NIH POLICY MANUAL

1750 – NIH Management Control Program
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1. **Explanation of Material Transmitted:** 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 No. A-123 (revised) Management Accountability and Control dated June 21, 1995. It also outlines NIH policy and describes responsibilities of NIH personnel for implementing FMFIA.

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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 21, 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 for ensuring an effective and efficient use of resources.

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 ongoing monitoring of performance measures, effective cost control, and continuously improving quality and timeliness.

B. 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) (http://www.whitehouse.gov/omb/financial/fmfia1982.html)

2. OMB Circular A-123, Management Accountability and Control (revised), dated June 21, 1995. (http://www.whitehouse.gov/omb/circulars/a123/a123.html)

3. Government Performance and Results Act (GPRA) of 1993 (http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html)

4. Chief Financial Officers Act (CFO) of 1990 (http://wwwoirm.nih.gov/itmra/cfoact.html\)

5. GAO Standards for Internal Control in the Federal Government dated 1999 (http://www.gao.gov/special.pubs/ai00021p.pdf).

6. OMB Circular A-127, Financial Systems, dated July 23, 1993. (http://www.whitehouse.gov/omb/circulars/a127/a127.html)

7. Accountability of Tax Dollars Act of 2002. (http://www.whitehouse.gov/omb/financial/accountablity_of_tax_dollars.pdf)

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 and effective 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 including integrating management controls into automated systems; (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 control 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://www3.od.nih.gov/oma/ma/NewRisk/tools.htm)

Continuous assessment using management information systems that focus on results-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.

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This NIH program is less prescriptive than past programs and places more accountability with managers at all levels of the organization.

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.

2. **Annual Assurance Statement** is a document submitted annually by the Director, NIH, 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 (Executive Officers) and Management Control Area Managers may require CARs for both 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 operational checks and balances, policies, procedures automated systems, delegations of authority, separation of duties etc. 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 affect to prevent fraud, waste, abuse and mismanagement.

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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 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 that appropriate NIH-wide controls are established within all of the NIH Management Control areas.

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 to the President and Congress.

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 generally be performed 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 a new 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, OM coordinates all new NIH-wide risk assessments and will follow-up on corrective actions to ensure corrections are implemented. An Institute or Center should also conduct a risk assessment of any of its areas as needed by using the Risk Assessment document at **Appendix 1** . Any serious/material weaknesses should be reported to the Division of Quality Management, OMA.

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F. PERFORMANCE STANDARDS

Performance standards established must 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 rate/gauge performance or accomplishment against organizational goals. Shortfalls should raise red flags when goals are not met. This promotes proactive 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 based on the following general and specific standards that are consistent with the *Standards for Internal Controls in the Federal Government* issued by the Government Accountability 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 appropriation 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, reasonable, 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. It is important that management provide a clear and strong message that management controls are important and need to be developed, implemented and monitored on a routine basis. There should be no doubt about our organization's strong ethics. The tone at the top should focus on a firm foundation for the ethical environment, so no employee is unclear as to the high expectations and standards at NIH.

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 to avoid conflicts of interest. 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, control and use of these resources should be assigned and maintained.

   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 are indicators of management control weaknesses.

G. NIH MANAGEMENT CONTROL PLAN

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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, Regulations, etc.) will be used whenever possible to provide review coverage, but avoid unnecessary duplication of effort. Alternate Management Control Reviews and proactive reviews will be used whenever possible with increased emphasis on identifying problems and developing solutions.

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

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 diminish safeguards against waste, loss, unauthorized used 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?

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.

f. Notify either the DQM or DDM of any serious or material weaknesses.
DQM: 6011 Executive Blvd., Suite 601; (301) 496-2461
DDM: Building 1, Room 102; (301) 496-3271.

3. IC/OD Management Control Officers. The Executive Officer is the Management Control Officer for an IC and the OD. These individuals:

a. Implement management controls within an IC, and OD that provides reasonable assurance as to their adequacy;

b. Ensure that IC staff conduct internal risk assessments, management control reviews and take corrective actions as needed;

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 how well management controls are working.

f. Notify the DQM or DDM of any serious material weakness.

4. Office of Management Assessment, OM:

a. Coordinates the design and operation of an effective management control program;

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 identified through management control reviews, audits, or other evaluations;

g. Assures CARs are performed to evaluate completed actions and verify problems have been corrected;

h. 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;

i. Advises the DDM on the quality and effectiveness of the IC, and OD management control efforts; and

j. maintains on-line information at: http://www3.od.nih.gov/oma/maNewRisk/

5. **All IC Directors, Executive Officers and OD Managers** have a responsibility to establish a management environment with systematic management controls to monitor their application, periodically review their effectiveness, report material and serious weaknesses to the DQM or DDM, take corrective action, and follow up to ensure permanent fixes to identified problem areas. This environment should encourage 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 21, 1995, are also outlined.

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

2. Frequency of Review: Annually.

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.

Risk Assessment Rating of Sub-Area *(or MCA, if no sub-areas)*

Management Control Area	Sub-Area	Date

Please check "Yes" or "No" for each of the following questions. Comments should be completed when a specific system or process needs enhancement instead of the total system or process. *Make as many copies of this form as necessary to rate each sub-area.*

*High Risk?**	***Risk Assessment Questions***	***Yes***	***No***	***Comments***
Inherent Risk				
Yes	1. Has the functional area been free of cited material weaknesses within the last five years (by Congress, GAO, OIG, OS, PHS or by any other review or certification process) that have not been fully corrected and verified?			
	2. Has the functional area been free of a high level of political or public interest?			
Yes	3. *If applicable,* does the functional area have assurances for the protection of humans from research risks or the safety of animals?			N/A _____
Yes	4. Has the functional area been free of a reported potential or actual loss of $10 million or more in a fiscal year due to weaknesses?			
	5. Does the functional area have clearly stated and current policies and operating procedures (SOPs)? (e.g., appropriate separation of duties, systematically organized in manuals or handbooks)			
	6. Does the functional area follow the appropriate Delegations of Authority?			
General Control Environment				
Yes	7. Does the functional area have effective documented financial and operating controls or checks and balances over assets and information to protect against fraud, waste, abuse, mismanagement and conflicts of interest? (Use Appendix 1 to provide information on management controls in place and tests used to determine compliance.)			
	8. Does the functional area periodically monitor these financial and operating controls by management?			
Yes	9. Does the functional area have relevant and periodic management information system data or reports to adequately manage, monitor and evaluate performance of significant activities (including management controls)?			
Yes	10. Are there procedures to ensure that data integrity and security are routinely validated and deficiencies corrected? (e.g., Security analysis has been conducted in the past three years or deficiencies cited have been corrected.)			
	11. Does the functional area have appropriate distribution of policies and procedures accompanied by training?			
	12. Does the functional area have a methodology for monitoring internal and external compliance to policies and procedures?			
	13. Does the functional area adjust its plans to be appropriate and reasonable in light of the actual operating budget? (i.e., Does the functional area properly establish and integrate budget and planning systems to control resources?)			
	14. Does the functional area have trained and competent personnel to properly manage the activity (including knowledge and training related to management controls)?			

*A "No" to any of the high risk items *automatically* puts the sub-area (or the MCA, if no sub-areas) into a high risk category.	***Rating Key*** 2 or fewer "No" = Low Risk 3 to 4 "No" = Medium Risk 5 or more "No" = High Risk	Total "No" responses=	**Rating =**

ASSESSMENT CHECKLIST FOR MANAGEMENT CONTROLS

Period of Review: _____

Name of IC: _____	Yes	No	Comments
Compliance With Law Has there been a recent GAO, OIG, Congressional Budget Office, OMB review of the program/organization that result in recommendations that have not been implemented?			
Reasonable Assurance and Safeguards Are there any key risks (factors that could cause mission failure or significant loss of resources) within your organization? Are these risks controlled, monitored and assessed? Does your organization periodically review and update its compliance with policies and procedures?			
Integrity Competence and Attitude Does the organization have trained and competent personnel to properly manage the activity? (This includes knowledge and training related to management controls) What is the percentage of managers within the organization who have received some training in management controls? How does your organization promote a positive, supportive attitude towards integrity and personal ethics? What is the percentage of non-intramural personnel that have received conflict of interest/ethics training?			
Delegation of Authority and Policies and Procedures Are policies, procedures, and delegations current, clearly written and systematically organized in handbooks and manuals? Does the organization have appropriate distribution of up-to-date (not older than 5 years) policies and procedures accompanied by training? Does your organization have a process for determining deficiencies in its policies, procedures and operations? How many were reported last year?			
Separation of Duties and Supervision Has your organization implemented appropriate checks and balances to minimize the occurrence of events with significant unfavorable consequences? Do the delegations of authority or directives in my organization specify assigned duties and responsibilities and ensure that no single employee controls all phases of a critical transaction? Are these reviewed and updated periodically to comply with new laws and regulations?			

	Yes	No	Comments
Access to and Accountability for Resources Does your organization use performance measures to support annual budget requests? Identify some of these measures. Does your organization use performance measures to monitor organizational effectiveness and efficiency? Identify some of these measures. Has your organization implemented safeguards to protect its resources against waste, fraud, loss, misuse, unauthorized access and mismanagement? e.g budgetary controls, computer access controls, file backups, authorized signatory lists, financial reports. Identify some of these safeguards.			
Access to and Accountability for Resources Does your organization use performance measures to support annual budget requests? Identify some of these measures. Does your organization use performance measures to monitor organizational effectiveness and efficiency? Identify some of these measures. Has your organization implemented safeguards to protect its resources against waste, fraud, loss, misuse, unauthorized access and mismanagement? e.g budgetary controls, computer access controls, file backups, authorized signatory lists, financial reports. Identify some of these safeguards.			
Recording and Documentation Does your organization have periodic management information system data or reports to manage, monitor and evaluate performance of significant activities? Does your organization record, process and document transactions when they occur or are received? Does your organization have policies and procedures concerning the collection and reporting of information along with appropriate follow-up to problems or issues identified?			
Resolution of Audit Findings Does your organization place a high priority on responding to OIG and GAO draft and final audit reports? Does your organization allocate resources needed to implement audit recommendations?			
Continuous Improvement Does your organization have a process in place to assure continuous improvement that includes surveying your customers? Has your organization established specific business goals to achieve?			