

concept of reasonable assurance. OMB recognizes the importance of this concept, and believes that its inclusion as one of the general management control standards is sufficient.

*Section III. Assessing and Improving Management Controls.* This section states that agency managers should continuously monitor and improve the effectiveness of management controls. This continuous monitoring, and other periodic evaluations, should provide the basis for the agency head's annual assessment of and report on management controls. Agencies are encouraged to use a variety of information sources to arrive at the annual assurance statement to the President and the Congress. Several examples of sources of information are included in this section. The role of the agency's senior management council in making recommendations on the annual assurance statement and on which deficiencies in management controls should be considered material is also addressed.

*Comments Accepted:* OMB recognizes the need to clarify how the term "material weakness" as used in the Circular differs from the same term as used by Federal auditors. This issue was raised by one agency in its written comments, and by other parties in discussions of earlier drafts. The Circular now recognizes that Federal auditors are required to identify and report weaknesses that, in their opinion, pose a risk or threat to the internal control systems of an entity (such as a program or operation) even if the management of that entity would not report the weakness outside the agency.

*Comments Not Accepted:* Two agencies found the Circular's requirements on assessing and documenting the sufficiency of management controls to be inadequate, and suggested that the Circular provide more specific guidance in these areas. In keeping with the philosophy behind the Circular, OMB prefers to give agencies the latitude to expand upon the Circular's requirements in these areas, if they believe it is necessary, rather than to impose uniform criteria for determining, for example, what should be reported as a material weakness.

Along those lines, OMB has chosen not to adopt the definitions used by Federal auditors of a reportable condition and material weakness, as advocated by one agency and the AICPA. Those definitions are weighted heavily toward technical, financially-oriented terms that are probably not meaningful to Federal program managers. They also focus on financial statements as the primary end-product

of an internal control structure. While financial statements are important tools for the agency head in arriving at an assurance statement on management controls, they are not the only source of information for making this determination. Therefore, it is important that the Circular use language that accurately reflects the broad nature of agency management controls.

Two agencies felt that the Circular should require that agencies test their management controls. OMB agrees that testing is an important method for determining whether controls actually work, and encourages agencies to use some form of testing. Because testing is already implicit in several of the information sources to be used to assess controls, and is less feasible for other information sources, it is not included as a blanket requirement.

Three agencies commented on the composition of an agency's senior management council; two felt that the Circular should be more specific in discussing membership, while one found this section too prescriptive. OMB believes that the current language adequately addresses the importance of including both line and staff management and involving the IG, without infringing on the agency's ability to determine the council's membership.

*Section IV. Correcting Management Control Deficiencies.* This section states that agency management is responsible for taking timely and effective action to correct management control deficiencies. Correcting these deficiencies is an integral part of management's responsibilities and must be considered a priority by the agency.

The only comment received on this section reflected a misunderstanding of the Circular's requirements on corrective action plans. Plans must be developed, tracked, and reported for all material weaknesses (weaknesses included in the Integrity Act report). For weaknesses that are not included in the report, plans should be developed and tracked at a level deemed appropriate by the agency.

*Section V. Reporting on Management Controls.* This section describes the required components of the agency's annual Integrity Act report and its distribution to the President and the Congress. This section also describes a initiative to streamline reporting by consolidating Integrity Act information with other performance-related reporting into a broader "Accountability Report" to be issued annually by the agency head. Lastly, this section presents Integrity Act requirements as

they pertain to government corporations pursuant to the CFOs Act.

*Comments Accepted:* At the suggestion of two commenters, agencies are now encouraged to make their Integrity Act reports available electronically. The reference to a House committee has been changed to reflect the nomenclature of the 104th Congress.

This section also describes an new approach towards financial management reporting that could help integrate management initiatives. This approach 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.

*Comments Not Accepted:* One agency questioned the wisdom of permitting agencies to provide a qualified statement of assurance. OMB expects agencies to provide the most direct possible statement of assurance. The option of a qualified statement recognizes that in some cases, the most accurate statement of assurance is one that is qualified by exceptions that are explicitly noted.

The same agency suggested new language in the reporting section to recognize that the Circular broadens the scope of internal control accountability beyond the requirements of the Integrity Act. OMB disagrees with the premise that the link between management controls and program performance is a new one. While the Integrity Act uses financially oriented terminology, the Act "clearly encompasses program and administrative areas, as well as the more traditional accounting and financial management areas" (House Report 98-937, "First-Year Implementation of the Federal Managers' Financial Integrity Act," Committee on Government Operations, August 2, 1984, p. 1).

*General Issues.* Some comments were not limited to specific sections of the Circular.

*Comments Accepted:* In response to one agency's suggestion, the acronym "FMFIA" has been replaced throughout the Circular by the term "Integrity Act" to better emphasize the purpose and scope of the law. OMB has also modified the term "should" in several instances where specific agency action is required.

*Comments Not Accepted:* Two agencies proposed that the Circular broaden the linkage between management controls and other management initiatives, particularly performance measurement and implementation of GPRA. OMB encourages agencies to integrate their efforts to evaluate management controls and program performance, but is not