

NIH MANAGEMENT CONTROL PROGRAM

A. PURPOSE

This chapter outlines responsibilities for complying with the NIH Management Control Program, the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and Office of Management and Budget Circular (OMB) No. A-123 (revised) Management Accountability and Control dated June 19, 1995. It also outlines NIH policy and describes responsibilities of NIH personnel for implementing FMFIA.

NIH's streamlined Management Control Program establishes the framework by which managers and supervisors design and implement strategies for improving program and operations within extramural, intramural, and administrative components. Management staff at all levels should design management structures that ensure accountability for results and include appropriate cost-effective and reasonable controls.

NIH promotes good management by emphasizing through its Management Control Program that managers/supervisors use their judgment to decide on the best tools to identify and to correct management control weaknesses. Management accountability requires programs to be managed with integrity and in compliance with applicable laws. Managers are responsible for improving programs and customer service through performance measurement, cost control, and improving quality and timeliness.

A. BACKGROUND AND REFERENCES

FMFIA and OMB Circular A-123 require every Federal agency to conduct an annual evaluation of its systems of management control and to submit an annual report to the President and the Congress on the results of that evaluation and on the adequacy of those systems. This annual evaluation is the collective sum of all determinations, assessments, reviews, evaluations, and related management control activity throughout the year. Authority for undertaking this activity is based on the following:

1. Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 351)
2. OMB Circular A-123, Management Accountability and Control (revised), dated June 19, 1995.
3. Government Performance and Results Act (GPRA) of 1993
4. Chief Financial Officers Act (CFO) of 1991

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5. GAO Standards for Internal Controls in the Federal Government dated 1983
6. OMB Circular A-127, Financial Systems, dated July 23, 1993.

C. POLICY

All NIH organizational units will establish and maintain effective systems of program, accounting, and administrative controls for stewardship of Government resources. All levels of management within the Institutes, Centers and Office of the Director are responsible for determining that adequate controls are in place to safeguard resources, promote efficient management, and protect the health and safety of employees.

NIH managers must take systematic and proactive measures to: (1) develop and implement appropriate, cost-effective management controls for results-oriented management; (2) assess the adequacy of management controls in programs and operations; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually to the Deputy Director for Management (DDM) on the results of management control efforts. Other required agency reports (e.g., GPRA, CFO, etc.) pertaining to management accountability and performance goals will be coordinated at the Office of the Director level to minimize duplicate reporting requirements.

NIH encourages all managers to achieve good management by emphasizing a self-assessment model that encourages line managers to strive for continuous improvement within their organizations. An example of a self-assessment resource that ICs could adapt for internal use is at **Appendix 2** and will be available on the OMA homepage at: (<http://oma.od.nih.gov>). Continuous assessment using management information systems that focus on result oriented data will enable NIH managers to identify weaknesses in management controls and take early action to correct or prevent problems by incorporating “best practices” solutions; by improving quality, timeliness, and customer satisfaction; and by ensuring cost-effective use of resources. This program is less prescriptive than past programs and places more accountability with managers.

D. DEFINITIONS

1. **Alternate Management Control Reviews (AMCRs)** are evaluations such as OIG audits, GPRA reports, GAO reviews, CFO audits, Audit Follow-up, and Accreditation Reports that accomplish the same objectives as a Management Control Review.

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2. **Annual Assurance Statement** is a document submitted annually by the Director NIH to the to the Secretary, DHHS describing the adequacy of management controls, related program improvements, identification of material weaknesses, and progress in correcting material weaknesses.
3. **Corrective Action Plan (CAP)** is a plan of action to correct a management control weakness.
4. **Corrective Action Reviews (CARs)** are used to verify that a Corrective Action Plan has been implemented and that these actions have corrected the reported weakness. CARs are to be conducted approximately one year after a CAP has been declared completed. They are required for all material weaknesses reported and for all "High Risk Areas" being tracked by OMB. At their discretion, IC/OD Management Control Officers and Management Control Area Managers may require CARs for serious and non-material weaknesses.
5. **Management Control Area (MCA)** is a program or administrative area with a mission and goal that is not limited to a single Institute or Center and is NIH-wide.
6. **Management Controls** are the policies and procedures used to reasonably assure that: (1) programs achieve their intended results; (2) resources are used consistent with the NIH mission; (3) programs and resources are protected from waste, fraud, abuse and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making.
7. **Management Control Review (MCR)** is an evaluation or examination of a program or administrative activity to determine whether controls are in place and having the intended outcome to prevent fraud, waste, abuse and mismanagement.
8. **The Deputy Director for Management (DDM)** is the NIH Management Control Officer.
9. **IC/OD Management Control Officers.** The Executive Officer is the Management Control Officer for an IC, the Office of Research Services, and the OD.
10. **Management Control Area Managers (MCAMs)** are usually functional managers within the Office of the Director who are responsible for scheduling and conducting NIH-wide Management Control Reviews in accordance with the Management Control Plan. MCAMs are the keystone of the Management Control program because they have responsibility to ensure

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that appropriate NIH-wide controls are within the Management Control areas identified in the plan.

11. **material weakness** is a deficiency in systems of control that the NIH Director determines to be significant enough to be reported outside the agency.
12. **non-material/serious weakness** is a condition of isolated or individual non-compliance that can be corrected at the OD or IC level without elevating it to a higher level of management or outside the Agency.
13. **Risk Assessment** is a documented analysis by management that rates the vulnerability of a Management Control Area to the occurrence of fraud, waste, abuse or mismanagement.

E. RISK ASSESSMENTS

Risk assessments are to be conducted by teams composed of members with a high level of technical and/or management expertise. A risk assessment will be performed only when a major program /organizational change occurs (i.e. conversion from manual to automated system, or restructuring the delegations of authority), a major problem is discovered, or the Management Control Officer requests that another risk assessment be performed. Upon completion of a risk assessment an NIH-wide risk rating is assigned by the DDM. The Office of Management Assessment coordinates all new NIH-wide risk assessments. An Institute or Center may voluntarily choose to conduct a risk assessment of any of its areas using the Risk Assessment document at Appendix 1.

F. PERFORMANCE STANDARDS

Performance standards need to be developed that comply with GPRA requirements established within NIH. Standards that are developed must be results/outcome oriented to allow measurement of organizational/individual accomplishment of the goals and objectives of the organization.

As components develop strategic plans, annual performance plans and indicators to measure performance, appropriate management controls should be incorporated that rely on performance management data that will provide **Red flags** for management action on an ongoing basis. NIH managers are responsible for incorporating basic management controls into programs, operations, strategies, plans, policies, procedures and guidance. **They are accountable for the method used to ensure that management controls are implemented and working.** Controls shall be developed

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based on the following general and specific standards that are consistent with the *Standards for Internal Controls in the Federal Government* issued by the General Accounting Office.

1. General Standards are:
 - a. *Compliance with Law*—All program operations, obligations and costs must comply with applicable laws and regulations including legislative provisions set forth in appropriations acts. Resources should be efficiently and effectively allocated for duly authorized purposes.
 - b. *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, effective, and efficient in accomplishing management objectives.
 - c. *Integrity, Competence, and Attitude*—Managers and employees must have personal integrity and are obligated to support ethics programs. Standards of Ethical Conduct require that effective management controls are developed and implemented, and a level of competence is maintained to accomplish assigned duties.
2. Specific management control standards are:
 - a. *Delegations 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.
 - b. *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.
 - c. *Access to and Accountability for Resources*—Access to resources (including personal property) and records should be limited to authorized individuals, and accountability for the custody and use of these resources should be assigned and maintained.

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- d. *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.
- e. *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 time frames, all actions that correct or otherwise resolve the appropriate matters brought to the attention of management.

The absence of outcome results-oriented performance measures and controls would be an indicator of a management control weakness.

G. NIH MANAGEMENT CONTROL PLAN

The DDM issues a management control plan for NIH-wide reviews to be performed each calendar year. The plan will be flexible and generally target high and medium risk areas for review. In most cases, low risk areas should not require a review. Management Control Reviews will focus on major inherent risks and known problems and need not examine every aspect of the organization. An IC may voluntarily choose to conduct its own internal review of any of the areas identified in the plan or develop its own internal management control review plan.

Other reviews/information (e.g. OIG, GPRA, GAO, CFO, Audit Follow-up, Accreditation, Regulatory, etc.) will be used whenever possible to demonstrate review coverage and prevent unnecessary duplication of effort. Alternate Management Control Reviews and proactive reviews will be used whenever possible with increased emphasis on determining problems and developing solutions and less emphasis on documenting procedures/testing.

H. ANNUAL ASSURANCE STATEMENT AND REPORTING

NIH will prepare an annual assurance report to be submitted by December 31, to the President, the Congress, and OMB. The report reflects the adequacy of controls, related program improvements, identification of material weaknesses, and progress in correcting material weaknesses. The report will cover extramural, intramural, and administrative program areas. Periodic reviews, evaluations, and

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other information will provide the basis for the NIH Director's annual assessment of and report on management controls required by the FMFIA. As ICs evaluate organizational performance, these results will be considered in developing the NIH's annual statement of assurance required by FMFIA.

Material weaknesses should be reported to the DDM as soon as they are discovered. Corrective Action Plans (CAPs) for material weaknesses should also be sent to the Secretary upon completion. Reporting to the Secretary on corrective actions for material weaknesses should occur annually so that emphasis and time can be directed to fixing problems instead of reporting.

I. ROLES AND RESPONSIBILITIES

1. **The Deputy Director for Management (DDM)** is the NIH Management Control Officer with responsibility for the overall Management Control Program, FMFIA reporting and ensuring that reasonable and adequate controls are in place to protect NIH resources from fraud, waste, abuse and mismanagement. The DDM also determines if a problem is classified as a Material Weakness using one or more of the following criteria:
 - a. Does the weakness significantly impair the fulfillment of the NIH mission?
 - b. Does the weakness violate statutory or regulatory requirements?
 - c. Does the weakness significantly influence the safeguards against waste, loss, authorized use of funds, property or other resources?
 - d. Does the weakness result in a conflict of interest?
 - e. Is the weakness of high political sensitivity such that it could result in embarrassment to the NIH?
 - f. Is the weakness crosscutting indicating major systemic problems?
 - g. Is the "at risk" or actual loss either at least \$10 million or 5 percent of the resources of a budget line item?
 - h. Is the weakness of such importance that it otherwise warrants reporting to the President and Congress?

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2. **Management Control Area Managers (MCAMs)** are responsible for scheduling and conducting NIH-wide Management Control Reviews in accordance with the Management Control Plan. MCAMs are the keystone of the Management Control program because they have responsibility to ensure that appropriate NIH-wide controls are within the Management Control areas identified in the plan. They also:
 - a. Assemble related reports and reviews, and best practices, including those from other agencies, for use in risk assessments and management control reviews;
 - b. Identify, select, and lead risk assessments and NIH-wide review teams composed of OD and IC staff;
 - c. Develop a study plan for each MCR and report on Management Control weaknesses;
 - d. Develop and implement CAPs that include a systems approach which has indicators of success and information systems to provide early warning about potential problems;
 - e. Schedule and conduct CARs in coordination with OMA.
3. **IC/OD Management Control Officers.** The Executive Officer is the Management Control Officer for an IC, the Office of Research Services, and the OD. These individuals:
 - a. Implement management controls within an IC, ORS, or OD that provides reasonable assurance as to their adequacy;
 - b. Ensure that staff are available to serve on NIH-wide Risk Assessment Teams, MCR teams, and Corrective Action Review Teams;
 - c. Ensure that staff is trained in management control responsibilities;
 - d. Approve CAPs within their area of responsibility and monitor progress to completion;
 - e. Promote, develop, and report on management controls .
4. **Office of Management Assessment:**
 - a. Coordinates the design and operation of an effective management control program;

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- b. Develops the NIH Management Control Plan which identifies reviews to be conducted within a calendar year;
 - c. Provides technical assistance, consultation, and information to OD Office Directors, Management Control Area Managers (MCAMs), and ICs for conducting risk assessments, developing survey approaches, sampling techniques, and plans for undertaking MCRs and Alternate Management Control Reviews (AMCRs);
 - d. Reviews study plans for MCRs and CARs and performs quality assurance reviews on each MCR or AMCR to ensure that they are completed in accordance with guidelines;
 - e. Monitors, tracks, and maintains schedules/records of NIH-wide MCRs and AMCRs;
 - f. Establishes and maintains a system to record and track corrective actions that have been identified through management control reviews, audits, or other evaluations;
 - g. Assures CARs are performed to evaluate completed actions and verify that problems have been corrected;
 - h. Prepares the annual NIH guidance for Management Control Review activities which includes a calendar of events;
 - i. Establishes and maintains policies and procedures to ensure that all requirements regarding management controls contained in the FMFIA, OMB Circular A-123 Revised, and DHHS manuals and other documents are addressed in an effective and efficient manner;
 - j. Advises the DDM on the quality and effectiveness of the IC, ORS, and OD management control efforts.
5. **All IC Directors, Executive Officers and OD Managers** have a responsibility to establish a management environment with systematic management controls, monitor their application, review periodically their effectiveness, report material and serious weaknesses, take corrective action, and follow up to ensure permanent fixes to identified problem areas. This environment should encourage

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employee awareness of the existence of management controls and the role of each individual in the development and maintenance of good management practices.

J. RECORDS RETENTION AND DISPOSAL

All records (e-mail and non-e-mail) pertaining to this chapter must be retained and disposed of under the authority of NIH Manual 1743, "Keeping and Destroying Records, Appendix 1, NIH Records Control Schedule." Refer to the NIH Chapter for specific disposition instructions. NIH e-mail messages: NIH e-mail messages (messages including attachments, that are created on NIH computer systems or transmitted over NIH networks) that are evidence of the activities of the agency or have informational value are considered Federal records. These records must be maintained in accordance with current NIH Records Management guidelines. All e-mail messages are considered Government property, and, if requested for a legitimate Government purpose, must be provided to the requester. Employees' supervisors, NIH staff conducting official reviews or investigations, and the Office of Inspector General may request access to or copies of the e-mail messages. E-mail messages must also be provided to Congressional oversight committees if requested and are subject to Freedom of Information Act requests. Since most e-mail systems have back-up files that are retained for significant periods of time, e-mail messages and attachments are likely to be retrievable from a back-up file after they have been deleted from an individual's computer. The back-up files are subject to the same requests as the original messages.

K. MANAGEMENT CONTROLS

This chapter outlines NIH policy and describes responsibilities of NIH personnel for implementing the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The responsibilities for complying with the NIH Management Control Program, the FMFIA, and Office of Management and Budget Circular No. A-123 (revised) Management Accountability and Control, dated June 19, 1995, are also outlined.

1. The Office Responsible for Reviewing Management Controls Relative to this Chapter: The Office of Management Assessment, OA, OM is accountable for the method used to ensure that management controls are implemented.
2. Frequency of Review: Annually.

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3. Method of Review: Working with the NIH intramural, extramural, and administrative communities, the OMA develops the NIH Director's annual assurance letter to the Secretary, HHS indicating that NIH is in compliance with the FMFIA Act of 1982.
4. Review Reports: Reports are sent to the Deputy Director for Management.