



MANAGEMENT ASSURANCES

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) is implemented by the *Office of Management and Budget (OMB) Circular A-123: Management's Responsibility for Internal Control* (A-123). A-123 was revised in December 2004 to update agency requirements related to the three objectives of internal control: compliance with laws and regulations, reliability of financial reporting and the efficiency and effectiveness of operations. Revisions included additional requirements for documenting the review and assessment of entity-wide controls and controls over financial reporting, including the documentation of decision making, of the major business processes and controls, and of the results of control reviews themselves. Guidance recommended convening a Senior Assessment Team (SAT) to implement the requirements and a Senior Management Council (SMC) to provide oversight to such implementation. Circular A-123 implemented a top down approach to achieve a well-integrated control framework across each agency, including financial controls as one subcomponent of entity-wide controls. A-123 Appendix A implemented an additional set of requirements, effective for FY 2006, to be applied to the review and assessment of financial controls. Efficiency and effectiveness of operations are considered throughout the review processes.

The National Science Foundation (NSF) designated the Accountability & Performance Integration Council (APIC) to serve as its SAT and the already standing Senior Management RoundTable (SMaRT) to serve as its SMC for A-123 purposes. APIC is chaired by the Chief Financial Officer and includes four Assistant Directors/Office Heads, the Chief Human Capital Officer, the Chief Information Officer, and the General Counsel. APIC reports to the Chief Operating Officer (COO). SMaRT includes all Assistant Directors and Office Heads and is chaired by the NSF Deputy Director (DD), who currently also serves as NSF's COO. Throughout the implementation process, APIC provided regular updates to the Office of Inspector General through the Audit Coordinating Committee and obtained feedback from the auditors of NSF's financial statements, as well.

FY 2006 was a period of major implementation related to A-123 revisions for all federal agencies, and for NSF a year of reinforcing and strengthening internal controls and noting opportunities for future improvements. FY 2007 is slated as a year for continuing implementation, including the development of ongoing A-123 education and control rationalization directed toward continual improvement of operations as guided by A-123 and A-123 Appendix A.

During FY 2006, APIC led the review of entity-wide controls according to requirements set in the A-123, including a review of management structures and policy in place to ensure compliance with major laws and regulations. Several areas for improvement included increased documentation and dissemination of agency-wide policies and procedures, including written delegations. Although these are well understood in practice, A-123 emphasizes the need for updating written guidance. APIC also conducted the review of controls over financial reporting according to requirements set forth in A-123 Appendix A, including consideration of additional laws and regulations affecting financial reporting. Senior management will continue to work on integrated workflow charting and control descriptions in order to incorporate material and non-material key business subprocesses into its control documentation. This will allow for more extensive, end-to-end, assessments of the efficiency and effectiveness of operations. Both of these reviews included consideration of efficiency and effectiveness of operations. The results of NSF's assessment of the adequacy of internal controls entity-wide, including financial controls, are reported here in the agency's *FY 2006 Performance and Accountability Report*, consistent with the provisions of the Reports Consolidation Act of 2000.

NSF adopted a scope limitation for the financial control review to allow NSF to better ensure implementation of all A-123 Appendix A requirements over a several year period. This was a strategic option offered by OMB to all agencies. Adopting this strategy precludes NSF from reaching a level of *full*



assurance regarding controls for FY 2006, but better ensures that NSF will have in place the internal control infrastructure necessary to reach and maintain a level of full assurance in the near future. Based on the reviews conducted throughout FY 2006, APIC and SMaRT, with concurrence of the COO/DD, recommended a statement of limited assurance to the NSF Director for FY 2006. The recommendation noted that management found no evidence of material weakness in either financial controls or entity-wide controls, and reflected the testing of all key controls for FY 2006. The recommendation also noted that NSF internal controls meet the provisions of FMFIA, as implemented by A-123, including compliance with *OMB Circular A-127: Financial Management Systems* and the following laws and regulations:

- National Science Foundation Act of 1950, as amended;
- Annual Appropriation Law;
- Government Performance and Results Act of 1993;
- Clinger-Cohen Act of 1996;
- Federal Information Security Management Act of 2002;
- Chief Financial Officers Act of 1990, as amended;
- Federal Financial Management Improvement Act of 1996;
- Improper Payments Act of 2002;
- Single Audit Act of 1984, as amended; and
- Inspector General Act of 1978, as amended.

In the FY 2006 Independent Auditors' Report, NSF received an unqualified opinion on its financial condition, with no material weaknesses. NSF's statement of assurances follows.



NSF Statement of Management Assurances

The National Science Foundation is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), and OMB Circular A-123, *Management's Responsibility for Internal Control*. These objectives are to ensure:

- Effective and efficient operations,
- Compliance with applicable laws and regulations, and
- Reliable financial reporting.

For Fiscal Year (FY) 2006, the National Science Foundation is providing a qualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA. The qualification is due to a scope limitation related to its first-year implementation of Appendix A of OMB Circular A-123, as described in paragraph 3.

The National Science Foundation conducted its evaluation of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on the results of this evaluation, the National Science Foundation identified no material weaknesses under Section 2 of FMFIA and no system nonconformances under Section 4 of FMFIA. The National Science Foundation provides reasonable assurance that its internal controls over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as of September 30, 2006, were operating effectively and no material weaknesses were found in the design or operation of these internal controls.

The National Science Foundation also conducted its assessment of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. A limited number of processes that could potentially impact financial reporting were not included in the initial scope of the assessment. These excluded processes will be included during the FY 2007 and FY 2008 implementation of Appendix A. Other than the scope limitation covering those processes that were not tested, the National Science Foundation provides reasonable assurance that the internal controls over financial reporting as of June 30, 2006, were operating effectively and no material weaknesses were found in the design or operation of these internal controls.

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