

MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE AND CHALLENGES

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires annual review of an agency's internal accounting and administrative controls. The results of NSF's assessment are reported here in the agency's *FY 2005 Performance and Accountability Report*, consistent with the provisions of the Reports Consolidation Act of 2000.

At NSF, the Chief Operating Officer (COO) oversees the effort to evaluate and report to the Director on the status of management controls, with executive secretariat support provided by the Chief Financial Officer (CFO). The Senior Management Integration Group (SMIG), chaired by the COO, considers accountability and controls within the broader context of agency operations. Assistant Directors and Staff Office Directors provide annual statements on FMFIA reviews and the status of internal control within their organizations. These statements serve as the primary basis for the Foundation's assurance that management controls are adequate and effective. Together, the statements cover programmatic, administrative, IT and financial functions, including assessments from the CFO and the Chief Information Officer. The statements are consolidated, then reviewed by the COO and SMIG. The individual organizational reviews, together with a consolidated summary assessment, are reported to the Director.

Based on the organizational reviews conducted June – August 2005, and the consideration by the COO and SMIG, it was reported to the Director that the agency's management controls and financial management systems, taken as a whole, provide reasonable assurance that provisions of FMFIA Section 2 (internal and administrative controls) and Section 4 (financial systems) were achieved for FY 2005, as well as requirements of the Federal Financial Management Improvement Act (FFMIA). NSF systems are in compliance with applicable laws and administrative requirements, including *OMB Circular A-123: Management Accountability and Controls* and *OMB Circular A-127: Financial Management Systems*.

During the FY 2005 internal control evaluation process no material weaknesses were identified, as defined by OMB guidance. However, concerns were expressed about the FedTraveler system, part of the Federal E-government initiative. Several flaws were identified in the system currently provided to NSF – regarding appropriate documentation, security for privacy protection, and potential for financial errors. NSF has put in place several manual procedures to help ensure the integrity of the process. Because of these interventions, we do not believe that deficiencies in FedTraveler rise to the level of a material weakness. The agency is also pursuing options for improvements, in concert with the General Services Administration, OMB and other agencies involved, and is working directly with the contractor on process improvements to be made in the first quarter of FY 2006.

As in previous years, senior management also identified issues that, while not management control deficiencies, could be potential impediments to effective controls in the future if not addressed. Challenges were identified, in particular, in the following areas: adequate travel funds for staff oversight of projects; administrative resources for increased workload, additional space requirements, the changing electronic workplace; and the interoperability of multiple electronic systems. There are efforts underway to address these cross cutting issues, including a business analysis, human capital planning, and continual improvement of IT systems and security. All of these actions contribute to sustaining NSF's record of effective and efficient management.

During FY 2005, NSF also initiated efforts to prepare to meet the new requirements in revised OMB Circular A-123: *Management's Responsibility for Internal Control* effective FY 2006. A senior management Accountability and Performance Integration Council (APIC) was established to serve as a focal point for assessing, documenting, and reporting on internal control under the revised guidance. NSF management also obtained expert consulting services to assist in planning for implementation of the revised A-123 requirements. NSF provided the agency plan for implementing the revised requirements in Appendix A of A-123 to OMB. During this ongoing planning process, there were no indications of any significant weaknesses related to internal control. Progress on the planning was shared, on a regular basis, with OIG and the independent auditors through the Audit Coordinating Committee.

In the FY 2005 Independent Auditors' Report, NSF received an unqualified opinion on its financial condition, with no material weaknesses. The FY 2005 audit includes two reportable conditions: post-award monitoring and contract monitoring. In resolving all FY 2004 post-award monitoring corrective action plan recommendations, management believes that NSF has mitigated the possibility of a significant deficiency that would adversely affect its ability to record, process, summarize and report financial data. In regard to contract monitoring, significant progress has been made and we will continue to pursue corrective action to complete our response. Here, too, management judges that safeguards are in place adequate to divert any serious threat to agency stewardship of Federal funds. NSF management's position is fully discussed in the response to the Auditors' report.

The Director of NSF has determined that the Foundation is in substantial compliance with FMFIA and FFMIA. His statement of assurance appears below.

Director's Statement of Assurance for FY 2005

I am pleased to report that:

- ▶ NSF is in substantial compliance with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA), and there are no material weaknesses in the agency's internal control; and
- ▶ As required by section 1116(e) of title 31 of the United States Code, the financial and performance information contained in this report is complete and reliable as defined by the Office of Management and Budget guidance.

My assessment is based on the results of the agency's senior management internal control review conducted in late summer, the Independent Auditor's Report received on November 4, 2005; and an independent external consulting firm's recent verification and validation review of NSF's GPRA and PART performance results.



Arden L. Bement, Jr.

November 8, 2005