ensure an appropriate balance between too many controls and too few controls. Managers should benefit from controls, not be encumbered by them.

Agency Implementation. Appropriate management controls should be integrated into each system established by agency management to direct and guide its operations. A separate management control process need not be instituted, particularly if its sole purpose is to satisfy the Integrity Act's reporting requirements.

Agencies need to plan for how the requirements of this Circular will be implemented. Developing a written strategy for internal agency use may help ensure that appropriate action is taken throughout the year to meet the objectives of the Integrity Act. The absence of such a strategy may itself be a serious management control deficiency. Identifying and implementing the specific procedures necessary to ensure good management controls, and determining how to evaluate the effectiveness of those controls, is left to the discretion of the agency head. However, agencies should implement and evaluate controls without creating unnecessary processes, consistent with recommendations made by the National Performance Review.

The President's Management Council, composed of the major agencies' chief operating officers, has been established to foster governmentwide management changes ("Implementing Management Reform in the Executive Branch," October 1, 1993). Many agencies are establishing their own senior management council, often chaired by the agency's chief operating officer, to address management accountability and related issues within the broader context of agency operations. Relevant issues for such a council include ensuring the agency's commitment to an appropriate system of management controls; recommending to the agency head which control deficiencies are sufficiently serious to report in the annual Integrity Act report; and providing input for the level and priority of resource needs to correct these deficiencies. (See also Section III of this Circular.)

II. ESTABLISHING MANAGEMENT CONTROLS

Definition of Management Controls. Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing, and controlling program operations. A subset of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets.

Developing Management Controls. As Federal employees develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls. The expertise of the agency CFO and IG can be valuable in developing appropriate controls.

Management controls guarantee neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but they are a means of managing the risk associated with Federal programs and operations. To help ensure that controls are appropriate and cost-effective, agencies should consider the extent and cost of controls relative to the importance and risk associated with a given program.

Standards. Agency managers shall incorporate basic management controls in the strategies, plans, guidance and procedures that govern their programs and operations. Controls shall be consistent with the following standards, which are drawn in large part from the "Standards for Internal Control in the Federal Government," issued by the General Accounting Office (GAO).

General management control standards are:

- **Compliance With Law.** All program operations, obligations and costs must comply with applicable law and regulation. Resources should be efficiently and effectively allocated for duly authorized purposes.
- **Reasonable Assurance and Safeguards.** Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.
- **Integrity, Competence, and Attitude.** Managers and employees must have personal integrity and are obligated to support the ethics programs in their agencies. The spirit of the Standards of Ethical Conduct requires that they develop and implement effective management controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

Specific management control standards are:

- **Delegation of Authority and Organization.** Managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.
- **Separation of Duties and Supervision.** Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- **Access to and Accountability for Resources.** Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.
- **Recording and Documentation.** Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.
- **Resolution of Audit Findings and Other Deficiencies.** Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

Other policy documents may describe additional specific standards for particular functional or program activities. For example, OMB Circular No. A-127, "Financial Management Systems," describes government-wide requirements for financial systems.

The Federal Acquisition Regulations define requirements for agency procurement activities.

III. ASSESSING AND IMPROVING MANAGEMENT CONTROLS

Agency managers should continuously monitor and improve the effectiveness of management controls associated with their programs. This continuous monitoring, and other periodic evaluations, should provide the basis for the agency head's annual assessment of and report on management controls, as required by the Integrity Act. Agency management should determine the appropriate level of documentation needed to support this assessment.

Sources of Information. The agency head's assessment of management controls can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment. Sources of information include:

- Management knowledge gained from the daily operation of agency programs and systems.
- Management reviews conducted (i) expressly for the purpose of assessing management controls, or (ii) for other purposes with an assessment of management controls as a by-product of the review.
- IG and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.
- Program evaluations.
- Audits of financial statements conducted pursuant to the Chief Financial Officers Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other materials prepared relating to the statements.
- Reviews of financial systems which consider whether the requirements of OMB Circular No. A-127 are being met.
- Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 (40 U.S.C. 759 note) and OMB Circular No. A-130, "Management of Federal Information Resources."
- Annual performance plans and reports pursuant to the Government Performance and Results Act.
- Reports and other information provided by the Congressional committees of jurisdiction.
- Other reviews or reports relating to agency operations, e.g. for the Department of Health and Human Services, quality control reviews of the Medicaid and Aid to Families with Dependent Children programs.

Use of a source of information should take into consideration whether the process included an evaluation of management controls. Agency management should avoid duplicating reviews which assess management controls, and should coordinate their efforts with other evaluations to the extent practicable.

If a Federal manager determines that there is insufficient information available upon which to base an assessment of management controls, then appropriate reviews should be conducted which will provide such a basis.

Identification of Deficiencies. Agency managers and employees should identify deficiencies in management controls from the sources of information described above. A deficiency should be reported if it is or should be of interest to the next level of management. Agency employees and managers generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency.

A deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e. included in the annual Integrity Act report to the President and the Congress) shall be considered a "material weakness." [1] This designation requires a judgment by agency managers as to the relative risk and significance of deficiencies. Agencies may wish to use a different term to describe less significant deficiencies, which are reported only internally in an agency. In identifying and assessing the relative importance of deficiencies, particular attention should be paid to the views of the agency's IG.

Agencies should carefully consider whether systemic problems exist that adversely affect management controls across organizational or program lines. The Chief Financial Officer, the Senior Procurement Executive, the Senior IRM Official, and the managers of other functional offices should be involved in identifying and ensuring correction of systemic deficiencies relating to their respective functions.

Agency managers and staff should be encouraged to identify and report deficiencies, as this reflects positively on the agency's commitment to recognizing and addressing management problems. Failing to report a known deficiency would reflect adversely on the agency.

Role of A Senior Management Council. Many agencies have found that a senior management council is a useful forum for assessing and monitoring deficiencies in management controls. The membership of such councils generally includes both line and staff management; consideration should be given to involving the IG. Such councils generally recommend to the agency head which deficiencies are deemed to be material to the agency as a whole, and should therefore be included in the annual Integrity Act report to the President and the Congress. (Such a council need not be exclusively devoted to management control issues.) This process will help identify deficiencies that although minor individually, may constitute a material weakness in the aggregate. Such a council may also be useful in determining when sufficient action has been taken to declare that a deficiency has been corrected.

IV. CORRECTING MANAGEMENT CONTROL DEFICIENCIES

Agency managers are responsible for taking timely and effective action to correct deficiencies identified by the variety of sources discussed in Section III. Correcting deficiencies is an integral part of management accountability and must be considered a priority by the agency.

The extent to which corrective actions are tracked by the agency should be commensurate with the severity of the deficiency. Corrective action plans should be developed for all material weaknesses, and progress against plans should be periodically assessed and reported to agency management. Management should track progress to ensure timely and effective results. For deficiencies that are not included in the Integrity Act report, corrective action plans should be developed and tracked internally at the appropriate level.

A determination that a deficiency has been corrected should be made only when sufficient corrective actions have been taken and the desi red results achieved. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials. (See also role of senior management council in Section III.)

As managers consider IG an d GAO audit reports in identifying and correcting management control deficiencies, they must be mindful of the statutory requirements for audit followup included in the IG Act, as amended. Under this law, management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached. 5 U.S.C. Appendix 3. (Management must make a decision regarding IG audit recommendations within a six month period and implementation of management's decision sh ould be completed within one year to the extent practicable.) Agency managers and the IG share responsibility f or ensuring that IG Act requirements are met.

V. REPORTING ON MANAGEMENT CONTROLS

Reporting Pursuant to Section 2. 31 U.S.C. 3512(d)(2) (co mmonly referred to as Section 2 of the Integrity Act) requires that annually by December 31, the head of each executive agency submit to the President and the Congress (i) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives; and (ii) a report on material weaknesses in the agency's controls. OMB may provide guidance on the composition of the annual report.

- **Statement of Assurance.** The statement on reasonable assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of management controls within the agency. The statement must take one of the following forms: statement of assurance; qualified statement of assurance, considering the exceptions explicit ly noted; or statement of no assurance.
  In deciding on the type of assurance to provide, the agency head should consider information from the sources described in Section III of this Circular, with input from senior program and administrative officials an d the IG. The agency head must describe the analytical basis for the type of assurance being provided, and the extent to which agency activities were assessed. The statement of assurance must be signed by the agency head.
- **Report on Material Weaknesses.** The Integrity Act report must include agency plans to correct the material weaknesses and progress against those plans.

Reporting Pursuant to Section 4. 31 U.S.C. 3512(d)(2)(B) (commonly referred to as Section 4 of the Integrity Act) requires an annual stat ement on whether the agency's financial management systems conform with government -wide requirements. These financial systems requirements are presented in OMB Circular No. A -127, "Financial Management Systems," section 7. If the agency does not conform wi th financial systems requirements, the statement must discuss the agency's plans for bringing its systems into compliance.

If the agency head judges a deficiency in financial management systems and/or operations to be material when weighed against other a gency deficiencies, the issue must be included in the annual Integrity Act report in the same manner as other material weaknesses.

Distribution of Integrity Act Report. The assurance statements and information related to both Sections 2 and 4 should be provided in a single Integrity Act report. Copies of the report are to be transmitted to the President; the President of the Senate; the Speaker of the House of Representatives; the Director of OMB; and the Chairpersons and Ranking Members of the Senate Committee on Governmental Affairs, the House Committee on Government Reform and Oversight, and the relevant authorizing and appropriations committees and subcommittees. In addition, 10 copies of the report are to be provided to OMB's Office of Federal Financial Management, Management Integrity Branch. Agencies are also encouraged to make their reports available electronically.

Streamlined Reporting. The Government Management Reform Act (GMRA) of 1994 (P.L. 103-356) permits OMB for fiscal years 1995 through 1997 to consolidate or adjust the frequency and due dates of certain statutory financial management reports after consultation with the Congress. GMRA prompted the CFO Council to recommend to OMB a new approach towards financial management reporting which could help integrate management initiatives. This proposal is being pilot-tested by several agencies for FY 1995. Further information on the implications of this initiative for other agencies will be issued by OMB after the pilot reports have been evaluated. In the meantime, the reporting requirements outlined in this Circular remain valid except for those agencies identified as pilots by OMB.

Under the CFO Council approach, agencies would consolidate Integrity Act information with other performance-related reporting into a broader "Accountability Report" to be issued annually by the agency head. This report would be issued as soon as possible after the end of the fiscal year, but no later than March 31 for agencies producing audited financial statements and December 31 for all other agencies. The proposed "Accountability Report" would integrate the following information: the Integrity Act report, management's Report on Final Action as required by the IG Act, the CFOs Act Annual Report (including audited financial statements), Civil Monetary Penalty and Prompt Payment Act reports, and available information on agency performance compared to its stated goals and objectives, in preparation for implementation of the GPRA.

Government Corporations. Section 306 of the Chief Financial Officers Act established a reporting requirement related to management controls for corporations covered by the Government Corporation and Control Act. 31 U.S.C. 9106. These corporations must submit an annual management report to the Congress not later than 180 days after the end of the corporation's fiscal year. This report must include, among other items, a statement on control systems by the head of the management of the corporation consistent with the requirements of the Integrity Act.

The corporation is required to provide the President, the Director of OMB, and the Comptroller General a copy of the management report when it is submitted to Congress.

---

[1] This Circular's use of the term "material weakness" should not be confused with use of the same term by government auditors to identify management control weaknesses which, in their opinion, pose a risk or a threat to the internal control systems of an audited entity, such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if the management of the audited entity would not report the weaknesses outside the agency.

http://www.whitehouse.gov/textonly/OMB/circulars/a123/a123.html

Appendix K – OMB Circular A-127 Revised

OMB Circular A-127
OMB Home

July 23, 1993
Circular No. A-127--Revised
Transmittal Memorandum No. 1
TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS
SUBJECT: Financial Management Systems
Circular No. A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. This Transmittal Memorandum contains updated guidance which eliminates unnecessary overlap between Circular No. A-127 and Circular A-123, "Internal Control Systems"; eliminates unnecessary overlap between Circular No. A -127 and with Circular A-130, "Management of Federal Information Resources"; clarifies terminology and definitions; updates the Circular for statutory and policy changes; clarifies certain agency responsibilities; and eliminates outdated guidance. This Circular replaces and rescinds OMB Circular No. A-127 dated December 19, 1984. This Circular also rescinds OMB memorandum M-85-10, "Financial Management and Accounting Objectives" and M-85-16, "Guidelines for Evaluating Financial Management/Accounting Systems."
Leon E. Panetta
Director
Attachment

Transmittal Memorandum No. 1
TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS
SUBJECT: Financial Management Systems

---

1. Purpose. OMB Circular No. A-127 (hereafter referred to as Circular A-127) prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

---

2. Rescission. This Circular replaces and rescinds Circular A-127 dated December 19, 1984. This Circular also rescinds OMB memorandum M-85-10, "Financial Management and Accounting Objectives" and M-85-16, "Guidelines for Evaluating Financial Management/Accounting Systems."

---

3. Authorities. This Circular is issued pursuant to the Chief Financial Officers Act (CFOs Act) of 1990, P.L. 101-576 and the Federal Managers' Financial Integrity Act of 1982, P.L. 97-255 (31 U.S.C. 3512 et seq.); and 31 U.S.C. Chapter 11.

---

4. Applicability and Scope.
a. The policies in this Circular apply to the financial management systems of all agencies as defined in Section 5 of this Circular. Agencies not included in the CFOs Act are exempted from certain requirements as noted in Section 9 of this Circular.
b. The policies contained in OMB Circular No. A-130, "Management of Federal Information Resources" (hereafter referred to as Circular A -130) govern agency management of information systems. The policies contained in Circular A-130 apply to all agency information resources, including financial management systems as defined in this Circular.
c. The policies and procedures contained in OMB Circular No. A -123, "Internal Control Systems," (hereafter referred to as Circular A-123) govern executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities. Policies and references pertaining to internal controls contained in this Circular serve to amplify policies contained in Circular A-123 or highlight requirements unique to financial management systems.

---

5. Definitions. For the purposes of this Circular, the following definitions apply:
The term "agency" means any executive department, military department, independent agency, government corporation, government controlled corporation, or other establishment in the executive branch of the government.
The term "information system" means the organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non - financial, financial, and mixed systems as defined in this Circular.
The term "financial system" means an information system, comprised of one or more applications, that is used for any of the following:
-- collecting, processing, maintaining, transmitting, and reporting data about financial events;
-- supporting financial planning or budgeting activities;
-- accumulating and reporting cost information; or
-- supporting the preparation of financial statements.
A financial system supports the financial functions required to track financial events, provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements. A financial system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. A financial system may include multiple applications that are integrated through a common database or are electronically interfaced, as necessary, to meet defined data and processing requirements.

The term "non-financial system" means an information system that supports non-financial functions of the Federal government or components thereof and any financial data included in the system are insignificant to agency financial management and/or not required for the preparation of financial statements.
The term "mixed system" means an information system that supports both financial and non-financial functions of the Federal government or components thereof.
The term "financial management systems" means the financial systems and the financial portions of mixed systems necessary to support financial management.
The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.
The term "application (financial or mixed system)" means a group of interrelated components of financial or mixed systems which supports one or more functions and has the following characteristics:
-- a common data base
-- common data element definitions
-- standardized processing for similar types of transactions
-- common version control over software
The term "financial event" means any occurrence having financial consequences to the Federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, or other potential liabilities; or other reportable financial activities.
The term "work process" means a series of activities operating together to achieve an end or desired result (mission, goal or objective). A work process is a workflow or series of steps necessary for the initiation, tracking and delivery of services or outputs. The process reflects how resources are managed to deliver the services or outputs and may cut across existing or future organizational boundaries.

---

6. Policy. Financial management in the Federal government requires accountability of financial and program managers for financial results of actions taken, control over the Federal government's financial resources and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public.
The Federal government's financial management system policy is to establish government-wide financial systems and compatible agency systems, with standardized information and electronic data exchange between central management agency and individual operating agency systems, to meet the requirements of good financial management. These systems shall provide complete, reliable, consistent, timely and useful financial management information on Federal government operations to enable central management agencies, individual operating agencies, divisions, bureaus and other subunits to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of

Federal government resources; and facilitate efficient and effective delivery of programs through relating financial consequences to program performance.
In support of this objective, each agency shall establish and maintain a single, integrated financial management system that complies with:
-- applicable accounting principles, standards, and related requirements as defined by OMB and the Department of the Treasury;
-- internal control standards as defined in Circular A-123 and/or successor documents;
-- information resource management policy as defined in Circular A-130 and/or successor documents; and
-- operating policies and related requirements prescribed by OMB, the Department of the Treasury and the agency.
An agency's single, integrated financial management system shall comply with the characteristics outlined in Section 7 of this Circular.

---

7. Financial Management System Requirements. Agency financial management systems shall comply with the following requirements:
a. Agency-wide Financial Information Classification Structure. The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U. S. Government Standard General Ledger, provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.
b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:
-- Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U. S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.
-- Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.
-- Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.
-- Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall

be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

c. Application of the U. S. Government Standard General Ledger at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the U.S. Government Standard General Ledger (SGL) at the transaction level. Application of the SGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

-- Data in Financial Reports Consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.

-- Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

-- Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.

Agencies may supplement their application of the SGL to meet agency specific information requirements in accordance with guidance provided in the U.S. Government Standard General Ledger supplement to the Treasury Financial Manual.

d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB, and reporting requirements issued by the Director of OMB and/or the Secretary of the Treasury. Where no accounting standards have been recommended by FASAB and issued by the Director of OMB, the systems shall maintain data in accordance with the applicable accounting standards used by the agency for preparation of its financial statements. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

-- Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making, (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

-- Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management systems.

f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular No. A-11(Preparation and Submission of Budget Estimates), OMB Circular No. A-34 (Instructions on Budget Execution) and other circulars and bulletins issued by the Office of Management and Budget.
g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program (JFMIP). Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to implement expeditiously new functional requirements as they are estab lished and/or made effective.
h. Computer Security Act Requirements. Agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A -130 for those financial management systems that contain "sen sitive information" as defined by the Computer Security Act.
i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by JFMIP or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up -to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.
j. Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in repo rts. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by Circular A -123.
k. Training and User Support. Adequate training and appropriate user support shall be provided to the users of the financial management systems, based on the level, responsibility and roles of individual users, to enable the users of the systems at all levels to understand, operate and maintain the syst em.
l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices and make appropriate modifications.

---

8. Financial Management System Improvements. In improving financial management systems, agencies shall follow the information technology man agement policies presented in Circular A-130. In addition, agencies shall comply with the following policies in designing, developing, implementing, operating and maintaining financial management systems:

a. Improvement in Agency Work Processes. Designs for financial systems and mixed systems shall be based on the financial and programmatic information and processing needs of the agency. As part of any financial management system design effort, agencies are to analyze how system improvements, new technology supporting financial management systems, and modifications to work processes can together enhance agency operations and improve program and financial management. The reassessment of information and processing needs shall be an integral part of the determination of system's requirements. Process redesign shall be considered an essential step towards meeting user needs in program management, financial management, and budgeting. Concurrent with developing and implementing integrated financial management systems, agencies shall consider program operations, roles and responsibilities, and policies/practices to identify related changes necessary to facilitate financial management systems operational efficiency and effectiveness.

b. Cost Effective and Efficient Development and Operation of Financial Management Systems. Financial management system development and implementation efforts shall seek cost effective and efficient solutions as required by Circular A-130. A custom software development approach for financial management systems shall be used as a last resort and only after consideration of all appropriate software options, including the following:

-- use of the agency's existing system with enhancements/upgrades,
-- use of another system within the department/agency,
-- use of an existing system at another department/agency,
-- use of a commercial "off-the-shelf" software package,
-- use of a system under development at another department, or
-- use of a private vendor's service.

The cost effectiveness of developing custom software shall be clear and documented in a benefit/cost analysis that includes the justification of the unique nature of the system's functions that preclude the use of alternative approaches. This analysis shall be made available to OMB for review upon request.

c. Cross or Private Servicing. Cross servicing of financial system support, where one agency or a division within an agency provides financial management software and processing support to another agency or division within an agency, or private servicing through commercial vendors shall be used whenever feasible and cost effective, as a solution to meet Federal government financial management system needs. Agencies providing cross-servicing support shall ensure that systems are maintained appropriately; fees for service are reasonable; adequate conversion support is provided; procedures, training and documentation are available and periodic service reviews are conducted. Small agencies are particularly encouraged to use cross-servicing to meet fundamental core financial and payroll/personnel processing and reporting requirements.

d. Use of "Off-the-Shelf" Software. GSA shall maintain the Financial Management System Software (FMSS) Multiple Award Schedule for vendors providing acceptable software which meets the core financial system requirements as defined in the Core Financial System Requirements document published by JFMIP and other applicable accounting principles, standards, and related requirements as defined by OMB for governmentwide use. Such software packages will be "benchmarked," as appropriate, by an independent team approved by the OMB Office of Federal Financial Management (OFFM) or its designee to assure the software complies with such requirements. Periodic recertification will be required to ensure that software continues to support financial system requirements.

Agencies replacing software to meet core financial system requirements must use "off -the-shelf" software from the GSA FMSS Multiple Award Schedule unless a waiver is granted under the Federal Information Resources Management Regulations (FIRMR). Agencies obtaining such a waiver must ensure the system, whether resulting from a custom software development approach or from software existing within or external to the agency, is "benchmarked" by an independent team approved by OFFM or its designee.

Financial management system software meeting requirements beyond the scope of the Core Financial System Requirements document may also be made available under the GSA FMSS Multiple Award Schedule as agreed to by the OFFM or its designee.

e. Joint Development of Software. Agencies with similar financial management functions, after considering "off -the-shelf" software solutions, are encouraged to undertake joint development efforts by pooling resources and developing common approaches for meeting similar financial functions. The designs for jointly developed software shall contain the flexibility and other features needed for transportability of the system to other agencies and/or cross -servicing.

f. Transfer of Agency Financial Management Software. In cases where an agency determines it is more efficient and effective to use or adopt the software of another agency to meet its financial management system requirements, the agency shall ensure the following:

7. The software meets the financial management system requirements in Section 7 of this Circular.
8. A formal written agreement on the transfer of software is prepared and approved by all parties. The agreement shall cover the full scope of support services to be provided including system modifications, maintenance and related costs;
9. Any necessary support requirements not covered in the agreement shall be provided by the agency and such support, including implementation support and training, shall be assessed and determined to be adequate.
10. An ongoing relationship for determining future enhancements shall be established between the parties involved.

Any compensation arrangements for the transfer of the software shall conform to Circular A-130 policies.

---

9. Assignment of Responsibilities.

a. Agency Responsibilities. Agencies shall perform the financial management system responsibilities prescribed by legislation referenced in Section 3 "Authorities" of this Circular. In addition, each agency shall take the following actions:

4. Develop and Maintain an Agency-wide Inventory of Financial Management Systems.
   Agencies are required to maintain an inventory of existing and proposed financial management systems. Annually CFOs Act agencies will provide OMB with financial management system information in compliance with the financial system planning guidance issued by OMB for the Agency CFO 5 -Year Financial Management Plan. Financial management systems shall be included in the agency information systems inventory following the information system inventory policies established in OMB Circular A-130.
5. Develop and Maintain Agency-wide Financial Management System Plans.
   Agencies are required to prepare annual financial management systems plans. These plans shall be developed in accordance with OMB guidance issued

annually. Financial management system planning guidance for CFOs Act agencies shall be included in the guidance for developing CFO Financial Management 5-Year Plans.
The financial management systems strategies and tactical initiatives included in the CFO Financial Management 5-Year Plan shall be incorporated into the agency's five year information systems plan prepared in compliance with Circular A-130.
Agencies not covered by the CFOs Act shall prepare plans following the CFO Financial Management 5- Year Plan guidance but are not required to submit the plans to OMB. Financial management system plans shall be an integral part of the agency's overall planning process and updated for significant events that result in material changes to the plan as they occur.

6. Review of Agency Financial Management Systems.
   Each agency shall ensure appropriate reviews are conducted of its financial management systems. The results of these reviews shall be considered when developing financial management systems plans. OMB encourages agencies to coordinate and, where appropriate, combine required reviews. Reviews must comply with policies for (1) reviews of internal controls undertaken and reported on in accordance with the guidance issued by OMB for compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Circular A-123, (2) reviews of conformance of financial management systems with the principles, standards and related requirements in Section 7 of this Circular undertaken in accordance with the guidance issued by OMB for compliance with requirements of the FMFIA, and (3) reviews of systems and security as required under provisions of Circular A -130.
7. Develop and Maintain Agency Financial Management System Directives.
   Agencies shall issue, update, and maintain agency- wide financial management system directives to reflect policies defined in this Circular.

b. GSA Responsibilities. GSA is responsible for maintaining the FMSS Multiple Award Schedule for Federal financial management software and related services in accordance with guidance provided by OMB.

---

10. Information Contact. All questions or inquiries should be addressed to the Office of Federal Financial Management, Federal Financial Systems Branch, telephone number 202/395- 6903.

---

11. Review Date. This Circular shall be reviewed three years from the date of issuance to ascertain its effectiveness.

---

12. Effective Date. This Circular is effective immediately.

http://www.whitehouse.gov/textonly/OMB/circulars/a127/a127.html

Appendix L – GAO Standards for Internal Control in the Federal Government

Standards for Internal Control in the Federal Government (Guidance, 11/01/1999, GAO/AIMD-00-21.3.1).

GAO published a guide on internal control standards for executive agency managers as required by the Federal Managers' Financial Integrity Act. The stand ards apply equally to program implementation and administration as well as financial operations, and they are intended to help both program and financial managers.

-------------------------- Indexing Terms ----------------------------

REPORTNUM: AIMD-00-21.3.1
TITLE: Standards for Internal Control in the Federal Government
DATE: 11/01/1999
SUBJECT: Internal controls
Standards evaluation
Auditing standards
Auditing procedures
Financial management
Federal agency accounting systems
Information resourc es management
Accountability

This file contains an ASCII representation of the text of a GAO report. Delineations within the text indicating chapter titles, headings, and bullets are preserved. Major divisions and subdivisions of the text, such as Chapt ers, Sections, and Appendixes, are identified by double and single lines. The numbers on the right end of these lines indicate the position of each of the subsections in the document outline. These numbers do NOT correspond with the page numbers of the printed product.

No attempt has been made to display graphic images, although figure captions are reproduced. Tables are included, but may not resemble those in the printed version.

Please see the PDF (Portable Document Format) file, when available, for a complete electronic file of the printed document's contents.

A printed copy of this report may be obtained from the GAO Document Distribution Center. For further details, please send an e -mail message to:

<info@www.gao.gov>

with the message 'info' in the body.

Cover
===
= COVER

Internal Control

November 1999

STANDARDS FOR INTERNAL CONTROL IN
THE FEDERAL GOVERNMENT

GAO/AIMD-00-21.3.1

GAO/AIMD-00-021P

(11/99)

Abbreviations
===
ABBREV

COSO - Committee of Sponsoring Organizations of the Treadway Commission
FMFIA - Federal Managers' Financial Integrity Act of 1982
GPRA - Government Performance and Results Act of 1993
OMB - Office of Management and Budget

FOREWORD
==
Chapter 0

Federal policymakers and program managers are continually seeking ways to better achieve agencies' missions and program results, in other words, they are seeking ways to improve accountability. A key factor in helping achieve such outcomes and minimize operational problems is to implement appropriate internal control. Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the General Accounting Office (GAO) to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control, revised June 21, 1995, provides the specific requirements for assessing and reporting on controls. The term internal control in this document is synonymous with the term management control (as used in OMB Circular A-123) that covers all aspects of an agency's operations (programmatic, financial, and compliance).

Recently, other laws have prompted renewed focus on internal control. The Government Performance and Results Act of 1993 requires agencies to clarify their missions, set strategic and annual performance goals, and measure and report on performance toward those goals. Internal control plays a significant role in helping managers achieve those goals. Also, the Chief Financial Officers Act of 1990 calls for financial management systems to comply with internal control standards, and the Federal Financial Management Improvement Act of 1996 identifies internal control as an integral part of improving financial management systems.

Rapid advances in information technology have highlighted the need for updated internal control guidance related to modern computer systems. The management of human capital has gained recognition as a significant part of internal control. Furthermore, the private sector has updated its internal control guidance with the issuance of Internal Control -- Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Consequently, we have developed this standards update which supersedes our previously issued "Standards for Internal Controls in the Federal Government."

This update gives greater recognition to the increasing use of information technology to carry out critical government operations, recognizes the importance of human capital, and incorporates, as appropriate, the relevant updated internal control guidance developed in the private sector. The standards are effective beginning October 1, 1999.

We appreciate the efforts of government officials, public accounting professionals, and other members of the financial community and academia who provided valuable assistance in developing these standards.

David M. Walker
Comptroller General
of the United States

INTRODUCTION
==
Chapter 1

The following definition, objectives, and fundamental concepts provide the foundation for the internal control standards.

DEFINITION AND OBJECTIVES
------------------- -------------------------------------- Chapter 1:1

(See figure in printed edition.)

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance -based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

-- Effectiveness and efficiency of operations including the use of the entity's resources.

-- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.

-- Compliance with applicable laws and regulations.

A subset of these objectives is the safeguarding of assets. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.

FUNDAMENTAL CONCEPTS
--- Chapter 1:2

(See figure in printed edition.)

The fundamental concepts provide the underlying framework for designing and applying the standards.

INTERNAL CONTROL IS A CONTINUOUS BUILT-IN COMPONENT OF OPERATIONS

--- Chapter 1:2.1

Internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations rather than as a separate system within an agency. In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis.

INTERNAL CONTROL IS EFFECTED BY PEOPLE
-------------- --- Chapter 1:2.2

People are what make internal control work. The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in plac e, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen.

INTERNAL CONTROL PROVIDES REASONABLE ASSURANCE, NOT ABSOLUTE ASSURANCE
------------------------------------ ------------------- Chapter 1:2.3

Management should design and implement internal control based on the related cost and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all agency objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting agency objectives. Therefore, once in place, internal control provides reasonable, not absolute, assurance of meeting agency objectives.

INTERNAL CONTROL STANDARDS
==
Chapter 2

PRESENTATION OF THE STANDARDS
--- Chapter 2:1

(See figure in printed edition.)

These standards define the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated. These standards apply to all aspects of an agency's operations: programmatic, financial, and compliance. However, they are not intended to limit or interfere with duly granted authority related to developing legislation, rule-making, or other discretionary policy-making in an agency. These standards provide a general framework. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations.

In the following material, each of these standards is presented in a short, concise statement. Additional information is provided to help managers incorporate the standards in to their daily operations.

CONTROL ENVIRONMENT
-- Chapter 2:2

(See figure in printed edition.)

A positive control environment is the foundation for all other standards. It provides discipline and structure as well as the climate which influences the quality of internal control. Several key factors affect the control environment.

One factor is the integrity and ethical values maintained and demonstrated by management and staff. Agency management plays a key role in providing leadership in this area, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

Another factor is management's commitment to competence. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

Management's philosophy and operating style also affect the environment. This factor determines the degree of risk the agency is willing to take and management's philosophy towards performance-based management. Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, and audits and evaluations can have a profound effect on internal control.

Another factor affecting the environment is the agency's organizational structure. It provides management's framework for planning, directing, and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.

The environment is also affected by the manner in which the agency delegates authority and responsibility throughout the organization. This delegation covers authority and responsibility for operating activities, reporting relationships, and authorizatio n protocols.

Good human capital policies and practices are another critical environmental factor. This includes establishing appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personn el. It also includes providing a proper amount of supervision.

A final factor affecting the environment is the agency's relationship with the Congress and central oversight agencies such as OMB. Congress mandates the programs that agencies undertake an d monitors their progress and central agencies provide policy and guidance on many different matters. In addition, Inspectors General and internal senior management councils can contribute to a good overall control environment.

RISK ASSESSMENT
------ -- Chapter 2:3

(See figure in printed edition.)

A precondition to risk assessment is the establishment of clear, consistent agency objectives. Risk assessment is the identification and analysis of relevant risks associated with achieving the objectives, such as those defined in strategic and annual performance plans developed under the Government Performance and Results Act, and forming a basis for determining how risks should be managed.

Management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entitywide and activity level. Risk identification methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken. The specific risk analysis methodology used can vary by agency because of differences in agencies' missions and the difficulty in qualitatively and quantitatively assigning risk levels.

Because governmental, economic, industry, regulatory, and operating conditions continually change, mechanisms should be provided to identify and deal with any special risks prompted by such changes.

CONTROL ACTIVITIES
--- Chapter 2:4

(See figure in printed edition.)

Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes.

Activities may be classified by specific control objectives, such as ensuring completeness and accuracy of information processing.

EXAMPLES OF CONTROL ACTIVITIES
--- Chapter 2:4.1

(See figure in printed edition.)

There are certain categories of control activities that are common to all agencies. Examples include the following:

TOP LEVEL REVIEWS OF ACTUAL PERFORMANCE

-- Chapter 2:4.1.1

Management should track major agency achievements and compare these to the plans, goals, and objectives established under the Governmen t Performance and Results Act.

REVIEWS BY MANAGEMENT AT THE FUNCTIONAL OR ACTIVITY LEVEL

-- Chapter 2:4.1.2

Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences.

MANAGEMENT OF HUMAN CAPITAL

-- Chapter 2:4.1.3

Effective management of an organization's workforce --its human capital--is essential to achieving results and an important part of internal control. Management should view human capital as an asset rather than a cost. Only when the right personnel for the job are on board and are provided the right training, t ools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those nec essary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and continuous supervision should be provided to ensure that internal control objectives a re achieved. Performance evaluation and feedback, supplemented by an effective reward system, should be designed to help employees understand the connection between their performance and the organization's success. As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

CONTROLS OVER INFORMATION PROCESSING

----------------------------------- ----------------- Chapter 2:4.1.4

A variety of control activities are used in information processing. Examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and cont rolling access to data, files, and programs. Further guidance on control activities for information processing is provided below under "Control Activities Specific for

Information Systems."

PHYSICAL CONTROL OVER
VULNERABLE ASSETS
------ --- Chapter 2:4.1.5

An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and eq uipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

ESTABLISHMENT AND REVIEW
OF PERFORMANCE MEASURES
AND INDICATORS
-------------- -------------------------------------- Chapter 2:4.1.6

Activities need to be established to monitor performance measures and indicators. These controls could call for comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.

SEGREGATION OF DUTIES
----- -- Chapter 2:4.1.7

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for author izing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

PROPER EXECUTION OF
TRANSACTIONS AND EVENTS
-- Chapter 2:4.1.8

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.

ACCURATE AND TIMELY
RECORDING OF TRANSACTIONS
AND EVENTS

-- Chapter 2:4.1.9

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the ent ire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

ACCESS RESTRICTIONS TO
AND ACCOUNTABILITY FOR
RESOURCES AND RECORDS

-- Chapter 2:4.1.10

Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

APPROPRIATE DOCUME NTATION
OF TRANSACTIONS AND
INTERNAL CONTROL

-- Chapter 2:4.1.11

Internal control and all transactions and other significant events need to be clearly documented, and the documentation s hould be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maint ained.

These examples are meant only to illustrate the range and variety of control activities that may be useful to agency managers. They are not all-inclusive and may not include particular control activities that an agency may need.

Furthermore, an agency's internal control should be flexible to allow agencies to tailor control activities to fit their special needs. The specific control activities used by a given agency may be different from those used by others due to a number of factors. These could include specific threats they face and risks they incur; differences in objectives; managerial judgment; size and complexity of the organization; operational environment; sensitivity and value of data; and requirements for system reliability, availability, and performance.

CONTROL ACTIVITIES SPECIFIC

FOR INFORMATION SYSTEMS
--- Chapter 2:4.2

(See figure in printed edition.)

There are two broad groupings of information systems co ntrol - general control and application control. General control applies to all information systems--mainframe, minicomputer, network, and end-user environments. Application control is designed to cover the processing of data within the application softw are.

GENERAL CONTROL
--- Chapter 2:4.2.1

This category includes entitywide security program planning, management, control over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance. More specifically:

-- Data center and client-server operations controls include backup and recovery procedures, and contingency and disaster planning. In addition, data center operations controls also include job set-up and scheduling procedures and controls over operator activities.

-- System software control includes control over the acquisition, implementation, and maintenance of all system software including the operating system, data -based management systems, telecommunications, security software, and utility programs.

-- Access security control protects the systems and network from inappropriate access and unauthorized use by ha ckers and other trespassers or inappropriate use by agency personnel. Specific control activities include frequent changes of dial -up numbers; use of dial-back access; restrictions on users to allow access only to system functions that they need; software and hardware "firewalls" to restrict access to assets, computers, and networks by external persons; and frequent changes of passwords and deactivation of former employees' passwords.

-- Application system development and maintenance control provides the structure for safely developing new systems and modifying existing systems. Included are documentation requirements; authorizations for undertaking projects; and reviews, testing, and approvals of development and modification activities before placing systems into operation. An alternative to in -house development is the procurement of commercial software, but control is necessary to ensure that selected software meets the user's needs, and that it is properly placed into operation.

APPLICATION CONTROL
-- Chapter 2:4.2.2

This category of control is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. Control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. An example is computerized edit checks built into the system to review the format, existence, and reasonableness of data.

General and application control over computer systems are interrelated. General control supports the functioning of application control, and both are needed to ensure complete and accurate information processing. If the general control is inadequate, the application control is unlikely to function properly and could be overridden.

Because information technology changes rapidly, controls must evolve to remain effective. Changes in technology and its application to electronic commerce and expanding Internet applications will change the specific control activities that may be employed and how they are implemented, but the basic requirements of control will not have changed. As more powerful computers place more responsibility for data processing in the hands of the end users, the needed controls should be identified and implemented.

INFORMATION AND COMMUNICATIONS
-------------------------------- -------------------------- Chapter 2:5

(See figure in printed edition.)

For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all of its objectives.

Program managers need both operational and financial data to determine whether they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. For example, operating information is required for development of financial reports. This covers a broad range of data from purchases, subsidies, and other transactions to data on fixed assets, inventories, and receivables. Operating information is also needed to determine whether the agency is achieving its compliance requirements under various laws and regulations. Financial information is needed for both external and internal uses. It is required to deve lop financial statements for periodic external reporting, and, on a day -to-day basis, to make operating decisions, montinor performance, and allocate resources. Pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently.

Effective communications should occur in a broad sense with information flowing down, across, and up the organization. In additional to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals. Moreover, effective information technology management is critical to achieving useful, relia ble, and continuous recording and communication of information.

MONITORING

-- Chapter 2:6

(See figure in printed edition.)

Internal control should generally be designed to assure that ong oing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Separate evaluations of control can also be useful by focusing directly on the controls' effectiveness at a specific time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and th e effectiveness of ongoing monitoring procedures. Separate evaluations may take the form of self-assessments as well as review of control design and direct testing of internal control. Separate evaluations also may be performed by the agency Inspector Ge neral or an external auditor. Deficiencies found during ongoing monitoring or through separate evaluations should be communicated to the individual responsible for the function and also to at least one level of management above that individual. Serious matters should be reported to top management.

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The resolution process begins when audit or other review results are reported to management, and is completed only after act ion has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the findings and recommendations do not warrant management action.

http://www.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=gao&docid=f:ai00021p.txt

Appendix M – American Indian Trust Fund Management Reform Act of 1994

-CITE-
25 USC Sec. ***4001*** 01/05/99

-EXPCITE-
TITLE 25 - ***INDIANS***
CHAPTER 42 - ***AMERICAN INDIAN TRUST FUND*** MANAGEMENT ***REFORM***

-HEAD-
Sec. 4001. Definitions

-STATUTE-
For the purposes of this chapter:

(1) The term "Special Trustee" means the Special Trustee for ***American Indians*** appointed under section 4042 of this title.

(2) The term "***Indian*** tribe" means any ***Indian*** tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement ***Act*** (85 Stat. 688) (43 U.S.C. 1601 et seq.), which is recognized as eligible for the special programs and services provided by the United States to ***Indians*** because of their status as ***Indians***.

(3) The term "Secretary" means the Secretary of the Interior.

(4) The term "Office" means the Office of Special Trustee for ***American Indians*** established by section 4042 of this title.

(5) The term "Bureau" means the Bureau of ***Indian*** Affairs within the Department of the Interior.

(6) The term "Department" means the Department of the Interior.

-SOURCE-
(Pub. L. 103-412, Sec. 2, Oct. 25, ***1994***, 108 Stat. 4239.)

-REFTEXT-

REFERENCES IN TEXT

This chapter, referred to in text, was in the original "this ***Act***", meaning Pub. L. 103-412, Oct. 25, ***1994***, 108 Stat. 4239, which is classified principally to this chapter. For complete classification of this ***Act*** to the Code, see Short Title note below and Tables.

The Alaska Native Claims Settlement ***Act***, referred to in par. (2),

is Pub. L. 92-203, Dec. 18, 1971, 85 Stat. 688, as amended, which
is classified generally to chapter 33 (Sec. 1601 et seq.) of Title
43, Public Lands. For complete classification of this ***Act*** to the
Code, see Short Title note set out under section 1601 of Title 43
and Tables.

-MISC2-

SHO RT TITLE

Section 1(a) of Pub. L. 103 -412 provided that: "This ***Act*** (enacting this chapter, amending sections 161a and 162a of this title, and enacting provisions set out as a note under section 161a of this title) may be cited as the ' ***American Indian Trust Fund*** Management ***Reform Act*** of ***1994***'."

-CITE-

25 USC SUBCHAPTER ***I*** - RECOGNITION OF TRUST RESPONSIBILITY
01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER ***I*** - RECOGNITION OF TRUST RESPONSIBILITY.

-HEAD-

SUBCHAPTER ***I*** - RECOGNITION OF TRUST RESPONSIBILITY

-CITE-

25 USC Sec. 4011 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER ***I*** - RECOGNITION OF TRUST RESPONSIBILITY

-HEAD-

Sec. 4011. Responsibility of Secretary to account for daily and annual balances of Indian trust funds

-STATUTE-

(a) Requirement to account

The Se cretary shall account for the daily and annual balance of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to section 162a of this title.

(b) Pe riodic statement of performance

Not later than 20 business days after the close of a calendar quarter, the Secretary shall provide a statement of performance to each Indian tribe and individual with respect to whom funds are deposited or invested pursuant to section 162a of this title. The statement, for the period concerned, shall identify -

(1) the source, type, and status of the funds;
(2) the beginning balance;
(3) the gains and losses;
(4) receipt s and disbursements; and
(5) the ending balance.

(c) Annual audit

The Secretary shall cause to be conducted an annual audit on a fiscal year basis of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian which are deposited or invested pursuant to section 162a of this title, and shall include a letter relating to the audit in the first statement of performance provided under subsection (b) of this section after the completion of the audit.

-SOURCE-

(Pub. L. 103-412, title ***I***, Sec. 102, Oct. 25, 1994, 108 Stat. 4240.)

-MISC1-

PERFORMANCE AND ACCOUNT STATEMENTS FOR INACTIVE ACCOUNTS

Pub. L. 105-277, div. A, Sec. 101(e) (title ***I***), Oct. 21, 1998, 112 Stat. 2681-231, 2681-251, provided in part: "That notwithstanding any other provision of law, the Secretary shall not be required to provide a quarterly statement of performance for any Indian trust account that has not had activity for at least eighteen months and has a balance of $1.00 or less: Provided further, That the Secretary shall issue an annual account statement and maintain a record of any such accounts and shall permit the balance in each such account to b e withdrawn upon the express written request of the accountholder."

-CITE-

25 USC Sec. 4012 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER ***I*** - RECOGNITION OF TRUST RESPONSIBILITY

-HEAD-

Sec. 4012. Authority for payment of claims for interest owed

-STATUTE-

The Secretary shall make payments to an individual Indian in full satisfaction of any claim of such individual for interest on amounts deposited or invested on behalf of such individual before October 25, 1994, retroactive to the date that the Secretary began investing individual Indian monies on a regular basis, to the extent that the claim is identi fied -

(1) by a reconciliation process of individual Indian money accounts, or

(2) by the individual and presented to the Secretary with supporting documentation, and is verified by the Secretary pursuant to the Department 's policy for addressing accountholder losses.

-SOURCE-

(Pub. L. 103-412, title ***I***, Sec. 104, Oct. 25, 1994, 108 Stat. 4241.)

-CITE-

25 USC SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM.

-HEAD-

SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-CITE-

25 USC Sec. 4021 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-

Sec. 4021. Purpose

-STATUTE-

The purpose of this subchapter is to allow tribes an opportunity to manage tribal funds currently held in trust by the United States and managed by the Secretary through the Bureau, that, consistent with the trust responsibility of the United States and the principles of self-determination, will -

(1) give Indian tribal governments greater control over the management of such trust funds; or

(2) otherwise demonstrate how the principles of self-determination can work with respect to the management of

such trust funds, in a manner consistent with the trust
responsibility of the United States.

-SOURCE-
(Pub. L. 103-412, title II, Sec. 201, Oct. 25, 1994, 108 Stat. 4242.)

-CITE-
25 USC Sec. 4022 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-
Sec. 4022. Voluntary withdrawal from trust funds program

-STATUTE-
(a) In general
An Indian tribe may, in accordance with this section, submit a plan to withdraw some or all funds held in trust for such tribe by the United States and managed by the Secretary through the Bureau.

(b) Approval of plan
The Secretary shall approve such plan within 90 days of receipt and when approving the plan, the Secretary shall obtain the advice of the Special Trustee or prior to the appointment of such Special Trustee, the Director of the Office of Trust Fund Management within the Bureau. Such plan shall meet the following conditions:
(1) Such plan has been approved by the appropriate Indian tribe and is accompanied by a resolution from the tribal governing body approving the plan.
(2) The Secretary determines such plan to be reasonable after considering all appropriate factors, including (but not limited to) the following:
(A) The capability and experience of the individuals or institutions that will be managing the trust funds.
(B) The protection against substantial loss of principal.
(c) Dissolution of trust responsibility
Beginning on the date funds are withdrawn pursuant to this section, any trust responsibility or liability of the United States with respect to such funds shall cease except as provided for in section 4027 of this title.

-SOURCE-
(Pub. L. 103-412, title II, Sec. 202, Oct. 25, 1994, 108 Stat. 4242.)

-SECREF-

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in sections 1300d -24, 4023 of this title.

-CITE-

25 USC Sec. 4023 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-

Sec. 4023. Judgment funds

-STATUTE-

(a) In general

The Secretary is authorized to approve plan s under section 4022 of this title for the withdrawal of judgment funds held by the Secretary.

(b) Limitation

Only such funds held by the Secretary under the terms of the Indian Judgment Funds Use or Distribution Act (25 U.S.C. 1401 et seq.) or an Act of Congress which provides for the secretarial management of such judgment funds shall be included in such plans.

(c) Secretarial duties

In approving such plans, the Secretary shall ensure -

(1) that the purpose and use of the judgment funds identified in the previously approved judgment fund plan will continue to be followed by the Indian tribe in the management of the judgment funds; and

(2) that only funds held for Indian tribes may b e withdrawn and that any funds held for individual tribal members are not to be included in the plan.

-SOURCE-

(Pub. L. 103-412, title II, Sec. 203, Oct. 25, 1994, 108 Stat. 4242.)

-REFTEXT-

REFERENCES IN TEXT

The Indian Judgment Funds Use or Distribution Act, referred to in subsec. (b), probably means the Indian Tribal Judgment Funds Use or Distribution Act, Pub. L. 93-134, Oct. 19, 1973, 87 Stat. 466, as amended, which is classified gene rally to chapter 16 (Sec. 1401 et

seq.) of this title. For complete classification of this Act to
the Code, see Tables.

-SECREF-

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in section 1300d -24 of this title.

-CITE-

25 USC Sec. 4024 01/05/99

-EXPCITE-

TITLE 25 - INDIANS

CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM

SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-

Sec. 4024. Technical assistance

-STATUTE-

The Secretary shall -

(1) directly or by contract, provide Indian tribes with technical assistance in developing, implementing, and managing Indian trust fund investment plans; and

(2) among other things, ensure that legal, financial, and other expertise of the Department of the Interior has been made fully available in an advisory capacity to the Indian tribes to assist in the development, implementation, and man agement of investment plans.

-SOURCE-

(Pub. L. 103-412, title II, Sec. 204, Oct. 25, 1994, 108 Stat. 4243.)

-CITE-

25 USC Sec. 4025 01/05/99

-EXPCITE-

TITLE 25 - INDIANS

CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM

SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-

Sec. 4025. Grant program

-STATUTE-

(a) General authority

The Secretary is authorized to award grants to Indian tribes for the purpose of developing and implementing plans for the investment of Indian tribal trust funds.

(b) Use of funds

The purposes for which funds provided under this section may be used include (but are not limited to) -

(1) the training and education of employees responsible for monitoring the investment of trust funds;

(2) the building of tribal capacity for the investment and management of trust funds;

(3) the development of a comprehensive tribal investment plan;

(4) the implementation and management of tribal trust fund investment plans; and

(5) such other purposes related to this subchapter that the Secretary deems appropriate.

-SOURCE-

(Pub. L. 103-412, title II, Sec. 205, Oct. 25, 1994, 108 Stat. 4243.)

-CITE-

25 USC Sec. 4026 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-

Sec. 4026. Return of withdrawn funds

-STATUTE-

Subject to such conditions as the Secretary may prescribe, any Indian tribe which has withdrawn trust funds may choose to return any or all of the trust funds such tribe has withdrawn by notifying the Secretary in writing of its intention to return the funds to the control and management of the Secretary.

-SOURCE-

(Pub. L. 103-412, title II, Sec. 206, Oct. 25, 1994, 108 Stat. 4243.)

-CITE-

25 USC Sec. 4027 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-
Sec. 4027. Savings provision

-STATUTE-
By submitting or approving a plan under this subchapter, neither the tribe nor the Secretary shall be deemed to have accepted the account balance as accurate or to have waived any rights regarding such balance and to seek compensation.

-SOURCE-
(Pub. L. 103-412, title II, Sec. 207, Oct. 25, 1994, 108 Stat. 4243.)

-SECREF-
SECTION REFERRED TO IN OTHER SECTIONS
This section is referred to in section 4022 of this title.

-CITE-
25 USC Sec. 4028 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-
Sec. 4028. Report to Congress

-STATUTE-
The Secretary shall, beginning one year after October 25, 1994, submit an annual report to the Committee on Natural Resources of the House of Representatives and the Committee on Indian Affairs of the Senate on the implementation of programs under this subchapter. Such report shall include recommendations (if any) for changes necessary to better implement the purpose of this subchapter.

-SOURCE-
(Pub. L. 103-412, title II, Sec. 208, Oct. 25, 1994, 108 Stat. 4243.)

-CHANGE-
CHANGE OF NAME
Committee on Natural Resources of House of Representatives treated as referring to Committee on Resources of House of Representatives by section 1(a) of Pub. L. 104-14, set out as a note preceding section 21 of Title 2, The Congress.

-CITE-
25 USC Sec. 4029 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER II - INDIAN TRUST FUND MANAGEMENT PROGRAM

-HEAD-
Sec. 4029. Regulations

-STATUTE-
(a) In general
Not later than 12 months after October 25, 1994, the Secretary shall promulgate final regulations for the implementation of this subchapter. All regulations promulgated pursuant to this subchapter shall be developed by the Secretary with the full and active participation of the Indian tribes with trust funds held by the Secretary and other affected Indian tribes.

(b) Effect
The lack of promulgated regulations shall not limit the effect of this subchapter.

-SOURCE-
(Pub. L. 103-412, title II, Sec. 209, Oct. 25, 1994, 108 Stat. 4243.)

-CITE-
25 USC SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS.

-HEAD-
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-CITE-
25 USC Sec. 4041 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM

SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-
Sec. 4041. Purposes

-STATUTE-
The purposes of this subchapter are -
(1) to provide for more effective management of, and accountability for the proper discharge of, the Secretary's trust responsibilities to Indian tribes and individual Indians by establishing in the Department of the Interior an Office of Special Trustee for ***American*** Indians to oversee and coordinate reforms within the Department of practices relating to the management and discharge of such responsibilities;
(2) to ensure that reform of such practices in the Department is carried out in a unified manner and that reforms of the policies, practices, procedures and systems of the Bureau, Minerals Management Service, and Bureau of Land Management, which carry out such trust responsibilities, are effective, consistent, and integrated; and
(3) to ensure the implementation of all reforms necessary for the proper discharge of the Secretary's trust responsibilities to Indian tribes and individual Indians.

-SOURCE-
(Pub. L. 103-412, title III, Sec. 301, Oct. 25, 1994, 108 Stat. 4244.)

-CITE-
25 USC Sec. 4042 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-
Sec. 4042. Office of Special Trustee for ***American*** Indians

-STATUTE-
(a) Establishment
There is hereby established within the Department of the Interior the Office of Special Trustee for ***American*** Indians. The Office shall be headed by the Special Trustee who shall report directly to the Secretary.

(b) Special Trustee
(1) Appointment
The Special Trustee shall be appointed by the President, by and

with the advice and consent of the Senate, from among individuals who possess demonstrated ability in general management of large governmental or business entities and particular knowledge of trust fund management, management of financial institutions, and the investment of large sums of money.

(2) Compensation

The Special Trustee shall be paid at a rate determined by the Secretary to be appropriate for the position, but not less than the rate of basic pay payable at Level II of the Executive Schedule under section 5313 of title 5.

(c) Termination of Office

(1) Conditioned upon implementation of reforms

The Special Trustee, in proposing a termination date under section 4043(a)(2)(C) of this title, shall ensure continuation of the Office until all reforms identified in the strategic plan have been implemented to the satisfaction of the Special Trustee.

(2) 30-day notice

Thirty days prior to the termination date proposed in the plan submitted under this section, the Special Trustee shall notify the Secretary and the Congress in writing of the progress in implementing the reforms identified in the plan. The Special Trustee, at that time, may recommend the continuation, or the permanent establishment, of the Office if the Special Trustee concludes that continuation or permanent establishment is necessary for the efficient discharge of the Secretary's trust responsibilities.

(3) Termination date

The Office shall terminate 180 legislative days after the date on which the notice to the Congress under paragraph (2) is provided, unless the Congress extends the authorities of the Special Trustee. For the purposes of this section, a legislative day is a day on which either House of the Congress is in session.

SOURCE-

(Pub. L. 103-412, title III, Sec. 302, Oct. 25, 1994, 108 Stat. 4244.)

-SECREF-

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in sections 4001, 4043 of this title.

-CITE-

25 USC Sec. 4043 01/05/99

-EXPCITE-

TITLE 25 - INDIANS

CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM

SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-
Sec. 4043. Authorities and functions of Special Trustee

-STATUTE-
(a) Comprehensive strategic plan
(1) In general
The Special Trustee shall prepare and, after consultation with Indian tribes and appropriate Indian organizations, submit to the Secretary and the Committee on Natural Resources of the House of Representatives and the Committee on Indian Affairs of the Senate, within one year after the initial appointment is made under section 4042(b) of this title, a comprehensive strategic plan for all phases of the trust management business cycle that will ensure proper and efficient discharge of the Secretary's trust responsibilities to Indian tribes and individual Indians in compliance with this chapter.
(2) Plan requirements
The plan prepared under paragraph (1) shall include the following:
(A) Identification of all reforms to the policies, procedures, practices and systems of the Department, the Bureau, the Bureau of Land Management, and the Minerals Management Service necessary to ensure the proper and efficient discharge of the Secretary's trust responsibilities in compliance with this chapter.
(B) Provisions for opportunities for Indian tribes to assist in the management of their trust accounts and to identify for the Secretary options for the investment of their trust accounts, in a manner consistent with the trust responsibilities of the Secretary, in ways that will help promote economic development in their communities.
(C) A timetable for implementing the reforms identified in the plan, including a date for the proposed termination of the Office.

(b) Duties
(1) General oversight of reform efforts
The Special Trustee shall oversee all reform efforts within the Bureau, the Bureau of Land Management, and the Minerals Management Service relating to the trust responsibilities of the Secretary to ensure the establishment of policies, procedures, systems and practices to allow the Secretary to discharge his trust responsibilities in compliance with this chapter.
(2) Bureau of Indian Affairs
(A) Monitor reconciliation of trust accounts
The Special Trustee shall monitor the reconciliation of tribal and Individual Indian Money trust accounts to ensure that the Bureau provides the account holders, with a fair and

accurate accounting of all trust accounts.

(B) Investments

The Special Trustee shall ensure that the Bureau establishes appropriate policies and procedures, and develops necessary systems, that will allow it -

(*i*) properly to account for and invest, as well as maximize, in a manner consistent with the statutory restrictions imposed on the Secretary's investment options, the return on the investment of all trust fund monies, and

(ii) to prepare accurate and timely reports to account holders (and others, as required) on a periodic basis regarding all collections, disbursements, investments, and return on investments related to their accounts.

(C) Ownership and lease data

The Speci al Trustee shall ensure that the Bureau establishes policies and practices to maintain complete, accurate, and timely data regarding the ownership and lease of Indian lands.

(3) Bureau of Land Management

The Special Trustee sh all ensure that the Bureau of Land Management establishes policies and practices adequate to enforce compliance with Federal requirements for drilling, production, accountability, environmental protection, and safety with respect to the lease of Indian lands.

(4) Minerals Management Service

The Special Trustee shall ensure that the Minerals Management Service establishes policies and practices to enforce compliance by lessees of Indian lands with all require ments for timely and accurate reporting of production and payment of lease royalties and other revenues, including the audit of leases to ensure that lessees are accurately reporting production levels and calculating royalty payments.

(c) Coordination of policies

(1) In general

The Special Trustee shall ensure that -

(A) the policies, procedures, practices, and systems of the Bureau, the Bureau of Land Management, and the Minerals Manageme nt Service related to the discharge of the Secretary's trust responsibilities are coordinated, consistent, and integrated, and

(B) the Department prepares comprehensive and coordinated written policies and procedures for e ach phase of the trust management business cycle.

(2) Standardized procedures

The Special Trustee shall ensure that the Bureau imposes standardized trust fund accounting procedures throughout the Bureau.

(3) Integrat ion of ledger with investment system

The Special Trustee shall ensure that the trust fund investment, general ledger, and subsidiary accounting systems of the Bureau are integrated and that they are adequate to support the trust fund investment needs of the Bureau.

(4) Integration of land records, trust funds accounting, and asset management systems among agencies

The Special Trustee shall ensure that -

(A) the land records system of the Bureau interfaces with the trust fund accounting system, and

(B) the asset management systems of the Minerals Management Service and the Bureau of Land Management interface with the appropriate asset management and accounting systems of the Bureau, including ensuring that -

(*i*) the Minerals Management Service establishes policies and procedures that will allow it to properly collect, account for, and disburse to the Bureau all royalties and other revenues generated by production from leases on Indian lands; and

(ii) the Bureau of Land Management and the Bureau provide Indian landholders with accurate and timely reports on a periodic basis that cover all transactions related to leases of Indian resources.

(5) Trust Management program budget

(A) Development and submission

The Special Trustee shall develop for each fiscal year, with the advice of program managers of each office within the Bureau of Indian Affairs, Bureau of Land Management and Minerals Management Service that participates in trust management, including the management of trust funds or natural resources, or which is charged with any responsibility under the comprehensive strategic plan prepared under subsection (a) of this section, a consolidated Trust Management program budget proposal that would enable the Secretary to efficiently and effectively discharge his trust responsibilities and to implement the comprehensive strategic plan, and shall submit such budget proposal to the Secretary, the Director of the Office of Management and Budget, and to the Congress.

(B) Duty of certain program managers

Each program manager participating in trust management or charged with responsibilities under the comprehensive strategic plans shall transmit his office's budget request to the Special Trustee at the same time as such request is submitted to his superiors (and before submission to the Office of Management and Budget) in the preparation of the budget of the President submitted to the Congress under section 1105(a) of title 31.

(C) Certification of adequacy of budget request

The Special Trustee shall -

(*i*) review each budget request submitted under subparagraph (B);

(ii) certify in writing as to the adequacy of such request to discharge, effectively and efficiently, the Secretary's trust responsibilities and to implement the comprehensive strategic plan; and

(iii) notify the program manager of the Special Trustee's certification under clause (ii).

(D) Maintenance of records

The Special Trustee shall maintain records of certifications made under subparagraph (C).

(E) Limitation on reprogramming or transfer

No program manager shall submit, and no official of the Department of the Interior may approve or otherwise authorize, a reprogramming or transfer request with respect to any funds appropriated for trust management which is included in the Trust Management Program Budget unless such request has been approved by the Special Trustee.

(d) Problem resolution

The Special Trustee shall provide such guidance as necessary to assist Department personnel in identifying problems and options for resolving problems, and in implementing reforms to Department, Bureau, Bureau of Land Management, and Minerals Management Service policies, procedures, systems and practices.

(e) Special Trustee access

The Special Trustee, and his staff, shall have access to all records, reports, audits, reviews, documents, papers, recommendations, files and other material, as well as to any officer and employee, of the Department and any office or bureau thereof, as the Special Trustee deems necessary for the accomplishment of his duties under this chapter.

(f) Annual report

The Special Trustee shall report to the Secretary and the Committee on Natural Resources of the House of Representatives and the Committee on Indian Affairs of the Senate each year on the progress of the Department, the Bureau, the Bureau of Land Management, and the Minerals Management Service in implementing the reforms identified in the comprehensive strategic plan under subsection (a)(1) of this section and in meeting the timetable established in the strategic plan under subsection (a)(2)(C) of this section.

-SOURCE-

(Pub. L. 103-412, title III, Sec. 303, Oct. 25, 1994, 108 Stat. 4245; Pub. L. 104-109, Sec. 6(a), Feb. 12, 1996, 110 Stat. 764.)

-MISC1-

AMENDMENTS

1996 - Subsec. (c)(5)(D). Pub. L. 104-109 substituted "subparagraph (C)" for "paragraph (3)(B)".

-CHANGE-

CHANGE OF NAME

Committee on Natural Resources of House of Representatives treated as referring to Committee on Resources of House of Representatives by section 1(a) of Pub. L. 104 -14, set out as a note preceding section 21 of Title 2, The Congress.

-SECREF-

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in section 4042 of this title.

-CITE-

25 USC Sec. 4044 01/05/99

-EXPCITE-

TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-

Sec. 4044. Reconciliation report

-STATUTE-

The Secretary shall transmit to the Committee on Natural Resources of the House of Representatives and the Committee on Indian Affairs of the Senate, by May 31, 1996, a report identifying for each tribal trust fund account for which the Secretary is responsible a balance reconciled as of Septembe r 30, 1995. In carrying out this section, the Secretary shall consult with the Special Trustee. The report shall include -

(1) a description of the Secretary's methodology in reconciling trust fund accounts;

(2) attestations b y each account holder that -

(A) the Secretary has provided the account holder with as full and complete accounting as possible of the account holder's funds to the earliest possible date, and that the account holder accep ts the balance as reconciled by the Secretary; or

(B) the account holder disputes the balance of the account holder's account as reconciled by the Secretary and statement explaining why the account holder disputes the Secr etary's reconciled balance; and

(3) a statement by the Secretary with regard to each account balance disputed by the account holder outlining efforts the Secretary will undertake to resolve the dispute.

-SOURCE-
(Pub. L. 103-412, title III, Sec. 304, Oct. 25, 1994, 108 Stat. 4248.)

-CHANGE-

CHANGE OF NAME

Committee on Natural Resources of House of Representatives treated as referring to Committee on Resources of House of Representatives by section 1(a) of Pub. L. 104 -14, set out as a note preceding section 21 of Title 2, The Congress.

-CITE-
25 USC Sec. 4045 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-
Sec. 4045. Staff and consultants

-STATUTE-
(a) Staff

The Special Trustee may employ such staff as the Special Trustee deems necessary. The Special Trustee may request staff assistance from within the Department and any office or Bureau thereof as the Special Trustee deems necessary.

(b) Contracts

To the extent and in such amounts as may be provided in advance by appropriations Acts, the Special Trustee may enter into contracts and other arrangements with public agencies and with private persons and organizations for consulting services and make such payments as necessary to carry out the provisions of this subchapter.

-SOURCE-
(Pub. L. 103-412, title III, Sec. 305, Oct. 25, 1994, 108 Stat. 4248.)

-CITE-
25 USC Sec. 4046 01/05/99

-EXPCITE-
TITLE 25 - INDIANS

CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER III - SPECIAL TRUSTEE FOR ***AMERICAN*** INDIANS

-HEAD-
Sec. 4046. Advisory board

-STATUTE-
(a) Establishment and membership
Notwithstanding any other provision of law, the Special Trustee shall establish an advisory board to provide advice on all matters within the jurisdiction of the Special Trustee. The advisory board shall consist of nine members, appointed by the Special Trustee after consultation with Indian tribes and appropr iate Indian organizations, of which -

(1) five members shall represent trust fund account holders, including both tribal and Individual Indian Money accounts;
(2) two members shall have practical experience in trust fund and financial management;
(3) one member shall have practical experience in fiduciary investment management; and
(4) one member, from academia, shall have knowledge of general management of large organizations.

(b) Term
Each member shall serve a term of two years.

(c) FACA
The advisory board shall not be subject to the Federal Advisory Committee Act.

(d) Termination
The advisory board shall terminate upon termination of the Office of Special Trustee.

-SOURCE-
(Pub. L. 103-412, title III, Sec. 306, Oct. 25, 1994, 108 Stat. 4249; Pub. L. 104-109, Sec. 6(b), Feb. 12, 1996, 110 Stat. 764.)

-REFTEXT-
REFERENCES IN TEXT
The Federal Advisory Committee Act, referred to in subsec. (c), is Pub. L. 92-463, Oct. 6, 1972, 86 Stat. 770, as amended, which is set out in the Appendix to Title 5, Government Organization and Employees.

-MISC2-
AMENDMENTS
1996 - Subsec. (d). Pub. L. 104-109 substituted "advisory board" for "Advisory Board".

-CITE-
25 USC SUBCHAPTER IV - AUTHORIZATION OF APPROPRIATIONS
01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER IV - AUTHORIZATION OF APPROPRIATIONS.

-HEAD-
SUBCHAPTER IV - AUTHORIZATION OF APPROPRIATIONS

-CITE-
25 USC Sec. 4061 01/05/99

-EXPCITE-
TITLE 25 - INDIANS
CHAPTER 42 - ***AMERICAN*** INDIAN TRUST FUND MANAGEMENT REFORM
SUBCHAPTER IV - AUTHORIZATION OF APPROPRIATIONS

-HEAD-
Sec. 4061. Authorization of appropriations

-STATUTE-
There is authorized to be appropriated such sums as may be necessary to carry out the pr ovisions of this chapter.

-SOURCE-
(Pub. L. 103-412, title IV, Sec. 401, Oct. 25, 1994, 108 Stat. 4249.)

http://law2.house.gov/uscode -cgi/fastweb.exe?getdoc+uscview+t21t25+6052+0++%28%29%20%20AND%20%28%2825%29%20ADJ%20USC%29%3ACITE%20AND%20%28USC%20w%2F10%20%284001%29%29%3ACITE%20%20%20%20%20%20%20%20%20

Appendix N – Secretarial Order No. 3197

ARCHIVE:
THIS DOCUMENT HAS EXPIRED
OR BEEN SUPERSEDED

United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

ORDER NO. 3197
SIGNATURE DATE: February 9, 1996

Subject: Establishment of the Office of Special Trustee for American Indians and Transfer of Trust Funds Management Functions from the Bureau of Indian Affairs

Sec. 1 **Purpose**. This Order establishes the Office of Special Trustee for American Indians, which shall be managed by a Special Trustee, and transfers the Office of Trust Funds Management and other financial trust service functions from the Burea u of Indian Affairs (BIA) into the Office of Special Trustee.

Sec. 2 **Authority**. This Order is issued in accordance with the authority provided by P.L. 103-412, the American Indian Trust Fund Management Reform Act of 1994 (the Act), and Section 2 of Reorga nization Plan No. 3 of 1950 (64 Stat. 1262), as amended.

Sec. 3 **Organization**.

a. The Office of Special Trustee for American Indians, managed by the Special Trustee, is established and reports to the Secretary. The Special Trustee is appointed by the President.

b. The Office of Trust Funds Management (OTFM) is transferred intact from the BIA to the Office of Special Trustee. The Director, OTFM, reports to the Special Trustee, who has line authority over the OTFM. Administrative support for the OTFM contin ues to be provided by the BIA.

c. Financial trust services performed at the Area and Agency level of the BIA are transferred to the Office of Special Trustee.

Sec. 4 **Delegations of Authority**. The delegations of authority to the Assistant Secretary - Indian Affairs concerning Indian Trust Funds Management are hereby rescinded. The Special Trustee, under the supervision of the Secretary, is hereby delegated all program and administrative authority necessary to carry out the responsibilities of the Office. T his authority may be redelegated.

Sec. 5 **Implementation**. The Assistant Secretary - Policy, Management and Budget will ensure implementation of this Order, including the appropriate transfer of personnel, funds, programs, records and property.

Sec. 6 **Effective Date**. This Order is effective immediately. It will remain in effect until its provisions are converted to the Departmental Manual or until it is amended, superseded or revoked, whichever comes first. In the absence of the foregoing action, the provisions of this Order will terminate and be considered obsolete on October 1, 1997.

/s/ Bruce Babbitt
Secretary of the Interior
SO#3197 2/9/96

http://elips.doi.gov/elips/sec_order s/html_orders/3197.htm

Appendix O – Secretarial Order No. 3215

United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

ORDER NO. 3215
SIGNATURE DATE: April 28, 2000
Subject: Principles for the Discharge of the Secretary's Trust Responsibility
Sec. 1 **Purpose.** This Order is intended to provide guidance to the employees of the Department of the Interior who are responsible for carrying out the Secretary's trust responsibility as it pertains to Indian trust assets. All Departmental regulations, policy statements, instructions, or manuals regarding the discharge of the Secretary's trust responsibility shall be interpreted or developed using these trust principles. In addition, these principles provide guidance to all persons who manage Indian trust assets.
This Order is intended to address neither the unique government-to-government relationship between the United States and American Indian and Alaska Native tribal governments nor the unique relationship between the United States and individual Indians, both of which have been referred to as a trust responsibility.
Sec. 2 **Background.** The trust responsibility is defined by treaties, statutes, and Executive orders. The most comprehensive and informative legislative statement of Secretarial duties in regard to the trust responsibility of the United States was set out in the American Indian Trust Fund Management Reform Act of 1994 (Reform Act), Pub. L. 103-412, Oct. 25, 1994, 108 Stat. 4239. The Reform Act provides:
The Secretary's proper discharge of the trust responsibilities of the United States shall include (but are not limited to) the following:
(1) Providing adequate systems for accounting for and reporting trust fund balances.
(2) Providing adequate controls over receipts and disbursements.
(3) Providing periodic, timely reconciliations to assure the accuracy of accounts.
(4) Determining accurate cash balances.
(5) Preparing and supplying account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis.
(6) Establishing consistent, written policies and procedures for trust fund management and accounting.
(7) Providing adequate staffing, supervision, and training for trust fund management and accounting.
(8) Appropriately managing the natural resources located within the boundaries of Indian reservations and trust lands.
25 U.S.C. § 162a(d).
As stated in the Reform Act, this list of duties is not exhaustive. Therefore, to understand the nature of the Department's duties, we must look to a variety of other sources for guidance. One internal Departmental source of guidance is legal advice from the Solicitor's Office. The Solicitor's Office continues to provide the Department with guidance through formal and informal legal advice regarding its trust responsibility. The most comprehensive document available on this subject is a letter by Solicitor Krulitz dated November 21, 1978, analyzing the federal government's responsibility concerning Indian property interests. This legal guidance from the Solicitor's Office informs our interpretation of the duties required by treaties, statutes, and Executive orders.

Legal guidance also is found in judicial decisions. In Seminole Nation v. United States, 316 U.S. 286 (1942), the Supreme Court said that the government in its dealings with Indians is charged with "moral obligations of the highest responsibility and trust" and should be "judged by the most exacting fiduciary standard." Id. at 296. Many other cases too numerous to list here have discussed the trust responsibility. See Poafybitty v. Skelly Oil Co., 390 U.S. 365 (1968); Nevada v. United States, 463 U.S. 110 (1983); United States v. Mitchell, 463 U.S. 206 (1983) (Mitchell II); White Mountain Apache Tribe v. United States, 20 Cl. Ct. 371 (1990); Pyramid Lake Paiute Tribe v. Morton, 354 F. Supp. 252 (D.D.C. 1972); and Cobell v. Babbitt, 1999 WL 1581470 (D.D.C. Dec. 21, 1999). It is with this legal history in mind that I issue this Order. This Order is intended to provide guiding principles to interpret or develop policy statements, regulations, and instructions regarding the proper discharge of the Secretary's trust r esponsibility. It would be beyond my authority, and this Order is not intended, to impose the legal standards by which a breach of trust claim would be reviewed in a court of law.

Sec. 3 **Authority.** This Order is issued in accordance with the Reform Act.

Sec. 4 **Definitions.**

a. "Beneficial owner" means both Indian tribes and individual Indians who are the beneficial owners of Indian trust assets held by the federal government in trust or with a restriction against alienation.

b. "Persons who manage Indian trust assets" means Departmental employees or contractors, or Indian tribes that have been properly delegated specific authority to manage or administer Indian trust assets.

c. "Trustee" means the Secretary or any person who has been properly authorized to act as the Trustee for Indian trust assets.

d. "Indian trust assets" means lands, natural resources, money, or other assets held by the federal government in trust or that are restricted against alienation for Indian tribes and individual Indians.

e. "Trust responsibility" as used in this Order only pertains to Indian trust assets.

Sec. 5 **Trust Principles.** The proper discharge of the Secretary's trust responsibility requires, without limitation, that the Trustee, with a high degree of care, skill, and loyalty:

a. Protect and preserve Indian trust assets from loss, damage, unlawful alienation, waste, and depletion;

b. Assure that any management of Indian trust assets that the Secretary has an obligation to undertake promotes the interest of the benefi cial owner and supports, to the extent it is consistent with the Secretary's trust responsibility, the beneficial owner's intended use of the assets;

c. Enforce the terms of all leases or other agreements that provide for the use of trust assets, and take appropriate steps to remedy trespass on trust or restricted lands;

d. Promote tribal control and self -determination over tribal trust lands and resources;

e. Select and oversee persons who manage Indian trust assets;

f. Confirm that tribes that manage Indian trust assets pursuant to contracts and compacts authorized by the Indian Self-Determination and Education Assistance Act, 25 U.S.C. 450, et seq., protect and prudently manage Indian trust assets;

g. Provide oversight and review of the performance o f the Secretary's trust responsibility, including Indian trust asset and investment management programs, operational systems, and information systems;

h. Account for and timely identify, collect, deposit, invest, and distribute income due or held on behalf of tribal and individual Indian account holders;

i. Maintain a verifiable system of records that is capable, at a minimum, of identifying: (1) the location, the beneficial owners, any legal encumbrances (i.e., leases, permits, etc.), the user of the res ource, the rents and monies paid, if any, and the value of trust or restricted lands and resources; (2) dates of collections, deposits, transfers, disbursements, third party obligations (i.e., court ordered child support, judgements, etc.), amount of earnings, investment instruments and closing of all trust fund accounts; (3) documents pertaining to actions taken to prevent or compensate for any diminishment of the Indian trust assets; and (4) documents that evidence the Secretary's actions regarding the management and disposition of Indian trust assets;
j. Establish and maintain a system of records that permits beneficial owners to obtain information regarding their Indian trust assets in a timely manner and protect the privacy of such information in accor dance with applicable statutes;
k. Invest tribal and individual Indian trust funds to make the trust account reasonably productive for the beneficial owner consistent with market conditions existing at the time the investment is made;
l. Communicate with beneficial owners regarding the management and administration of Indian trust assets; and
m. Protect treaty -based fishing, hunting, gathering, and similar rights of access and resource use on traditional tribal lands.
Sec. 6 **General Provision.** This Order is intended to enhance the Department's management of the Secretary's trust responsibility. It is not intended to, and does not, create any right to administrative or judicial review, or any legal right or benefit, substantive or procedural, enforceable by a party against the United States, its agencies, or instrumentalities, its officers or employees, or any other person.
Sec. 7 **Implementation.** This Order shall be implemented as guidance for the employees of all bureaus and offices within the Department as they review, modify or promulgate new regulations, policy statements, instructions or manuals, as they develop legislative and budgetary proposals, and as they manage, administer, or take other actions directly relating to or potentially affecting asse ts held in trust by the United States for Indian tribes and individual Indians.
Sec. 8 **Effective Date.** This Order is effective immediately. It will remain in effect until its provisions are converted to the Departmental Manual, or until it is amended, superseded or revoked, whichever comes first. In the absence of any of the foregoing actions, the provisions of this Order will terminate and be considered obsolete on October 31, 2000.
/s/ Bruce Babbitt
Secretary of the Interior
SO#3215 4/28/00

http://elips.doi.gov/elips/sec_orders/html_orders/3215.htm

Appendix P – Secretarial Order No. 3208

United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, D.C. 20240

ORDER NO. 3208, Amendment No. 2 ***Amended material italicized***
SIGNATURE DATE: April 28, 2000
Subject: Reorganization of the Office of the Special Trustee for American Indians
Sec. 1 **Purpose**. This Order reorganizes the Office of the Special Trustee for American Indians (Office of the Special Trustee) to strengthen and clarify certain management responsibilities relating to the supervision of field units and coordination of the High Level Implementation Plan.
Sec. 2 **Authority**. This Order is issued in accordance with the American Indian Trust Fund Management Act of 1994 (Act), P.L. 103 -412 (25 U.S.C. 4001 et seq), and Section 2 of Reorganization Plan No. 3 of 1950 (64 stat. 1262), as amended.
Sec. 3 **Organization**.
a. The Immediate Office of the Special Trustee is managed by the Special Trustee, who reports directly to the Secretary, and is responsible for carrying out Section 303 of the Act. A Deputy Trustee for Policy reports to the Special Trustee.
b. There is hereby established in the Office of the Special Trustee the position of Principal Deputy Special Trustee (Principal Deputy). The Principal Deputy reports to and acts in the absence of the Special Trustee and serves as the Chief Operating Officer with full responsibility for policy execution, budget formulation and execution, and day to day operating responsibilities for the Office of the Special Trustee. The Principal Deputy is responsible for oversight of the High Level Implementation Plan.
c. The Office of Trust Funds Management, headed by a Director, previously transferred to the Office of the Special Trustee by Secretary's Order 3197, shall report to the Principal Deputy.
d. The Office of Trust Litigation Support and Records, headed by a Director who reports to the Principal Deputy, is hereby established in the Office of the Special Trustee. The Office is responsible for Indian trust records management, and for providing accounting, reconciliation, research, settlement and litigation support related to the management of Indian trust assets, including document production and records management responsibilities.
Sec. 4 **Implementation**. The Assistant Secretary - Policy, Management and Budget is responsible for implementing this Order including the appropriate transfer of personnel, funds, programs, records and property.
Sec. 5 **Effective Date**. This Order is effective immediately and will remain in effect until its provisions are converted to the Departmental Manual or until it is amended, superseded or revoked, whichever comes first. In the absence of the foregoing actions, the provisions of this Order will terminate and be considered obsolete on ***September 29, 2000***.
/s/ Bruce Babbitt
Secretary of the Interior
SO#3208A2 4/28/00
Replaces SO#3208A1 12/29/99
Replaces SO#3208 1/5/99
http://elips.doi.gov/elips/sec_orders/html_orders/3208_A2.htm

Appendix Q – Review of Internal Controls of Automated Systems

Financial Service and Technology, Inc. (FSTN) is an organization whose members consist of user groups who can request reviews of automated systems. The Department of the Interior is a member that uses FSTN's services. This organization out sources review work to Major Accounting firms through a subcontractor -SEI Investments Controls (SEI) to do audits and assure clients that reasonable internal controls are in place. Any member of a group can use FSTN's services. To be a member, a user must have a large number of groups. Most of its clients consist of large banks with large trust responsibilities.

The outsource accounting firms issue reports called SAS's (Statements of Auditing Standards). The SAS's are standards that external auditors are required to follow and the report(s) give its members reasonable assurances that their internal controls are sound. One such report is the SAS No. 70 Report issued for the Trust Fund Accounting System (TFAS). Price Waterhouse Coopers LLP, an independent certified public accounting firm, examined the internal controls.

Managers are encouraged to go to contractors such as SEI or FSTN with internal control concerns. FSTN specializes in trust functions and can be used to find satisfactory solutions to problems that may occur in systems development.

Appendix R - Guidance for FFMIA 1996

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS AND INSPECTOR GENERALS AT CFOs ACT AGENCIES

September 9th, 1997

FROM: G. Edward DeSeve G Acting Deputy Director for Management

SUBJECT: Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996

The attached document provides guidance for agencies and au ditors to use in assessing compliance with the FFMIA. It was prepared by an interagency working group composed of representatives from the Chief Financial Officers (CFO) Council's Systems Committee, the President's Council for Integrity and Efficiency's (PCIE) Audit Committee, the General Accounting Office (GAO), and the Office of Management and Budget (0MB). It reflects input received by the working group from CFO and Inspector General (IG) offices covered by the FFMIA.

This guidance is effective for FY 1997 reporting. It is interim guidance and will be replaced during 1998 with revisions to selected 0MB policy documents (0MB Circular A - 127,

Financial Management System; 0MB Circular A-l1, *Preparation and Submission of Budget Estimates;* OMB's Audit Bulletin; and OMB's Bulletin on the Form and Content of FinancialStatements).

Questions concerning this guidance should be directed to Jean Holcombe at 202-395-5048.

THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

OMB IMPLEMENTATION GUIDANCE FOR CFOs and IGs

Introduction

The Federal Financial Management Improvement Act of 1996 (FFMIA), 31 U.S.C. 3512, fundamentally does two things:

- in statute, the Act establishes certain financial management system requirements that are already established by Executive Branch policies; and

- establishes new requirements for auditors to report on agency compliance with these basic requirements, and for agency heads and agency management to correct deficiencies within a certain time period.

A good understanding of FFMIA will be gained by understanding these two basic features.

Substantive statutory requirement:

The 1997 Omnibus Consolidated Appropriations Act includes Title VIII, the "Federal Financial Management Improvement Act of 1996." This Act, which applies to CFO agencies as defined in Section 901(b) of title 31 U.S.C., states in Section 803 (a):

> "In General -- Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

These three requirements -- Federal financial management system requirements, applicable Federal accounting standards, and the SGL -- are already well-established in Executive Branch policy documents. These documents (which are described in more detail below) include: OMB Circulars (A-127, Financial Management Systems, OMB A-134, Financial Accounting Principles and Standards); Joint Financial Management Improvement Program (JFMIP) documents (such as the Core System Requirements); and Treasury Department policies.

Section 803 (a) of FFMIA does not establish any new financial system requirements.

Other sections of FFMIA do establish new procedural requirements. However, these new requirements follow the basic principles established in Federal audit policies:

- Section 803 (b)(1) requires that auditors include in their financial statement audits a report on compliance with FFMIA;

- section 803 (c)(1) requires that head of each agency determine whether the agency's financial management systems comply with the Act based on a review of the report on the applicable agency-wide audited financial statement and any other information the head of the agency considers relevant and appropriate;

- section 803 (c)(3) requires that when the agency head disagrees with the auditor's findings the Director of OMB shall review such determinations and provide a report on the findings to the appropriate committees of the Congress;

- section 803 (c)(3) requires that when the agency agrees with the auditor's findings of noncompliance, a remediation plan be developed in consultation with OMB that describes the resources and milestones for achieving compliance; and

- finally, section 804 (b) requires that the Inspector General report on agency progress in achieving compliance in the IG's semiannual report required by the IG Act as amended.

In addition to these reporting requirements, both OMB and GAO have annual reporting requirements under the Act. More detailed information regarding agency responsibilities follows.

Interim Guidance

FFMIA is effective for the fiscal year ending September 30, 1997. The first reports required by FFMIA will be a part of the auditor's report on the FY 1997 financial statements. The guidance that follows is intended as interim guidance to be used as part of audits of Federal financial statements for FY 1997 reporting.

Following a brief period in which agency management and audit staff have an opportunity to operate under these interim guidelines, OMB, in cooperation with the CFO and IG communities will revise appropriate OMB documents (e.g., OMB Circular A -127 and the Audit Bulletin) to incorporate these guidelines, including any subsequent revisions, into final OMB policy.

Relationship to Section 4 of the Federal Managers' Financial Integrity Act

There is a close, if not overlapping, relationship between FFMIA and the Federal Managers' Financial Integrity Act (Integrity Act or FMFIA). [Since the acronyms are similar, the FMFIA requirements will be referred to as the Integrity Act in this memorandum to avoid confusion.] The Integrity Act requires that the agency head, on an annual basis no later than December 31, provide an assurance statement with respect to agency management controls (Section 2) and agency compliance with financial management system requirements (Section 4). For the most part, in many agencies, the Integrity Act statement of assurance for Section 4 will provide management's assertion of compliance with section 803 (a) of FFMIA.

Section 803, Implementation of Federal Financial Management Improvements

Section 803 (a) states: "In General -- Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

This section of the guidance more fully describes (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the U.S. SGL at the transaction level. In each section, information is provided on "substantial compliance" and types of indicators that should be used in assessing whether an agency is in "substantial compliance." The criteria are broad and flexible and yet provide a practical basis for measuring achievement in complying with the FFMIA requirements.

(1) Federal financial management systems requirements

Circular A-127 prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. In addition, Circular A-127 also incorporates by reference: Circular A -123, Management Accountability and Control; A-130, Management of Federal Information Resources; other operating policies and related requirements prescribed by OMB; and Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program (JFMIP).

The financial management systems subject to the requirements of FFMIA are included in the inventory of financial management systems subject to the requirements of Section 4 of the Integrity Act.

Compliance with the financial management systems requirements of FFMIA applies to all financial management systems essential to meeting financial statement preparation and budgetary reporting requirements.

An agency [department] of the Federal Government will be considered to be in substantial compliance with financial management system requirements if:

- Financial management systems meet Circular A-127 requirements which, for purposes of complying with this Act, call for systems to: support management's fiduciary role; support the legal, regulatory, and other special management requirements of the agency; support the budget execution functions; support fiscal management of program delivery and program decision making; comply with internal and external reporting requirements, including, as necessary, the requirement for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and be monitored by agency staff to ensure the integrity of financial data. This is accomplished through a unified set of systems comprised of financial systems and financial portions of mixed systems. These systems may or may not be operated by the CFO's office.

- Financial management systems follow requirements published in JFMIP's Federal Financial Management System Requirements series which prescribe the functions that must be performed by systems to capture information for financial statement preparation.

- Compensating procedures are applied to financial management information produced by third parties such as service bureaus when it is determined that systems used by third parties to provide those services do not comply with the provisions of the FFMIA.

- Security over financial information is provided in accordance with Circular A-130, Appendix 3.

- Internal controls over financial management systems are designed properly and operating effectively. (For purposes of this interim guidance, internal controls are described in OMB Bulletin 93-06, and it is not expected that the scope of the auditor's work in this area would extend beyond the requirements of the Bulletin.)

- The agency is implementing a plan which is expected to address the year 2000 computer problem.

Indicators:

- Annual assurance statement issued pursuant to the Section 4 Integrity Act report does not reflect any material weaknesses relative to the three areas covered by the FFMIA.

- Audit procedures performed for the purpose of obtaining evidence in support of the auditor's opinion on the financial statements did not disclose material weaknesses or non-compliance with legal or regulatory requirements of the agency.

- Standard budget execution information is provided to OMB and Treasury in the manner requested, on a timely basis and consistent with budget execution information used internally within the agency.

- Agency senior management and Program Managers have access to timely financial information on the status of funds (commitments, reservation and obligations) by operating units and programs that allows analysis of data for decision making.

- Funds control decisions are based on information provided from the agency's financial management systems.

- The agency core financial system, supported by other systems containing the detail data summarized in the core financial system, is the source of information used in the preparation of the annual financial statements and other internal and external reporting requirements. Detailed information contained in these other systems also may be used as the source information for reporting where summarized information contained in the agency core system does not provide the details necessary to meet reporting requirements.

- The agency has a management control program that identifies and reports deficiencies in financial management systems, including deficiencies resulting in non-compliance with FFMIA, and ensures such deficiencies are corrected.

- Pursuant to the February 6, 1997, OMB report to Congress entitled "Getting Federal Computers Ready for 2000," and OMB Memorandum M-97-13, "Computer Difficulties Due to the Year 2000 -- Progress Reports," dated May 7, 1997, the agency has completed the majority of the work required for each of the government -wide milestones (included in the February 6,1997 report) that should have been completed by September 30, 1997 (i.e., the awareness and assessment phases), and the agency has submitted the required quarterly progress reports to OMB.

(2) Federal Accounting Standards

The OMB Bulletin, Form and Content of Agency Financial Statements, provides the hierarchy of accounting principles and standards for the Federal Government. The current hierarchy, as provided in OMB Bulletin 97-01, is as follows:

1. Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of Treasury and published by OMB and the General Accounting Office.

2. Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."

3. Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements.

4. Accounting principles published by other authoritative standard -setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

An agency [department] of the Federal Government will be considered in substantial compliance with financial accounting standards if the agency [department] can prepare audited financial statements in accordance with applicable accounting standards. Substantial compliance does not require all transactions to be in full compliance with financial accounting standards at the point of original entry, but that financial information used in the preparation of financial statements, based on such transactions, is adequately supported by detailed financial records (automated or manual).

Indicators:

- An unqualified opinion on the agency's financial statements. For a qualified opinion, a review of the underlying reasons for the qualified opinion is needed to determine whether or not the agency [department] is in substantial compliance with this requirement. In limited circumstances, a qualified opinion on the agency's financial statements may indicate substantial compliance with this requirement when it is solely due to reasons other than the agency's ability to prepare auditable financial statements. Further, a disclaimer of opinion may not indicate substantial noncompliance with this requirement when it results from a material uncertainty, such as resolution of litigation or projecting future economic events.

- No material weaknesses in internal controls that affect the agency's ability to prepare auditable financial statements and related disclosures.

(3) United States Government Standard General Ledger (SGL) at the Transaction Level

Implementing the Standard General Ledger at the transaction level requires that the Core Financial System General Ledger Management Function is in full compliance with the Standard General Ledger (SGL) chart of accounts descriptions and posting rules; transactions from feeder systems are summarized and fed into the Core Financial System's General Ledger following SGL requirements through an interface (automated or manual); detail supporting the interface transactions can be traced back to the source transactions in the feeder systems; and the feeder systems process transactions consistent with SGL account descriptions and posting.

An agency [department] of the Federal Government will be considered in substantial compliance with the SGL at the transaction level requirement if the agency's [department's] classification of financial events for its financial statements and required financial information provided to the Department of the Treasury and the Office of Management and Budget is consistent with the account descriptions and posting rules as approved by the Standard General Ledger Board and published by the Treasury Department's Financial Management Service in the Treasury Financial Manual.

Indicators:

- The agency's core financial system uses the SGL number to capture financial information; or the agency uses an alternative code ("pseudo-code") following the same account descriptions and posting rules that are used by the SGL to capture financial information, and the information can be appropriately matched to SGL codes for reporting to OMB or Treasury and for preparing financial statements. The use of the SGL code in the feeder system is not necessary as long as the code definitions used to capture information are consistent with the SGL definitions.

- Systems must capture information using the same descriptions and posting rules as in the SGL. Detail information captured in feeder systems can be summarized in the Core Financial System, however, information must be captured and summarized so that it follows the SGL descriptions and posting rules and is captured at the level necessary to meet OMB or Treasury reporting requirements and for preparing financial statements.

- Transactions can be traced back to the source/point-of-entry in the feeder systems and to supporting information.

Audit Considerations

Evaluation of Audit Results

Based on the foregoing, the auditor shall use professional judgment in determining substantial compliance with FFMIA. However, substantial noncompliance with the requirements in any one or more of the three areas included in FFMIA -- Federal financial management system requirements, applicable Federal accounting standards, and the SGL -- would result in substantial noncompliance with FFMIA.

Further, substantial noncompliance with any one or more of the indicators described herein would typically result in substantial noncompliance with one or more of the three areas described above and, thus, substantial noncompliance with FFMIA. Judgment should be used in determining substantial noncompliance with an indicator. For instance, if an auditor finds that a few budget execution reports were submitted late to OMB and contained minor inaccuracies, this may not result in substantial noncompliance with the indicator regarding standard budget execution information.

Reporting Audit Results

FFMIA should be included as one of the laws covered by the auditor's report on compliance with laws and regulations issued in connection with the annual financial statement audits. Accordingly, auditors should follow the reporting guidance with respect to compliance in OMB Bulletin 93-06.

Compliance Implementation

Section 803 (c) describes the process that the agency head should follow in making a compliance determination under the Act and also the timeframe for such determination.

Section 803 (c)(3) describes the agency remediation plan that includes the resources, remedies and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance. The agency can include this remediation plan in the agency CFO Five-Year Plan that is required by the CFOs Act. The remediation plan, as part of the CFO Five -Year Plan, is included in the agency's budget submission to OMB per OMB Circular A -11, Preparation and Submission of Budget Estimates. FFMIA states (section 803 (c)(4)) that gener ally the agency remediation plan should be accomplished within a three -year period.

Other Reporting Requirements

OMB, in its annual Federal Financial Management Status Report and Five-Year Plan, shall include a report on implementation of FFMIA.

Each Inspector General, in its semiannual reports, shall include a report on instances and reasons when an agency has not met the dates in the agency remediation plan (section 804 (b).

Statutory Text

Attached is the pertinent text of FFMIA.
Federal Financial Management Improvement Act of 1996
http://www.financenet.gov/financenet/fed/cfo/cfodocs/inpn9o2. htm