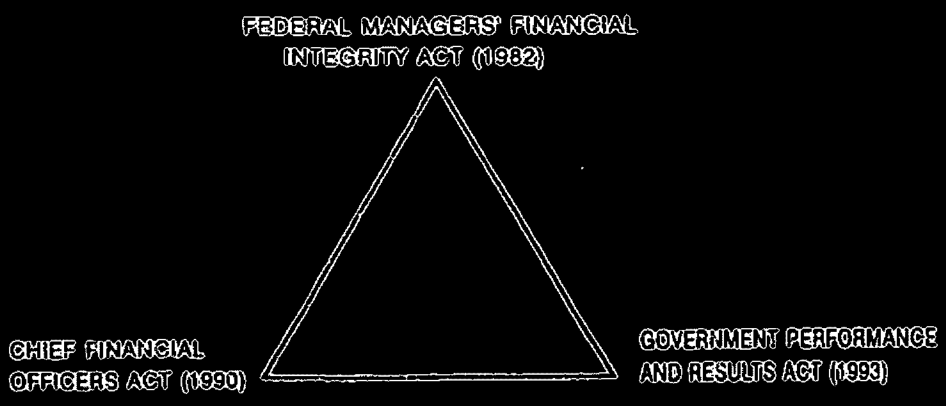
Office of Inspector General
Audit Report

EPA'S INTEGRITY ACT IMPLEMENTATION

E1SFE3-07-0101-4100522

September 16, 1994

ACCOUNTABILITY IN GOVERNMENT



Inspector General Division Conducting the Audit: Central Audit Division Kansas City, Kansas

Headquarters Program Office Covered: Office of Administration and Resources Management

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

SEP 16 1994

THE INSPECTOR GENERAL

MEMORANDUM

SUBJECT: EPA'S Integrity Act Implementation
Audit Report No. E1SFE3-07-0101-4100522

TO: Carol M. Browner
Administrator

Attached is our report entitled, "EPA's Integrity Act Implementation." Our overall audit objective was to determine if the Agency's Federal Managers' Financial Integrity Act (Integrity Act) efforts effectively evaluated controls and created an early warning system to prevent problems from escalating to material weaknesses and to promote mission accomplishment. The report describes serious problems with the Agency's Integrity Act implementation that can be linked to financial and performance deficiencies identified in numerous audit reports.

We commend the Office of Administration and Resources Management (OARM), Resource Management Division for its actions in response to our Integrity Act audit and to recent Government streamlining initiatives. We believe that the Agency's new Integrity Act approach will be more responsive to the Integrity Act's intent. But, we are concerned that some managers' current misperceptions about management integrity concepts may put the success of the new process at risk. We hope that this report will be useful to Agency managers in targeting some of the problems which kept the former Integrity Act approach from fully succeeding as an early warning system. The new approach, if implemented properly, should help you identify and correct program weaknesses before they escalate to the material level.

We addressed this report to you as the only Agency official with authority to hold program managers accountable for implementation of the Integrity Act and the recommendations in this report. While the Assistant Administrator (AA) OARM, as the Agency's Chief Financial Officer (CFO), has broad authority over financial management controls, his authority over program management controls is limited. Both the Agency Comptroller and the Deputy Assistant Administrator for Finance and Acquisition advised us that as Integrity National Program Manager (NPM), the AA OARM does not have the authority to hold AAs and RAs accountable for implementing sound management controls.

Accountability is a key aspect of the Integrity Act, the CFO Act, the Government Performance and Results Act, and National Performance Review reforms. As part of your response to this report, you should alert Assistant and Regional Administrators to their responsibility to implement the Integrity Act and the recommendations contained in this report, and hold them accountable for effective Integrity Act implementation.

The CFO Act and Office of Management and Budget (OMB) guidance require that the CFO have the authority to establish, review and enforce financial management control systems, and establish, in coordination with program managers, agency-wide management control processes. In implementing the Act, EPA advised OMB that its CFO would manage Agency-wide management controls. However, as CFO and Integrity NPM, the AA OARM does not have the authority to review and enforce Integrity controls, standards and compliance involving program management. We think this lack of authority is a vulnerability that you should address by strengthening the AA OARM's authority to include establishing, reviewing and enforcing Agency-wide Integrity Act compliance.

This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and corrective actions OIG recommends. This audit report represents the opinion of OIG. Final determinations will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this audit report do not necessarily represent the final EPA position.

Action Required

We have designated you as the Action Official for this report. We recommend that you delegate to the AA OARM, in his role as CFO and NPM, authority for implementing the Integrity Act Agency-wide. With this authority, the CFO would be able to execute the recommendations addressed to you in this report. We would then recommend that you designate the AA OARM as the Action Official.

In accordance with EPA Order 2750, the Action Official is requested to provide this office a written response to the audit report within 90 days of the report date. The response should address all recommendations. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report. We have no objections to the release of this report to the public.

Should your staff have any questions, please have them contact Kenneth A. Konz, Assistant Inspector General for Audit, 260-1106.

John C Martin

John C. Martin

Attachment

EXECUTIVE SUMMARY

Integrity is a key element in establishing accountability in Government. The President and Congress have reemphasized management's responsibility to operate efficient and effective control systems to support mission accomplishment. The Office of Inspector General (OIG) assists in promoting integrity throughout the Environmental Protection Agency (hereafter referred to as Agency) by providing technical assistance to improve the Agency's management control systems and by reporting to the Administrator annually on the Agency's Federal Manager's Financial Integrity Act (Integrity Act) efforts.

This report describes aspects of EPA's Integrity Act implementation that may have impeded the Agency's progress in achieving its mission in the past. It is based on Integrity Act findings in OIG audit reports issued between 1992 and 1994. We believe an understanding of these problems will help the Agency avoid them in implementing a new strategy. Our overall audit objectives were to determine if the Agency's Integrity Act efforts effectively evaluated controls and created an early warning system to prevent problems from escalating to material weaknesses and to promote mission accomplishment.

The Agency has committed to strengthening integrity as a critical part of basic management practices. The Administrator and Senior Leadership Council highlighted integrity as part of the Agency's overall management agenda. Also, the Agency's draft strategic plan for fiscal 1995-1999 recognizes and reinforces the accountability that Federal program managers have for good management processes and the need for an institutionalized Agency framework for priority-setting, decision-making, and resource allocation. The strategy describes Agency activities to comply with the Chief Financial Officers (CFO) Act of 1990, the Government Performance and Results Act (GPRA) of 1993, and the Integrity Act. Management integrity is a key component of the strategic plan. Key initiatives emphasize results rather than process.

BACKGROUND

Good internal control systems improve operations and discourage wrongful acts by making them more difficult. Congress passed the Integrity Act to amend the Accounting and Auditing Act of 1950 and require renewed focus on strengthening internal controls.

The Accounting and Auditing Act requires agencies to establish and maintain effective internal control systems. The Integrity Act requires agencies to continuously evaluate and report to Congress and the President on the adequacy of those systems. Also, the Integrity Act requires agencies to build control systems around Comptroller General standards and to evaluate those systems following Office of Management and Budget (OMB) guidelines.

Only the Agency Administrator has authority to hold managers accountable for Integrity Act implementation. The Administrator designated the Assistant Administrator for the Office of Administration and Resources Management (OARM) as the coordinator for the Agency's Integrity Act efforts, but Agency Assistant Administrators and Regional Administrators are ultimately responsible for Integrity Act implementation. The Resource Management Division (RMD) within OARM's Office of the Comptroller was delegated National Program Manager responsibility for coordinating, monitoring, and providing guidance for the Agency's Integrity Act implementation. In fiscal 1992, RMD established quality action teams to improve Integrity Act training and guidance, promote management buy-in, and streamline the Agency process. In fiscal 1994, since the issuance of the National Performance Review Report and GPRA, RMD reengineered the Agency's Integrity Act requirements to streamline the process and make managers more accountable for ongoing evaluations and program improvements.

The reengineered process is responsive to the Comptroller General standards and to OMB requirements. It builds on Agency-wide Management Integrity Principles, based on the standards, which pertain to all programs and activities and which are intended to promote best management practices. Managers are expected to incorporate these principles into existing management processes and program strategies and guidance to strengthen program operations. It stresses integrating Integrity Act requirements with program planning, budgeting, operations, fiscal management, and evaluation. Also, managers are expected to be more directly involved and accountable for ensuring the integrity of their programs and resources.

RESULTS-IN-BRIEF

We directed recommendations to the Administrator because she should hold managers accountable for effective Integrity Act implementation. The Agency had segregated Integrity Act implementation from other management activities. Most managers responded to the paper-intensive requirements of the Agency's Integrity Act process but did not relate the process to management control system improvement. While senior management was committed to identifying material weaknesses reportable to Congress and the President, the Agency did not effectively identify weaknesses through the lower management levels and implement corrective actions before weaknesses became material and took years and significant resources to correct.

Integrity Act Can Help Managers Exercise Leadership

Through its Integrity Act reengineering, the Agency has adopted a system that appropriately stresses the Agency's management integrity principles. Agency efforts to integrate control reviews into ongoing management activities including budget and planning can improve programs by focusing managers' efforts on improving program implementation. However, the reengineered program cannot succeed unless managers accept responsibility for implementing sound management practices, and the Agency gives recognition to managers who identify problems and improve control systems.

Many of the problems we identified with the old process resulted from managers not employing basic management techniques and not observing Comptroller General standards, as required by the Integrity Act. The Agency's Integrity Act process was paper intensive and segregated from other management activities. Managers did not realize that management control systems were the plans, policies, and procedures they had established to achieve the Agency's mission, and that the Integrity Act and related standards required them to complete the basic management steps of documenting, evaluating, and improving those systems. Managers often limited their Integrity Act efforts to financial controls. Integrity Act guidance was not tailored to mission accomplishment, and Integrity Act training and application focused on completing required paperwork rather than improving management controls.

Improved Control Reviews And Reporting Can Prevent Problem Escalation

The Agency demonstrated strong senior management commitment to identifying its material weaknesses by establishing a Senior Council on Management Controls (now known as the Senior Leadership Council) in 1989 to focus top management attention on management integrity issues. The Council obtained input on weaknesses from OIG, General Accounting Office, OMB, and senior managers. However, the Council may have relied too extensively on external audits and reviews to identify its material weaknesses. The Integrity Act intended that the Administrator's annual assurance letter be supported by program managers' evaluations of their internal control systems.

Although the Agency reported 18 material weaknesses in fiscal 1993, its managers did not identify weaknesses through a building block process that let weaknesses identified through control reviews flow up through its management structure to the program and function offices as contemplated by the Integrity Act. Managers did not routinely use the Integrity Act process as an early warning system to identify and correct weaknesses before they escalated to the material weakness levels identified by external reviews. As a result, the Agency's Integrity Act process did not prevent negative consequences and improve the economy and efficiency of operations.

RECOMMENDATIONS

We directed recommendations to the Administrator as the Agency official who can hold managers accountable for effective Integrity Act implementation. The Assistant Administrator for OARM and senior managers should stress the Integrity Act's intent through specific Integrity Act and overall management training courses, written policies and procedures, and senior managers' meetings. Agency guidance should emphasize managers as the assessors and reporters of weaknesses and view external reviews as only one of several sources managers should use to assess controls. OARM should provide guidance and procedures for reporting weaknesses through the chain-of-command to ensure the Agency has sufficiently identified the extent of its weaknesses and targeted the appropriate accountable managers for implementing corrective action. Assistant Administrators and Regional Administrators should hold managers accountable through the performance appraisal process for identifying and correcting program weaknesses and achieving results and should recognize managers for implementing and maintaining effective control systems.

AGENCY COMMENTS AND OIG EVALUATION

OARM basically agreed with the first finding and recommendations, but requested that the recommendations be directed to all Assistant Administrators and Regional Administrators as they are ultimately responsible for Integrity Act implementation. OARM attributed lack of adequate national training to past and continuing travel and resource constraints. OARM expressed concern with the second finding related to managers being verbally encouraged to count as many activities as possible as control reviews. It felt that the annual guidance provided sufficient criteria for conducting proper reviews and for reporting weaknesses through the chain-of-command.

OIG clarified Assistant Administrator and Regional Administrator responsibilities for Integrity Act implementation and issued the report to the Administrator. The Administrator is the Agency official with the authority to hold Assistant and Regional Administrators accountable for their Integrity Act responsibilities. As National Program Manager, OARM should design clear written guidance, effectively educate managers in the mission critical importance of good management controls, oversee Integrity Act implementation, and offer senior managers ongoing technical support for continued effective program management. This technical support includes verbal guidance to managers to follow the written directions which might take the form of supplemental oral explanations of specific ways to accomplish tasks and design program review strategies which effectively evaluate controls. OARM's early education and communications with senior managers regarding the new process should highlight that early identification and effective communication of weaknesses across the Agency will ultimately make managers' jobs easier because all will benefit from knowing which controls work, and which controls need improvement.

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TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION

PURPOSE

Integrity is one of the key elements in establishing accountability in Government. The President and Congress have reemphasized management's responsibility to operate efficient and effective control systems to support mission accomplishment. A major role of the Office of Inspector General (OIG) is to improve agency operations by making recommendations to increase efficiency and effectiveness. OIG assists in promoting integrity throughout the Environmental Protection Agency (hereafter referred to as Agency) by providing technical assistance to improve the Agency's management control systems and by reporting to the Administrator annually on the Agency's Integrity Act efforts. This report provides an overall assessment of the Agency's implementation of the Federal Managers' Financial Integrity Act of 1982 (Integrity Act). It is based on Integrity Act findings in OIG audit reports issued between 1992 and 1994.

The Agency has committed to strengthening integrity as a critical part of basic management practices. The Administrator and Senior Leadership Council have manifested this commitment by highlighting integrity as part of the Agency's overall management agenda. Also, the Agency's draft strategic plan for fiscal 1995-1999 recognizes and reinforces the accountability that Federal program managers have for good management processes and the need for an institutionalized Agency framework for priority-setting, decision-making, and resource allocation. The strategy describes Agency activities to comply with the Chief Financial Officers (CFO) Act of 1990, the Government Performance and Results Act (GPRA) of 1993, and the Integrity Act. Management integrity is a key component of the strategic plan. Initiatives emphasize results rather than process, while calling for more effective management.

This report describes Agency Integrity Act deficiencies that may have impeded the Agency's progress in achieving its mission in the past. We believe an understanding of these deficiencies will help the Agency avoid them in implementing the new strategy. Our overall audit objectives were to determine if the Agency's Integrity Act efforts effectively evaluated controls and created an early warning system to prevent problems from escalating to material weaknesses and to promote mission accomplishment.

BACKGROUND

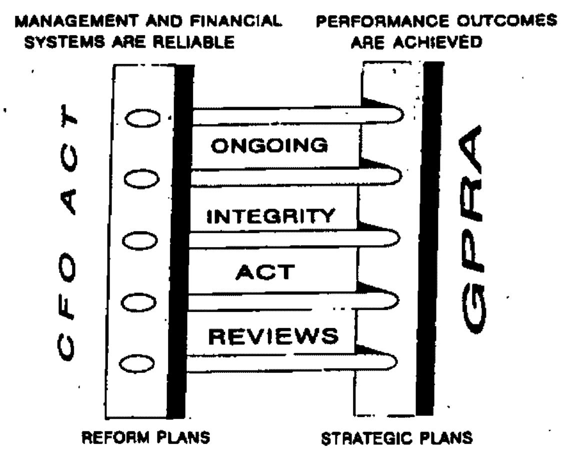
A generally recognized effective management principle is that good internal control systems improve operations and discourage wrongful acts by making them more difficult. Congress passed the Integrity Act to amend the Accounting and Auditing Act of 1950 and require renewed focus on strengthening internal controls. The Accounting and Auditing Act requires agencies to establish and maintain effective internal control systems. The Integrity Act requires agencies to continuously evaluate and report to Congress and the President on the adequacy of those internal control systems. Also, the Integrity Act requires agencies to build control systems around standards prescribed by the General Accounting Office and evaluate those systems following guidelines prescribed by the Director of the Office of Management and Budget (OMB).

Standards for Internal Control In The Federal Government, dated June 1, 1983, presents the control standards as defined by the Comptroller General. The standards cover program management as well as financial management. OMB Circular A-123 (Revised), dated August 4, 1986, was initially issued in 1983 and defined the policies and procedures for establishing, maintaining, and reporting on agencies' program and administrative internal controls. The Circular requires agencies to complete: (1) annual management control plans, (2) vulnerability assessments, and (3) management control reviews. OMB issued guidelines for evaluating internal controls in December 1982. The guidelines require extensive event cycle documentation. The standards and OMB guidelines describe the basic management techniques of planning, documenting, evaluating, reporting, and correcting operations.

In August 1994, OMB issued a working draft of the revised OMB Circular A-123. The proposed revision identifies statutes and policies issued since the Integrity Act which, considered collectively, provided a framework for assessing management integrity. The statutes and policies include the CFO Act; GPRA; Executive Order 12861, Elimination of One-Half of Executive Branch Internal Regulations; Presidential Memorandum on Agency Streamlining (September 11, 1993); and the Inspector General Act, as amended. The proposed revision: (1) allows agencies latitude in implementing management control programs, (2) makes management controls a more understandable and meaningful concept for agency managers, and (3) eliminates ambiguities in the current circular.

The CFO Act and GPRA, coupled with the longstanding Integrity Act, provide the legislative framework for achieving results and ensuring accountability in Government. The aim of the CFO Act is to improve general and financial management in Government, providing a framework to develop reliable financial and management systems. GPRA establishes strategic planning and performance measurement in Government, providing a framework to achieve program results. The Integrity Act focuses on all aspects of agency management by providing for ongoing evaluations and reports on the adequacy of control systems. All three acts were passed to curb the threat of waste and inefficiency in Government programs and to improve Government management. All three call for resource accountability.

When properly implemented, the three acts will work in concert to enhance mission accomplishment. The CFO Act calls for 5-year plans on financial management reform, with annual progress evaluations. GPRA calls for 5-year strategic plans defining outcome-related goals and objectives, with annual plans and reports on success in achieving performance goals. The Integrity Act calls for ongoing evaluations of the management control systems agencies have established to achieve the reforms and outcomes envisioned by the CFO Act, the GPRA, and major environmental statutes. It requires an annual report to Congress and the President on systems' adequacy and planned corrective actions. Integrity reviews provide an early warning to managers to correct problems before they hinder mission accomplishment.



RESULTS ORIENTED GOVERNMENT

Congress expects the Agency to exercise control over its resources for effective and efficient mission accomplishment. The Agency's mission to protect the environment from airborne pollutants and radiation, solid and hazardous wastes, and hazardous water contaminants requires highly complex management control systems. Management control encompasses all activities designed to ensure that an organization accomplishes its objectives effectively and efficiently: (1) within the planned timeframes, (2) within approved cost limitations, and (3) with the planned quality and quantity of output. Management control systems span management activities from deciding what the Agency should do or what it should emphasize, to allocating funds, monitoring activities, reviewing operations, making mid-course corrections, and evaluating overall organizational and individual performance.

Only the Agency Administrator has authority to hold managers accountable for Integrity Act implementation. The Administrator designated the Assistant Administrator for the Office of Administration and Resources Management (OARM) as the coordinator for the Agency's Integrity Act compliance. The Resource Management Division (RMD) within the Office of the Comptroller has been the National Program Manager and was responsible for coordinating, monitoring, and providing guidance for the Integrity Act implementation. In August 1988, RMD issued its guidance manual entitled EPA Internal Control Guidance for Managers and Coordinators which outlined procedures consistent with the requirements of OMB Circular A-123 and Comptroller General standards. The manual stressed management responsibility and accountability for effective internal control systems. Also, RMD issued supplemental annual guidance.

Within the Agency, 22 primary organization heads, Assistant Administrators (AA) in the Headquarters program offices and Regional Administrators (RA), are ultimately responsible for implementing the Integrity Act. Their responsibilities include assuring the Administrator that they recognize the importance of management controls and believe their organizational units meet the Integrity Act intent, and ensuring their staff conscientiously fulfill their management control responsibilities and perform control reviews following the Agency's guidelines.

In fiscal 1992, RMD recognized that the Integrity Act process continued to work ineffectively and established quality action teams to improve Integrity Act training and guidance, promote management acceptance, and streamline the process. In fiscal 1994, since the issuance of the National Performance Review and the GPRA, RMD reengineered the Agency's Integrity Act requirements to streamline the process and integrate responsibilities for prompt detection, correction, and prevention of problems in program planning, budgeting, operations, fiscal management, and evaluation. The reengineered process makes managers more accountable for evaluating and improving their programs as part of everyday operations. In April 1994, the Agency received a waiver of the Circular A-123 requirements for management control plans, vulnerability assessments, separate management control reviews, and event cycle documentation.

The reengineered process is responsive to the Comptroller General standards and the proposed revisions to OMB Circular A-123. It adopts Agency-wide Management Integrity Principles, based on the standards, which pertain to all programs and activities and which are intended to promote best management practices. Agency managers are expected to incorporate these principles into existing management processes and program strategies, guidance and procedures, which serve as the Agency's management control framework to safeguard resources and achieve mission goals. Agency managers are expected to be more directly involved and accountable for ensuring the integrity of their programs and resources. Specifically, new Integrity Act guidance calls for Agency managers to:

- Assess and revise guidance and strategies to ensure adequate coverage and consistency with the Agency's Management Integrity Principles;
- Develop administrative and program-specific integrity principles for use Agency-wide;
- Develop a systematic review strategy, that includes program and oversight reviews, CFO and GPRA results, and other relevant information sources, to assess effectiveness of guidance and strategies;
- Establish a building block process to identify weaknesses through the chain-of-command and report on progress at mid-year and in annual assurance letters to the Administrator.

Also, under the reengineered process, the 22 primary organization heads retain accountability for management integrity and rely on their Senior Resource Officials (SRO) to communicate the Agency's national management integrity guidance, oversee compliance with Integrity Act requirements, and provide an overall assessment of the effectiveness of their offices' program strategies and guidance. Agency Allowance Holders carry out the specific Integrity Act requirements for their programs. OARM is currently streamlining its office and plans to eliminate RMD, transferring its functional responsibilities elsewhere within the Office of the Comptroller.

SCOPE AND METHODOLOGY

We performed our fieldwork at RMD from June 1993 through June 1994 and focused on the Agency's Integrity Act implementation, administration, and reporting in fiscal 1992 and 1993. RMD is located in Washington, D.C. At RMD, we reviewed documentation and discussed policies, plans, and procedures to determine if RMD provided sufficient Integrity Act oversight and to evaluate its process for developing and supporting the Administrator's annual assurance letter to the President and Congress. We reviewed the Agency's fiscal 1992 and 1993 assurance letters to determine whether reported Agency weaknesses were identified through the Integrity Act process. We reviewed the new integrity model to see if it addressed all of the problems we identified in our audit work.

We conducted audits that support findings in this report in three regional and two program offices. (Exhibit 1 lists the audit reports, report dates, and office locations.) At the regional and program offices, we judgmentally selected a sample of large divisions and offices whose Integrity Act process had not been reviewed and reviewed plans, control system documentation, control reviews, and subassurance reports to evaluate Integrity Act implementation during fiscal 1990-1994. We judgmentally selected a sample of managers and interviewed them about their understanding of their Integrity Act responsibilities. We reviewed portions of their performance agreements and appraisals and training records to determine whether they understood Integrity Act procedures and the extent of oversight they had received. We reviewed recent OIG audit reports issued between September 30, 1991, and 1994 that discussed Integrity Act findings or other management control findings to determine whether the Agency's Integrity Act process was working effectively. (Exhibit 2 lists the reports.)

We did not review the Agency's compliance with the Integrity Act's Section 4 on whether the Agency's accounting system conforms to Comptroller General requirements. Rather, we relied on the work of other OIG auditors. Their audits addressed deficiencies in the Agency's accounting system.

We conducted our audits in accordance with Government Auditing Standards (1988 Revision). The findings in this report include control weaknesses identified during the audit and our recommendations to correct the weaknesses, when appropriate. No other issues came to our attention which we believed were significant enough to warrant expanding the audit scope.

PRIOR AUDIT COVERAGE

OIG and General Accounting Office (GAO) have audited the Agency's Integrity Act process and reported deficiencies since 1983. This report summarizes Integrity Act deficiencies reported by OIG between 1992 and 1994. GAO has not recently issued reports on the Agency's Integrity Act process.

CHAPTER 2

INTEGRITY ACT CAN HELP MANAGERS EXERCISE LEADERSHIP

Through its Integrity Act reengineering, the Agency has adopted a system that integrates responsibilities for identifying, preventing and correcting problems into day-to-day operations and Agency centralized systems for program planning, budgeting, operations, fiscal management, and evaluation. AAs and RAs will identify vulnerabilities through the strategic planning process, as well as routine review of day-to-day program information provided by Agency reporting systems and customer feedback, and develop and carry out a systematic review strategy to assess these vulnerabilities. The reengineered process relies heavily on effective implementation of the Agency's management integrity principles, which are based on Comptroller General standards. Agency efforts to integrate control reviews into ongoing management activities can improve programs by focusing managers' efforts on improving program implementation. However, the reengineered program cannot succeed unless managers accept responsibility for implementing sound management practices, and the Agency rewards managers for identifying problems and improving control systems.

Many of the problems we identified under the prior process resulted from managers not employing basic management techniques and not observing Comptroller General standards as required by the Integrity Act. We found that while managers performed Integrity Act process tasks and completed required paperwork, many managers did not use the Integrity Act process to measure progress toward program goals and objectives, detect deviations from their plans, and take corrective action. Some managers did not realize that management controls were the plans, policies, and procedures they had established to achieve program goals and objectives and, ultimately, Agency mission. At times, managers had not developed or documented controls. Some managers did not connect the risk assessment process with selecting which management control systems to review. Most managers were not effectively trained and were not held accountable for treating controls as a high management priority.

THE INTEGRITY ACT AND STANDARDS CREATE A FRAMEWORK FOR MANAGING PROGRAMS

The Integrity Act requires agencies to establish and maintain cost-effective control systems in accordance with Comptroller General standards to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement, and misappropriation and that activities are effectively and efficiently managed to achieve agency goals. To ensure agencies managed their funds and programs, Congress required agencies to perform ongoing control system evaluations and to report the results annually.

The preface to the Comptroller General standards describes the ultimate benefit of effective management control systems. It explains that controls:

> facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers.

Several key standards are directed toward managers' and employees' activities. Additional standards require that controls be developed and documented for all agency management, financial, program, and administrative activities.

The standards require managers and employees to demonstrate a positive and supportive attitude toward internal controls and treat controls as a consistently high management priority. The standards recognize that attitude is reflected through managers' actions concerning agency organization, personnel practices, communication, and protection and use of resources.

The standards require managers and employees to have skills to accomplish their assigned duties and an understanding of controls sufficient to discharge their duties. They recognize the importance of performance appraisals and suggest performance evaluations be based in part on implementation and maintenance of effective control systems.

The standards require control systems and all transactions and other significant events to be clearly documented in management directives, administrative policy, and accounting manuals. They require that transactions and events be useful to managers by being complete and accurate, tracing an action or event before it occurs, while it is in process, and after it is completed. They require agencies to develop and identify logical and reasonably complete control objectives for all agency management, financial, program, and administrative activities compatible with the agency's organization and division of responsibilities.

The standards require supervisors to guide and train staff to help ensure that errors, waste, and wrongful acts are minimized and management directives are achieved. This includes clearly communicating duties, responsibilities, and accountabilities to staff, and reviewing and approving work to ensure work flows as intended.

The Agency's new process recognizes 10 fundamental principles as integrity guideposts for good management of all programs and activities. OARM based the principles on the Comptroller General standards. The principles are:

- Develop written strategies, policies, guidance, procedures, and performance measures to achieve the Agency's mission and safeguard programs and resources against waste, loss, unauthorized use, and misappropriation.

- Establish an organizational structure and delegate authority, responsibility and accountability in accordance with Agency guidelines to achieve the mission of the organization.

- Carry out program activities, consistent with established policies, strategies, guidance and procedures, and report significant, emerging management problems through the chain-of-command to the appropriate National Program Manager for action.

- Demonstrate personal integrity, provide quality supervision, and sustain a level of professional competence to accomplish assignments and to ensure that management objectives are achieved.

- Collect and assure the quality of data and other information necessary to manage environmental programs and continuously improve the basis for the Agency's scientific, technical, legal, enforcement, or management decisions.

- Separate key duties and responsibilities in authorizing, reviewing and approving payment, and maintain individual accountability for the custody and use of resources.

- Periodically compare written records of actual and planned activities for budget expenditures, program operations, property inventory, and staffing levels, to identify discrepancies and take appropriate action, where vulnerabilities exist.

- Use all available information sources to identify and routinely assess program areas that are vulnerable to fraud, mismanagement, and noncompliance with law.

- Develop and carry out a systematic review strategy, comprised of internal program reviews, OIG audits, and GAO studies, to assess the effectiveness of program guidance and procedures, and revise, as necessary.

- Promptly determine and carry out management actions to correct, within established time frames, significant problems identified by internal program, OIG, and GAO reviews.

INTEGRITY ACT IMPLEMENTATION WAS PROCESS RATHER THAN RESULTS ORIENTED

The Agency's Integrity Act procedures should have provided a satisfactory level of confidence (considering costs, benefits, and risks) that control systems were achieving desired goals and objectives. Agency managers invested a lot of time and effort implementing the Integrity Act, but significant management control weaknesses continued to exist because managers did not use the process as a management tool. Agency procedures created cumbersome lines of authority and a paper-intensive system, separate from operational activities. Many managers did not realize implementing the Integrity Act could help them accomplish their jobs.

The Agency's Integrity Act Process Was Cumbersome And Paper Intensive

Resources Management Directive 2560 (June 4, 1987) outlined Integrity Act roles and responsibilities based on the assignments of responsibility prescribed by OMB Circular A-123. It segmented the Agency into 22 primary offices. The Agency designated 266 assessable unit managers, such as division and laboratory directors, to manage the Integrity Act process. Offices often delegated implementing Integrity Act process steps to one or two Management Control Coordinators (MCC) within the primary offices and sub-MCCs within the assessable units.

The Agency's process required the 266 assessable unit managers to prepare numerous documents including extensive control documentation, annual vulnerability assessments and management control plans, quarterly progress reports, high risk reports, management control reviews, material weakness position papers, and annual assurance letters. The control documentation consisted of a list of all program operations and administrative functions, each activity within the program and administrative functions, control objectives for each activity, and control techniques for each objective. Under this process, control documentation needlessly duplicated existing Agency plans, policies, procedures, and guidance.

Managers generally accomplished the process steps, but did not realize the processes were a means of establishing effective program management and that the processes should be linked together. Managers did not ensure programs and administrative policies, procedures, and directives were fully developed and documented to achieve the Agency's mission and goals. Some managers did not realize that controls related to program as well as financial activities.

Where managers understood the intent behind the paperwork requirements, they performed tasks outside the process which better met the intent than the actual requirements of the Agency's process. Instead of using the required standard vulnerability assessment form, some managers in the Office of Solid Waste and Emergency Response (OSWER) analyzed their programs, priorities and resources and identified potential obstacles to accomplishing these priorities. These managers then appropriately scheduled control reviews to ensure that the programs' priorities were achieved.

Other managers who did not understand the concepts followed the paperwork requirements and completed the standard vulnerability assessment form. However, this form did not lead managers to identify potentially vulnerable areas within their programs. Most managers submitted the completed standard vulnerability assessments to RMD but did not have any useful results to identify control weaknesses and make improvements.

Our review of 15 OIG reports (listed in Exhibits 1 and 2) disclosed that managers did not prepare complete control documentation or did not use documented controls. Complete programs or functions were often missing from the documentation. For example, a Headquarters office did not have procedures to safeguard confidential business information and did not realize it lacked procedures until it lost several boxes of confidential information. In two offices, procedures for issuing permits were not documented. Control documentation was also missing for critical function areas such as data integrity, financial management system planning and cost tracking, and contracts management. An audit of the Agency's sensitive information systems disclosed that 17 of 29 sensitive information systems were not included in Headquarters Integrity Act control documentation. In 1 region, 14 of 20 managers identified vulnerabilities and took corrective actions but did not document the improved controls. Thus, the region had little assurance that the corrective actions would be implemented.

At two Headquarters offices, managers had not established controls for regional oversight. Although Agency regulations state that National Program Managers have overall responsibility for accomplishing program goals, Headquarters program managers stated that the Agency is decentralized and they did not have authority over regional personnel to ensure program policies and procedures were followed and resources were properly used. They did not see this as part of the control systems National Program Managers need to help ensure mission accomplishment.

<u>The Reengineered Integrity Act Model Simplifies and Integrates the Agency's Approach</u>

The reengineered Integrity Act model simplifies the Agency's approach and integrates Integrity Act requirements into managers' daily management activities. The model reduces the Agency's segmentation from 266 units to 48. It reduces the number of reports managers must prepare and incorporates assessing program vulnerability and creating control review strategies into ongoing management activities. It eliminates the requirement for separate event cycle documentation by requiring managers to modify program strategic plans, operating guidance, regulations, policies, and procedures to incorporate the Agency's integrity principles which are based on Comptroller General standards.

In the new model, the Agency has appropriately recognized the need for national program leadership. OARM will develop model principles for administrative activities such as contracts, grants, and resource management practices. Other National Program Managers are expected to develop program specific integrity principles to clearly articulate policy priorities, best management practices, and current guidance in effect. Managers are required to review and revise written strategies and guidance to serve as a management control framework for safeguarding program mission and resources. The model ties the process of establishing vulnerabilities with strategic plans, written strategies, and guidance. It directs managers to systematically review programs to assess protection from fraud and mismanagement and support mission accomplishment. The new guidance clearly links controls with mission accomplishment.

Because the new process aligns integrity responsibilities with day-to-day operations and program planning, budgeting, operations, fiscal management, and evaluation, program managers should strengthen accountability for identifying weaknesses through the chain-of-command, correct them promptly, and prevent serious systemic problems. The new process should greatly improve integrity results if AAs and RAs respond to the OARM Assistant Administrator's expectations as outlined in his June 6, 1994, memorandum and hold managers accountable for routinely identifying systemic problems and correcting them.

GUIDANCE AND TRAINING WERE NOT CLEAR AND COMPLETE AND MANAGERS WERE NOT HELD ACCOUNTABLE

Managers were not adequately trained to implement effective management control systems. Integrity Act implementation instructions were not always clear and complete. RMD's basic guidance and training packages were process-oriented and examples/forms for several key processes such as segmentation and vulnerability assessments conflicted with the guidance narrative. Annual guidance did not always explain how certain processes, such as corrective action validation, should be accomplished.

Managers were not held accountable or recognized for supporting Integrity Act requirements.

Agency managers misunderstood Integrity Act guidance and terminology and were unable to apply the processes effectively. The guidance had not communicated Integrity Act concepts successfully to Agency managers. Both regional and Headquarters program managers said the Integrity Act guidance manual and fiscal 1992 and 1993 quarterly technical guidance were ambiguous and confusing, that terminology was not clearly defined, and that different phases of the process were not linked.

RMD recognized deficiencies in its guidance and reported its policy directives as a weakness in fiscal 1993. RMD planned revisions to its directives and Agency guidance to demonstrate linkage between Integrity Act phases, planning and budgeting phases, and Agency goals and strategic plans, and to integrate new regulations such as those implementing GPRA.

Managers had not received adequate Integrity Act training. Managers complained that neither local nor Headquarters training provided the necessary information to relay the conceptual meaning of the different Integrity Act phases and reporting requirements. Integrity Act training classes were usually brief 2-hour sessions and were process-oriented. Managers did not receive substantive training in developing controls or in relating the processes, such as the use of the risk assessment to identify problem areas for review. Managers in the offices we audited explained that they did not fully understand terminology used in describing Integrity Act requirements, and therefore, did not link the phases to their day-to-day operations. Managers did not understand completely what was required of them to fulfill Integrity Act requirements. In the 3 regions, 55 of 56 individuals did not have Integrity Act training documented in their files.

RMD developed a new management integrity training package and presented it to MCCs in June 1993. MCCs responded positively that the guidance was needed and helpful. RMD improved its quarterly MCC meetings and met more often with program and regional MCCs simultaneously rather than in separate meetings as was its previous practice. RMD is developing training that incorporates terminology compatible with managers' knowledge and is working with some offices to develop a comprehensive, long-term training program.

We did not find any evidence that individuals were rewarded or penalized for Integrity Act performance. We reviewed 128 performance agreements and found that 96 included measures for Integrity Act performance. However, the appraisal narratives were too brief to recognize if managers were held accountable for their performance. Without suitable recognition, managers had little incentive to execute their Integrity Act responsibilities.

RMD's new integrity model differs from the previous Integrity Act requirements, and managers and employees will require training to understand the comparisons. The new model requires managers to perform the basic management processes of establishing standards, measuring performance, comparing performance against standards and interpreting discrepancies, and taking corrective action. In light of the Agency's movement toward employee empowerment, streamlining, and other management initiatives, it is especially important that individuals are held accountable for their performance and appraised and rewarded accordingly.

CONCLUSION

The Agency's former Integrity Act process did not work well because managers did not relate the requirements to their daily activities and were not held accountable for improving their programs. RMD has recognized that changing 10 years of management perceptions about a process is no small undertaking. Success of the new process will involve significant reeducation for managers to understand and focus on integrity issues as an integral part of program management responsibilities. RMD recognizes that additional education and training in the new approach are required and that the Agency will need to devote additional resources to this major effort.

The Agency's reengineered model would make management controls purposeful and useful if Agency managers understand and properly apply the principles. The new guidance appropriately requires Agency managers to review written strategies and guidance for all major programs and functions to determine their consistency with the Agency's management integrity principles To adhere to the principles, Agency's plans, policies, procedures, and directives must describe logical, applicable, and reasonably complete guidance for performing work processes. The reengineered approach can only work if senior managers emphasize management integrity in meetings, training programs, and directives, and hold managers accountable.

RECOMMENDATIONS

We recommend that the Administrator:

1. Direct AAs and RAs to hold SROs accountable for providing training on the Agency's new integrity process in their offices and recognize those who implement and maintain effective control systems. SROs should seek technical assistance from OARM, as necessary.

2. Require AAs and RAs to hold managers accountable through the performance appraisal process for identifying and correcting weaknesses in the way they carry out their programs and achieve results. They should recognize managers for effectively and efficiently implementing Integrity Act requirements.

3. Require AAs and RAs to stress to senior managers and staff the mission critical importance of the Agency's reengineered integrity process and the Agency's Management Integrity Principles; emphasize that the process helps safeguard resources and achieve program results. Incorporate this emphasis into specific Integrity Act and overall management training courses, management policies and procedures, and senior managers' meetings.

4. Require the AA for OARM to assign sufficient OARM oversight staff to bring managers up to speed on the new process and ensure the new process is implemented as intended.

5. Require the AA for OARM to provide basic training to SROs in the new Integrity Act approach and the Agency's Management Integrity Principles.

AGENCY COMMENTS AND OIG EVALUATION

OARM generally agreed with the finding and provided comments to clarify some issues and redirect the recommendations. OARM requested that, because responsibility for safeguarding resources in achieving mission goals goes beyond OARM, the recommendations be redirected to all AAs and RAs. Also, OARM requested that specific recommendations for relating GPRA to integrity issues be directed to the Office of Policy, Planning and Evaluation. Other comments primarily related to adding language to stress the link between the Integrity Act process and program planning, budgeting, operations, fiscal management, and evaluation responsibilities. OARM commented that RMD recognized the Integrity Act process was not working much earlier than 1992 and challenged the report's assertion that RMD could have provided more effective oversight prior to 1993. RMD commented that it attempted to improve the process each year in response to OIG's annual audit. OARM attributed lack of adequate national training to past and continuing travel and staff resource constraints. RMD attempted to overcome these constraints by providing training packages to the regions.

We clarified AA and RA responsibility for Integrity Act implementation. As Integrity National Program Manager, OARM should work with the Office of Policy, Planning, and Evaluation to ensure Integrity concepts are appropriately integrated into GPRA implementation. OARM is primarily responsible for educating the national and regional offices in the reengineered process and overseeing its implementation. As part of its initial training and awareness sessions, OARM should highlight the findings in this report to encourage managers to avoid the cited problems in carrying out the reengineered Integrity Act process.

OIG applauds the Agency in its initiatives to integrate the Integrity Act process with program and administrative management. We added OARM's recommended language to explain the new process and its links to administrative management. However, OARM's response to the draft report appeared to focus more on administrative management than day-to-day program operations. Although both are important, OARM will need to stress how managers can integrate the Integrity Act process with daily activities in its training and guidance, because many managers did not make this connection using the old process.

We believe that the major efforts to overhaul the Integrity Act process did not start until 1993. Also, while OIG recognizes RMD's limited resources, the training packages provided to the regions focused on process and did not provide managers sufficient technical assistance to meaningfully assess their program and function controls.

CHAPTER 3

IMPROVED CONTROL REVIEWS AND REPORTING CAN PREVENT PROBLEM ESCALATION

The Agency demonstrated senior management commitment to identifying its material weaknesses by establishing a Senior Council on Management Controls (now known as the Senior Leadership Council) in 1989 to focus top management attention on management integrity issues. The Council appropriately sought input from OIG, GAO, OMB, and senior managers to help identify its material weaknesses. Although the Agency reported 18 material weaknesses in fiscal 1993, the majority of the weaknesses were not discovered through managers' control assessments which flowed through the Agency's chain-of-command to the senior managers. Managers reported weaknesses to RMD rather than through the Agency's management structure to the national program and function offices where further analysis or policy and guidance changes could have corrected problems or prevented problem escalation. Managers did not use the Integrity Act process as an early warning system to identify and correct weaknesses before they escalated to the material weakness levels identified by external reviews. As a result, the Agency's Integrity Act process did not prevent control weaknesses from escalating or improve the economy and efficiency of operations. Instead, material weaknesses, once detected, required significant resources to correct.

OMB PROMOTES AN EFFECTIVE MANAGEMENT CONTROL PROGRAM

In accordance with the Integrity Act and OMB Circular A-123, each executive agency must annually evaluate its system of internal accounting and administrative controls and report to Congress and the President on whether its internal control systems comply with the goals of the Act. If systems do not comply, the agency head must identify material weaknesses and present plans for corrective action. OMB encourages managers to utilize external reviews, such as OIG and GAO audits and internal management reviews in managers' assessment of controls. However, recent OMB draft guidance stresses that the external reviews be incorporated as part of a self assessment and weaknesses be reported through the agency chain-of-command structure. Each supervisory level should determine and report the materiality of the weakness to the next level.

The Agency requires regional and national program offices to submit annual assurance reports to identify potential material and Agency-level weaknesses. The offices' reports must describe any material weaknesses disclosed by any management control evaluations or other reports, the action plans for correcting the weaknesses, and the status of actions taken to correct any weaknesses identified in any prior year reports.

THE AGENCY REPORTED WEAKNESSES IDENTIFIED IN EXTERNAL REVIEWS

The Agency did not identify its weaknesses through the Integrity Act process. Weaknesses were identified primarily by external auditors or by managers during meetings or through managers' judgment.

The Agency reported 18 material weaknesses to the President and the Congress in fiscal 1993, but the majority of the weaknesses were identified externally. OIG and GAO identified 11 of the 18 weaknesses (over 60 percent). While the Agency appropriately reported weaknesses identified by external sources, program managers did not review external audit findings as an initial step in assessing the full extent of Agency management control weaknesses.

Likewise, national and regional program managers in four of the five offices we reviewed did not routinely identify material or Agency-level weaknesses through the Integrity Act process. They primarily identified weaknesses through external reviews and activities such as management meetings and studies. Because managers identified weaknesses through discussion and not by testing controls, they could not sufficiently determine the extent of the weakness.

- One region did not report any weaknesses prior to fiscal 1993.

- One national program office identified more than half of its fiscal 1992 and 1993 weaknesses (14 of 26) through external reviews. Others were identified through managers' judgment and meetings.

- One region identified 21 of its 49 fiscal 1991 and 1992 weaknesses through external reviews. One weakness was identified through the Integrity Act process and 27 were identified primarily through discussions, meetings, or "insight into operations."

- Another region identified at least 7 of its 11 fiscal 1992 weaknesses reported outside the Integrity Act process. One of the seven was determined through external reviews and the other six through methods other than testing documented controls.

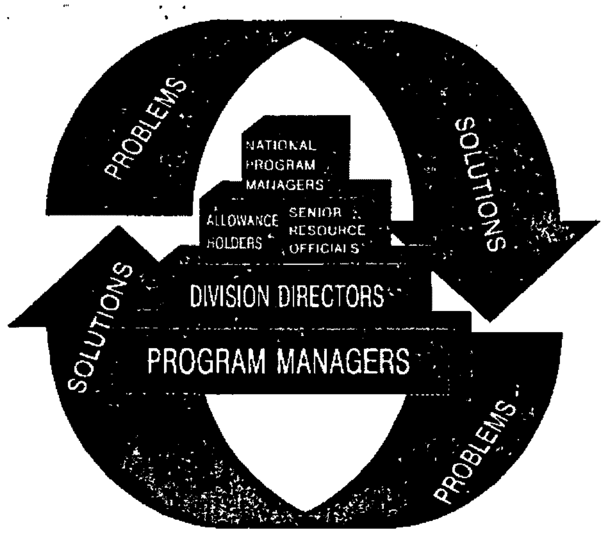
The new model encourages managers to rely on all information sources to evaluate the effectiveness of controls. It cautions that managers should not rely exclusively on external reviews to assess existing or potential vulnerabilities, but must conduct their own reviews which test controls to ensure timely and adequate information on which to base their assurance statement. Also, it stresses that managers should use their judgment and experience as the first step in identifying vulnerable areas for review. Managers then should develop a review strategy to focus on these vulnerable areas. The guidance appropriately states, "Reviews, whether conducted by internal or external sources, must involve actual tests to determine effectiveness of guidance and procedures."

MANAGERS NEEDED TO REPORT WEAKNESSES THROUGH THE ORGANIZATIONAL CHAIN

The Agency did not effectively use the Integrity Act process to identify and report the full extent of its weaknesses. Agency managers did not use a building block process to report weaknesses beyond the primary organization head through the organizational chain so that the overall magnitude of the weaknesses could be assessed. Managers only reported weaknesses that were material at the Agency or Presidential level.

Regional and program offices reported 174 Agency-level and material weaknesses, but did not always report these and other identified weaknesses to national program offices with authority to take action and determine the overall extent of the weakness. When regional offices did report weaknesses requiring Headquarters action to national program offices, Headquarters personnel did not always take appropriate action. Additionally, RMD did not have a formal process for disseminating reported weaknesses to program and function managers who might have an interest or responsibility to evaluate the weaknesses and initiate corrective actions once the full extent of the weaknesses was determined. Thus, progressively senior managers with a broader perspective on the Agency's mission did not have the opportunity to exercise their judgment regarding the extent and impact of program and function weaknesses. Also, managers could not benefit from compensating controls developed by other regional or national program offices.

RAs and National Program Managers reported their weaknesses directly to the Deputy Administrator with copies to RMD. The weaknesses did not flow between the regional offices and the national program offices or across media lines. RMD had an informal process for relaying weaknesses that were not reported in AA and RA assurance letters to national program offices, but the process did not appear to be effective. RMD's informal process for advising National Program Managers of unreported weaknesses may have allowed regions and National Program Managers to avoid taking prompt action to assess the full extent of weak controls and report material weaknesses. As a result, the Agency did not always report its material weaknesses in a timely manner or require all potentially impacted managers to evaluate their controls for similar weaknesses and take appropriate corrective actions to remedy the weaknesses. For the Agency to identify the full extent of system weaknesses and determine if weaknesses were fully corrected, managers at each level needed to evaluate the controls they were responsible for implementing and report all weaknesses that were material to their operations, not just Presidential-level weaknesses.



THE BUILDING BLOCK PROCESS

Managers in one region identified weaknesses in 1992 in air program and policy guidance for implementing and enforcing the Clean Air Act Amendments (CAAA). Regional managers developed and implemented added procedures to comply with new CAAA while awaiting national air program policy and guidance. However, the region interpreted the Agency's Integrity Act guidance as not requiring it to report the lack of policy and guidance as a weakness nor problems encountered in enforcing air program requirements. If regional managers had reported the weaknesses and corrective actions, national and other regional program managers could have benefitted from an early warning of potential material weaknesses in the Clean Air program, assessed the weakness Agency-wide, and possibly shared the region's compensating controls as a best practices approach.

RMD and the national program offices did not always follow up on reported Agency-level and material weaknesses to determine how prevalent the problems were and correct the problems Agency-wide. Two OIG audit reports (listed in Exhibit 2) disclosed that environmental research laboratories in Athens, Georgia, and Corvallis, Oregon, did not assess their management controls over extramural resources even after the Headquarters Office of Research and Development (ORD) reported management of extramural resources as a material weakness in 1990. Extramural resources accounted for nearly 70 percent of total ORD funds. Audit reports issued 3 and 4 years after ORD reported extramural resource weaknesses noted that the laboratories did not identify the weaknesses because the laboratories had not established effective controls over extramural resources and evaluated the controls.

RMD's reengineered Integrity Act model indicates managers will only report material and Agency-level weaknesses which require the attention of the Administrator. The new guidance does not clearly stress the benefit of reporting weaknesses up and down the organizational chain and across media lines. The guidance should stress following the organizational chain to report all weaknesses so that National Program Managers can determine whether the weakness should be assessed Agency-wide or best practices for compensating controls can be shared with other potentially impacted Agency offices.

MANAGERS SHOULD HAVE IDENTIFIED WEAKNESSES THROUGH CONTROL REVIEWS

Managers generally did not identify weaknesses through control reviews because they did not test controls to see if programs and functions were operating as intended. In part, managers did not test controls because they did not know what a control review entailed. Although Agency written guidance specifically identified criteria for control reviews, some Agency managers said they were verbally encouraged to count activities which did not test controls as control reviews. As a result, the Agency's success in identifying all its significant weaknesses was severely limited as indicated by the number and severity of weaknesses identified through audit findings.

Many control reviews did not appropriately test controls nor meet OMB criteria. For fiscal 1992, the Agency reported to OMB that it performed 796 control reviews and planned to complete 909 reviews in 1993. We reviewed 67 control reviews for 1990, 1991, 1992, and 1993 for compliance with OMB requirements and found that 50 reviews, or 75 percent, did not meet basic requirements such as testing controls and documenting the results.

Thirteen OIG audit reports issued between September 30, 1991, and 1994 identified improvements needed in control reviews. Eleven of these reports stated managers did not plan or perform reviews over controls that the auditors found deficient. Two of the reports stated that managers did not document reviews and, consequently, could not be certain that identified weaknesses were included in an Integrity Act report.

OIG reports cited various reasons for reviews not testing controls. Some managers had not learned what a control review entailed or considered control reviews unnecessary. Other managers commented that they: (1) thought MCCs were responsible for conducting reviews, (2) considered management control reviews a financial function and their staff were not financial experts, (3) did not understand the purpose of reviews, and (4) did not know the difference between control systems and control reviews. RMD may have contributed to managers' confusion regarding the purpose and definition of control reviews.

RMD's manual clearly and accurately described the step-by-step process for performing a control review. However, some managers said that prior to 1993, RMD had verbally advised them to count as many activities as possible as alternative control reviews. Regional managers continued this practice beyond 1993. As a result, regions and Headquarters program offices inappropriately counted activities which did not test controls and thus did not result in improved controls.

- Three regions counted activities which were really controls rather than reviews. For example, two regions counted annual quality assurance assessments as control reviews. The regions should have determined whether the quality assurance assessments were performed, met the testing requirements, and resulted in corrective actions. Instead, they counted the control as the review.

- Two regions counted Headquarters reviews as control reviews. However, the reviews were general discussions with personnel regarding goals and did not test controls.

- In other instances, offices counted activities such as a written justification to OMB for program continuation, a compilation of policy memorandums, status reports, and management briefings as control reviews. None of these activities tested controls.

In response to a 1990 OIG audit of the Agency's 1989 Integrity Act activities, OSWER initiated annual reviews of its control review process. Reviewers provided informal feedback to managers on the quality of their control reviews and how to improve them. In 2 years, the number of reviews meeting control review requirements increased from 39 percent to 75 percent.

The new Integrity model reminds managers that they cannot rely exclusively on external reviews to assess vulnerabilities. They must conduct their own reviews and perform actual tests to determine if guidance and procedures are followed and working to efficiently accomplish their mission. As stated in the new guidance, this is necessary "to ensure timely and adequate information on which to base their statement of assurance." The model contains general criteria for selecting, conducting, and documenting program reviews and developing corrective action plans. In order for their program reviews to be effective, managers will need formal training on the control review process that illustrates how to perform transaction tests and document test results.

CONCLUSION

The Agency's reengineered Integrity Act approach can improve procedures for identifying weaknesses and reduce the number of excess reviews planned and reported, but managers must also improve their examinations of their operations. Managers' program reviews must test plans, policies, and procedures and determine if Agency personnel promptly and properly recorded management actions; executed the management actions in accordance with applicable laws and regulations; adequately separated duties to ensure a system of checks and balances; and applied sufficient supervision. Weaknesses must be identified, reported, and corrected at each level to determine the extent of weaknesses, establish accountability, and provide early detection and correction.

The new integrity process relies more on management judgment and accountability than the previous process. Senior Agency officials should stress the importance of integrating management integrity into each manager's day-to-day operations. Managers must be educated in their responsibilities under the new process, and how to carry them out. But beyond this, managers will need ongoing technical assistance from OARM and reinforcement from the Senior Leadership Council to ensure success.

RECOMMENDATIONS

We recommend that the Administrator require AAs and RAs to:

1. Hold SROs accountable for developing annual systematic review strategies to evaluate guidance and procedures in identified vulnerable areas and include documented program review results and recommendations. When new weaknesses are identified through external review, SROs should improve their systems to detect such vulnerabilities through the integrity process in the future.

2. Direct SROs to base corrective action and validation of current material weaknesses on assessment in the field as well as at the Headquarters level.

3. Direct SROs to develop guidance and procedures for reporting weaknesses and suggested corrective actions through the organizational structure which includes requiring managers to report weaknesses in writing to National Program Managers.

4. Assess and document the overall magnitude of weaknesses and corrective actions reported to them by managers throughout the Agency.

AGENCY COMMENTS AND OIG EVALUATION

OARM disagreed with several assertions in this finding. RMD commented that the annual guidance in 1990, 1991, and 1993 specifically identified criteria for reviews to be listed in the management control plan. OARM disagreed that RMD did not have a formal process for reporting weaknesses through the chain-of-command and for RMD's analysis of weaknesses submitted in the annual assurance letters. OARM did not concur with the report's assertion that the new Integrity Act guidance does not provide managers a clear understanding of the importance and advantages to reporting weaknesses up and down the organizational chain and across media lines. OARM challenged the validity of the accounts receivable issue as an example of ineffective chain-of-command reporting, and pointed out actions taken by the national program manager in 1990 and 1991 as appropriate actions to improve accounts receivable problems within the Agency. OARM expressed concern that OIG did not acknowledge management judgment as an important part of the reengineered process.

While annual guidance may have provided criteria for listing reviews in the management control plan, several managers told us that RMD verbally encouraged them to report other activities which would not meet the A-123 criteria for management control reviews and alternative management control reviews. OIG disagrees that RMD had a formal process for raising weaknesses to other program offices. Although written guidance encouraged such reporting, again verbal guidance either conflicted with the written guidance or confused managers regarding what should be reported. OARM may not have understood our intent in the accounts receivable example, so we deleted it from the final report. One of the main points intended in this chapter is that National Program Managers need to encourage the identification and widespread reporting of potential weaknesses to help them timely assess what action needs to be taken to correct weaknesses and to share actions managers may be taking to compensate for the weaknesses until more permanent action can be taken.

EXHIBIT 1

AUDITS OF INTEGRITY ACT IMPLEMENTATION

Report Title and Number	Report Date	Location
1. Region 7's Implementation of the Federal Managers' Financial Integrity Act (FMFIA) E1RMF2-07-0134-3100148	3/30/93	Kansas City, Kansas
2. Region 1's Administration of the Federal Managers' Financial Integrity Act E1RML3-07-0011-3100322	8/23/93	Boston, Massachusetts
3.Region 8's Implementation of the Federal Managers' Financial Integrity Act E1RML2-08-0091-3100326	8/24/93	Denver, Colorado
4. OSWER's Implementation of the Federal Managers' Financial Integrity Act E1SFE3-07-0101-4100224	3/28/94	Washington, DC
5. Office of Water's Implementation of the Federal Managers' Financial Integrity Act E1AME4-07-0024-4100236	3/31/94	Washington, DC

EXHIBIT 2

OIG AUDITS WITH INTEGRITY ACT FINDINGS

Report Title and Number	Report Date
1. SPECIAL REVIEW OF THE FACILITIES MANAGEMENT & SERVICES DIVISION'S SECURITY & PROPERTY MANAGEMENT BRANCH E1PMG1-13-0038-2400022	3/92
2. CONTRACT MANAGEMENT/EPA Needs to Strengthen The Acquisition Process For ADP Support Services Contracts E1NMF1-15-0032-2100300	3/31/92
3. SOFTWARE INTEGRITY/EPA Needs to Strengthen General Controls Over System Software E1NMF1-15-0055-2100591	9/22/92
4. EPA'S MANAGEMENT OF COMPUTER SCIENCES CORPORATION CONTRACT ACTIVITIES E1NME1-04-0169-2100295	3/31/92
5. SPECIAL REVIEW ON FOLLOW UP OF CERCLIS REPORTING AND POST-IMPLEMENTATION E1SFG1-15-5001-2400027	3/27/92
6. COMPUTER SYSTEMS INTEGRITY: EPA Must Fully Address Longstanding Information Resource Management Problems E1NMF1-15-0032-2100641	9/28/92

7. FOLLOWUP REVIEW ON EPA'S EMERGENCY SUSPENDED AND CANCELED PESTICIDE PROGRAM E1EPG2-05-6008-3400030	3/26/93
8. MANAGEMENT OF EXTRAMURAL RESOURCES/OFFICE OF RESEARCH AND DEVELOPMENT/ENVIRONMENTAL RESEARCH LABORATORY/ATHENS, GEORGIA E1JBF2-04-0300-3100156	3/31/93
9. FISCAL 1992 FINANCIAL STATEMENT AUDIT OF THE PESTICIDES REVOLVING FUNDS E1EPL2-20-7001-3100265	6/30/93
10. FISCAL 1992 FINANCIAL STATEMENT AUDIT OF THE SUPERFUND TRUST FUND, LEAKING UNDERGROUND STORAGE TANK TRUST FUND AND ASBESTOS LOAN PROGRAM P1SFL2-20-8001-3100264	6/30/93
11. REVIEW OF REGION 9 SUPERFUND PROGRAM ACCOMPLISHMENTS FOR FISCAL 1992 E1SFR3-09-0101-380006	8/12/93
12. CONSOLIDATED REPORT ON FISCAL 1992 CERCLIS DATA INTEGRITY E1SFF3-11-0016-3100392	9/29/93
13. MANAGEMENT OF ASSISTANCE AND INTERAGENCY AGREEMENTS/OFFICE OF RESEARCH AND DEVELOPMENT/ENVIRONMENTAL RESEARCH LABORATORY/CORVALLIS, OREGON E1FBF3-10-0069-4100214	3/21/94

14. FISCAL 1993 FINANCIAL STATEMENT AUDIT OF THE PESTICIDES REVOLVING FUNDS, AND THE OIL SPILL TRUST FUND E1AML3-20-7001-4100230	3/31/94
15. AUDITORS' REPORT ON FISCAL 1993 FINANCIAL STATEMENTS FOR THE SUPERFUND TRUST FUND, LEAKING UNDERGROUND STORAGE TANK TRUST FUND AND THE ASBESTOS LOAN PROGRAM P1SFL3-20-8003-4100231	3/30/94
16. MANAGEMENT OF COOPERATIVE AGREEMENTS/OFFICE OF RESEARCH AND DEVELOPMENT/ENVIRONMENTAL RESEARCH LABORATORY/GULF BREEZE, FLORIDA E1JBF2-04-0386-4100237	3/31/94
17. DRAFT REPORT OF AUDIT -- INTEGRATED FINANCIAL MANAGEMENT SYSTEM E1NMF3-15-0073-	5/09/94

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

27 JUL 1994

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

MEMORANDUM

SUBJECT: Response to Draft Report on EPA's Integrity Act Implementation
Audit Report No. E1AME4-07-0024-XXXXXXX

FROM: Kathryn S. Schmoll
Comptroller (3301)

TO: Michael Simmons
Associate Assistant Inspector General
for Internal and Performance Audits (2421)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft audit of EPA's *Integrity Act* implementation. We appreciate the auditors' work with OARM during the audit to keep apprised of and support our efforts to reengineer EPA's management integrity process, consistent with the Administration's National Performance Review (NPR). We recognize the OIG's considerable challenge to audit the "old FMFIA" within a context of such great change and to develop effective recommendations that support the Agency's new integrity direction.

We have provided comments on the draft report to clarify findings, strengthen recommendations, and reinforce the audit's support for EPA's new vision of integrity as a fundamental tenet of integrated program planning, budgeting, fiscal management, and evaluation. Our major comments are summarized below, with supporting examples attached.

Emphasize Integrity Role in Current Context of Change and Accountability Framework

We commend the OIG's efforts to identify and discuss linkages among *Integrity Act, Government Performance and Results Act (GPRA)* and *Chief Financial Officers Act (CFO)* requirements as part of the Agency's management accountability framework. Last year's enactment of the *GPRA* and issuance of the NPR recommendations gave OARM the opportunity to radically rethink the Agency's integrity process. Our goal was to eliminate the separate administrative stovepipe process and integrate responsibilities for prompt detection, correction and prevention of problems in program planning, budgeting, fiscal management, and evaluation.

We suggest that your final report discuss these significant events, which occurred during the 1992-1994 audit focus, to establish a clearer context for understanding why the Agency decided to reengineer the integrity process. We believe that the draft report's findings and recommendations do not sufficiently relate the role of EPA's new process within the framework of integrated Agency-wide strategic planning and goal-based budgeting to strengthen management accountability for results. This understanding is critical to managers' successful implementation of EPA's reengineered integrity process.

Clarify Audit Focus on Program, Not Financial, Management Integrity Implementation

We suggest that your final report explicitly establish at the outset that its primary focus is on program managers' implementation of the *Integrity Act*. We believe that the report, as written, does not apply to financial management under Section 4. For example, the report should acknowledge the existence of EPA's Financial Management Quality Assurance Program and its policy oversight, guidance and training role working with Agency Financial Management Officers (FMOs) and Senior Resource Officials (SROs) to carry out *CFO* and *Integrity Act* requirements. EPA trains FMOs, conducts financial internal control and systems reviews, and assesses overall financial management operations in annual Quality Assurance Reviews and reports on these assessments in *Integrity Act* assurance letters.

Clarify Relationship of OMB/GAO Policy Requirements to EPA Guidance, Past and Present

We suggest that the final report clearly state that EPA's integrity guidance has consistently promoted compliance with requirements of Office of Management and Budget (OMB) Circular A-123 and General Accounting Office (GAO) *Standards for Internal Control in the Federal Government*. Your draft report gives the mistaken impression that integrity requirements associated with EPA's Resource Management Directive 2560 (described on page 8) do not derive from OMB Circular A-123 or the GAO standards. We suggest that your final report consolidate discussion of the *Integrity Act* and OMB and GAO requirements in Chapter 1, identify the consistency of Resource Management Division (RMD) integrity guidance with these requirements, and distinguish between that guidance and managers' response in implementing it.

Your draft report attributes problems with the Agency's old integrity process to segregating responsibilities from other management activities and not observing GAO standards (page iii; Chapter 2, page 6). We believe that your final report should also acknowledge ongoing Agency efforts to strengthen integrity as a critical part of basic management practices. These include the Administrator's and her Senior Leadership Council's attention to integrity as part of the Agency's overall management agenda, policy memoranda from the Deputy Administrator and OARM senior management, and RMD annual guidance and corrective actions taken in response to annual OIG special reviews of the Agency's *Integrity Act* implementation.

We suggest that your final report reinforce its stated support for EPA's new integrity process as more responsive to GAO standards and OMB guidance (pages ii and 4) through concrete examples of management action in program planning, budgeting, fiscal management, and evaluation. Chapter 3 in particular seems to reinforce the old segregated paradigm in its discussion of the "*Integrity Act* process" and "control reviews" to identify problems.

Discuss Elements and Expectations of EPA's New Integrity Process

We concur with your draft report observations linking success of EPA's new integrity process and past problems with Agency managers' understanding how their *Integrity Act* and program management responsibilities relate. We strongly recommend reorganizing your audit report to consolidate discussion of the old and new processes and clearly distinguish them from each other. We note factual inaccuracies in the draft report's summary of EPA's new integrity requirements, as identified in Attachment 2. We recommend correcting these errors and increasing discussion of integrity requirements' impact on program management responsibilities.

We appreciate the many draft report endorsements of EPA's new integrity approach and suggest deleting the final statement on page 20 that "the Agency's reengineered *Integrity Act* process is highly vulnerable." We believe that you should replace this statement with specific actions needed to ensure the success of EPA's new process as part of the integrated accountability framework supported by the OIG, OMB, and the Agency.

Redirect Recommendations to Focus on Agency-wide Management Accountability

As your draft report concludes, responsibility for safeguarding resources in achieving mission goals goes beyond OARM to all Assistant and Regional Administrators. We believe that directing the draft report recommendations solely to the AA/OARM limits its value in promoting Agency-wide accountability for sound management controls. We suggest that the final report be transmitted to, and direct recommendations to, all AAs and RAs, with specific actions directed to the AA/OARM and the AA/OPPE to ensure that EPA's GPRA implementation (e.g., strategic planning, goal-based budgeting) addresses integrity issues.

We appreciate your consideration of our comments in preparing your final report. We look forward to meeting with you to discuss our response and resolve any outstanding issues. Please contact me at 260-9674, or have your staff call Kathy Sedlak O'Brien at 260-9650 to arrange a meeting at a mutually agreeable time.

Attachments

cc: Jonathan Z. Cannon (3101)
David M. Gardiner (2111)
Sallyanne Harper (3101)

ATTACHMENT 1

RESPONSE TO RECOMMENTATIONS IN DRAFT AUDIT REPORT ON EPA'S INTEGRITY ACT IMPLEMENTATION DATED JUNE 29, 1994

SUGGESTED NEW RECOMMENDATIONS

We recommend that the Assistant Administrator for OARM:

1. Incorporate guidance and procedures for EPA's reengineered integrity process into the Administrator's policy and Budget Division's technical call memoranda to promote effective integration with the goal-based budgeting process.

2. Provide technical assistance and training to SROs in instituting EPA's new integrity requirements in their offices as an integral part of program planning, budgeting, fiscal management, and evaluation.

3. Ensure sufficient staff resources to oversee and assess Agency-wide implementation of reengineered integrity process.

We recommend that the Assistant Administrator for OPPE:

1. Ensure that the Agency's strategic planning and GPRA implementation processes address financial and management integrity priorities.

2. Integrate requirements of EPA's reengineered integrity process, specifically those that pertain to developing and evaluating program strategies and guidance, into relevant Agency guidance memoranda and program evaluation curriculum.

CHAPTER 2 RECOMMENDATIONS

[Note: We recommend that the following recommendations be redirected to AAs and RAs.]

<u>Recommendation</u>

1. Advise National Program Managers and senior Agency managers to stress to their staffs that *Integrity Act* implementation is mission critical. Incorporate this emphasis into specific *Integrity Act* and overall management training courses, management policies and procedures, and senior managers' meetings.

- <u>Response:</u> All AAs and RAs need to stress to their senior managers and staff the importance of *Integrity Act* responsibilities in achieving the Agency's mission. AAs and RAs are accountable for timely completion of requirements in OARM's June 6, 1994 *Integrity Act* guidance. AAs and RAs should work together in this effort and advise OARM of progress and barriers. We suggest changing the recommendation to read: *Advise senior managers and staff on the mission critical importance of EPA's* *importance of EPA's reengineered integrity process to safeguarding resources and achieving results as an integral part of program planning, budgeting, fiscal management, and evaluation.*

Recommendation

2. Provide basic training to SROs in the new *Integrity Act* approach. Stress that SROs are responsible for providing *Integrity Act* training to their offices.

- Response: We suggest changing the recommendation to read: *Hold SROs accountable for providing training on EPA's new integrity process in their office. SROs should seek technical assistance from OARM, as necessary, in providing training that includes: basic Integrity Act elements as a management tool for preventing problems; the relationship of these elements to program planning, budgeting, fiscal management, and evaluation; understanding of EPA's Management Integrity Principles in developing and revising guidance as Agency's management control framework; development of program-specific integrity principles and systematic review strategies; assessment of guidance and procedures in program reviews.*

Recommendation

3. Ensure that training includes the principles of management controls and ensure that managers and employees understand the intent and use of good management processes for resource protection and effective and efficient mission accomplishment. Stress the early importance of early identification of potential problems and the need for correction before problems become critical and affect mission accomplishment.

- Response: Suggested changes to recommendation 2 incorporate this recommendation.

Recommendation

4. Ensure sufficient staff is available to bring managers up to speed on the new process and to be sure the new process is implemented as intended.

- Response: This recommendation applies to AAs and RAs as written.

Recommendation

5. Hold managers accountable through the performance ~~appraisal process~~ for identifying and correcting weaknesses in the way they carry out their programs and achieve results. Recognize managers for effectively and efficiently implementing *Integrity Act* requirements.

- Response: This recommendation applies to AAs and RAs as written.

CHAPTER 3 RECOMMENDATIONS

[NOTE: We recommend that the following recommendations be redirected to AAs and RAs.]

Recommendation

1. Advise SROs to ensure that managers implement the new *Integrity Act* guidance for assessing controls. SROs should ensure that managers fully document program review strategies and results.

- Response: We suggest changing the recommendation to read: *Hold SROs accountable for developing annual systematic review strategies, that include documented results and recommendations of program reviews, to evaluate guidance and procedures in identified vulnerable areas.*

Recommendation

2. For those management problems and weaknesses brought to management's attention from external sources (e.g., OIG, GAO and other reviews), and accepted by management for corrective action, SROS should assess and document why their program review strategy did not discover the problem or weaknesses, and modify their strategy accordingly.

- Response: We suggest deleting this recommendation. EPA's new integrity process requires NPMs and Regions to develop systematic review strategies that include both external and internal reviews to examine their identified vulnerabilities. By definition, offices may use external review results to inform their judgment on needed corrective actions to address a program vulnerability.

Recommendation

3. Advise National Program Managers to ensure that corrective action and validation of current material weaknesses is based on assessment in the field as well as at the Headquarters level.

- Response: This recommendation applies to AAs and RAs as written.

Recommendation

4. Ensure that Agency guidance and procedures for reporting weaknesses and suggested corrective actions through the organizational structure includes requiring managers to report weaknesses in writing to the National Program Manager. National Program Managers should assess the overall magnitude of reported weaknesses and corrective actions or document the rationale for not reporting the weaknesses.

- Response: This recommendation applies to AAs and RAs as written.

ATTACHMENT 2

FACTUAL INACCURACIES IN DRAFT REPORT ON EPA'S INTEGRITY ACT IMPLEMENTATION DATED JUNE 29, 1994

UNSUPPORTED GLOBAL CONCLUSIONS BEYOND THE SCOPE OF REPORT

Several statements and assertions in the draft report refer to periods prior to the audit's specified focus of 1992 to 1994. Additionally, several of these statements are factually inaccurate. We recommend that the OIG remove the statements from the report or rewrite them to be factually correct. If the assertions are based on the auditors' beliefs, then the report should reflect this.

We recommend that the final report include the word "most" or "some" for global conclusions not supported in fact, e.g., "Managers responded to...but did not relate the process to management control system improvement." (page iii, ¶1). Other examples can be found on page 6, ¶2, last sentence; page 9, ¶2, last sentence; and page 18, ¶3, sentence 1.

AGENCY-WIDE AA/RA MANAGEMENT ACCOUNTABILITY

The draft audit makes several statements that assign responsibility to the "Agency" for holding managers accountable (page iv, ¶3, last sentence; page 10, ¶3, last sentence; and page 13, ¶1, last sentence.) Yet the draft report directs recommendations to the AA/OARM who has direct line authority for holding only OARM managers accountable. We recommend that the final report replace "Agency" with AAs and RAs or SROs, as appropriate, to emphasize Agency-wide accountability for *Integrity Act* implementation.

OMB AND GAO POLICY GUIDANCE

The final report should discuss OMB Circular A-123, Internal Control Standards (Revised 1986) requirements in greater detail since they provide the basis for the audit (page 2, ¶2). The final report should identify A-123 reporting requirements to point out the close link with EPA's reporting procedures prior to reengineering (page 8, ¶3). In addition, the audit should correctly report that OMB issued its Guidelines in December 1982, and later published Circular A-123 in August 1983, followed by the revised Circular in 1986 (page 2, ¶2, sentence 4). The audit report should also correctly note that EPA, not RMD, received OMB's waiver from the four primary A-123 requirements: event cycle documentation, separate management control reviews, management control plans and vulnerability assessments (page 4, ¶2, last sentence).

The draft report devotes extensive discussion to the 1983 GAO standards, much more so than OMB's new policy direction or EPA's new integrity process. As the draft report indicates, the Agency acknowledges the importance of the GAO standards and based EPA's management integrity principles on them. We recommend that the final audit report replace the discussion of GAO standards (page 7) with requirements of EPA's Management Integrity Principles since they refocus the GAO standards and extend relevance beyond their historical financial accounting focus to programs.

The final report should consistently use the term "management" controls (not "internal"), except when citing a historic reference (e.g., GAO Internal Control Standards).

REQUIREMENTS OF EPA'S REENGINEERED INTEGRITY PROCESS

The basic premise of EPA's reengineered integrity process is the close linkage with program planning, budgeting, fiscal management, and evaluation responsibilities. The final audit report should explicitly cite *Integrity Act* compliance through "planning, budgeting, fiscal management, and evaluation", not just "program operations" (page ii, ¶4) or "management activities" (page iii, ¶2).

To more clearly describe EPA's new integrity process, the report should identify the basic elements: 1) assess and revise guidance and strategies to ensure adequate coverage and consistency with EPA's Management Integrity Principles; 2) develop administrative and program-specific integrity principles for use Agency-wide; 3) develop systematic review strategy, that includes program and oversight reviews, CFO and GPRA results, and other relevant information sources, to assess effectiveness of guidance and strategies; and 4) establish building block process to identify weaknesses through the chain-of-command and report on progress at mid-year and in annual assurance letters to the Administrator.

The final report should describe these elements in its discussion of EPA's new integrity process (page 4, ¶3). At a minimum, the final report should make the following corrections:

- "It *establishes EPA's* Management Integrity Principles... Agency managers are expected to incorporate these principles into program strategies, guidance *and procedures, which serve as the Agency's management control framework to safeguard resources and the achievement of mission goals.* Agency managers are expected ... of their programs and resources *as an integral part of program planning, budgeting, fiscal management, and evaluation responsibilities.* (page 4, ¶3)

- "Also, under the reengineered process, *the 22 primary organization heads retain* accountability for management integrity, *and rely on their Senior Resource Officials to* communicate the Agency's national management integrity guidance,... OARM is currently streamlining its office and *plans to eliminate RMD, transferring its functional responsibilities elsewhere* within the ~~Office of the~~ Comptroller." (page 4, ¶4)

- "Through its Integrity Act reengineering, the Agency has adopted a system that *integrates responsibilities for identifying, preventing and correcting problems into* *program planning, budgeting, fiscal management, and evaluation. The Agency will identify vulnerabilities through its strategic planning process and develop and carry out a systematic review strategy to assess these vulnerabilities.* (page 6, ¶1)

- "Other National Program Managers are expected to develop *program-specific integrity principles to clearly articulate policy priorities, best management practices, and current guidance in effect.* (page 10, ¶2, sentence 3)

- "Because the new process *aligns integrity responsibilities with program planning, budgeting, fiscal management, and evaluation, program managers will strengthen accountability for identifying weaknesses through the chain-of-command, correct them promptly, and prevent serious systemic problems.* (page 10, ¶3, sentence 1)

- "The Agency's reengineered model would make management controls purposeful *by integrating them with program management responsibilities.* The new guidance ... functions to determine *their consistency* with the Agency's management integrity principles. *[Delete next sentence.]* ... The Agency's approach can only work if senior managers emphasize management integrity in *program planning, budgeting. fiscal management, and evaluation.* (page 12, ¶4)

<u>RMD GUIDANCE</u>

The draft report states that "the Agency has segregated the Integrity Act implementation from other management activities" (page iii, ¶1, sentence 1). It is unclear whether the draft report means that RMD guidance intended this segregation or that incorrect interpretation by Agency managers resulted in a separate function. Various EPA guidance documents, based on OMB Circular A-123, continually emphasized that *Integrity Act* activities were a critical part of basic management. The Deputy Administrator, at several Senior Council on Management Controls (SCMC) meetings, specifically reemphasized this.

The draft report suggests that RMD first recognized that the *Integrity Act* process was not working in 1992 (page 4, ¶2, sentence 1). In fact, RMD recognized this much earlier. RMD attempted to use the results of the OIG's annual special reviews of *Integrity Act* implementation to help EPA strengthen the program. Even though each OIG review found that the Agency was implementing the *Integrity Act* in a reasonable and prudent manner, RMD worked with the OIG and the Agency to address OIG recommendations, concerns and observations. We suggest that the OIG delete the statement, "RMD could have provided more effective oversight prior to 1993." (page iii, ¶3, sentence 5).

Additionally, when the OIG Central Audit Division met with RMD in planning for the Regional audits that led to the capping report, RMD expressed concern that the Agency was overemphasizing paper compliance rather than accountability by Agency managers to achieve the intent of the *Integrity Act.* RMD asked that the auditors move away from assessing paper work compliance to assessing true *Integrity Act* implementation.

The draft report suggests (page 3, ¶3) that the 1989 Internal Control Guidance for Managers and Coordinators was the only major guidance issued for Agency *Integrity Act* implementation. In fact, RMD issued major guidance at least annually prior to 1993, and quarterly during FY 1993.

The draft report suggests that managers were not encouraged to report weaknesses other than Presidential-level (page 17,¶1, last sentence). In fact, each year the Primary Organization Heads (POHs) reported about 200 Agency-level weaknesses to the Deputy Administrator in their assurance letters. RMD tracked these weaknesses in the Agency's Corrective Action Tracking System.

REVIEWS AND BUILDING BLOCK IDENTIFICATION OF WEAKNESSES

The draft report inaccurately asserts that "Agency managers were encouraged to count activities which did not test controls as control reviews" (page 18, ¶¶3&4). The draft report makes a similar assertion -- "RMD advised managers to count as many activities as possible as AMCRs." (page 19, ¶3, sentence 3). In fact, just the opposite is true. RMD annual guidance and training materials (e.g., 1990, 1991, 1993) specifically identified criteria for reviews to be listed in Management Control Plans (e.g., testing of management controls; written report to document review results and corrective actions).

The draft report makes numerous and unclear references to the "*Integrity Act* process" (page iii, ¶1, sentence 3; page iv, ¶2, sentence 2; page 4, ¶2, sentence 1; page 5, ¶1, sentence 3 and ¶4, sentence 1; page 14, ¶1, sentences 5 and 6; page 15, ¶2, sentence 1 and ¶4, sentence 1; page 16, ¶2, sentence 1). Three different implied meanings include: 1) the process for identifying weaknesses through the chain of command; 2) the process for identifying weaknesses through program reviews originated and conducted by an office; and 3) overall Agency process to implement the *Integrity Act*, including accountability structure and reporting requirements.

The draft report also uses the term "control process" (page 6, ¶2, sentence 2) interchangeably with the "*Integrity Act* process," conveying the second meaning identified above.

We are concerned that the draft audit report is promoting a narrow interpretation that primarily singles out "control reviews" for identifying weaknesses. This is inconsistent with EPA's new integrity process that emphasizes management judgment in identifying program vulnerabilities through strategic planning and developing systematic review strategies to evaluate these vulnerabilities. Other than two brief paragraphs (pages 16 and 20), the draft audit report does not discuss the review concept and requirements of EPA's reengineered process. Moreover, the draft report appears to denigrate management judgment in identifying weaknesses (page 15, ¶2, sentence 2 and ¶4, second bullet). We suggest that the final report refocus its discussion of reviews to be consistent with EPA's reengineered process.

CHAIN-OF-COMMAND REPORTING OF WEAKNESSES TO NPMs

Regarding the reporting of weaknesses through the chain-of-command, we believe the OIG has inaccurately characterized RMD's actions (page iv, ¶3, third sentence; page 3, ¶4; and implied throughout page 17).

The draft report suggests EPA did not have a formal process for offices to raise weaknesses to other program offices. This is not true. RMD included specific language in formal guidance that addressed this (e.g., 1990 and 1991 guidance: "If you believe a material weakness exists in the Agency but must be addressed by another office, you should notify the appropriate office in a separate memorandum, with a copy to RMD. Work with the other office to raise and investigate the issue, so that those offices can determine whether to report it in their *Integrity Act* report."

The draft report incorrectly states that EPA's new integrity guidance "does not clearly stress the benefit of reporting weaknesses up and down the organizational chains and across media lines." (page 18, ¶2, sentence 2) We refer you to page 6, ¶¶2, 3 and 4 of RMD's June 6, 1994 guidance memorandum.

Additionally, the final report should note that RMD analyzed AA and RA assurance letter weaknesses and prepared matrices showing cross-cutting Agency programmatic problems that may not have surfaced to the National Program Manager (NPM). The former SCMC and current Senior Leadership Council used these analyses to assess the severity of the problem and support their decisions on material weaknesses included in the Agency's annual *Integrity Act Report to the President and Congress*.

The draft report makes several references to POHs reporting weaknesses to RMD, thereby by-passing EPA senior management (page iv, ¶2, third sentence; page 14, ¶1, sentence 4; page 16, ¶2, sentence 3; and page 16, ¶3, sentence 1). While RMD did request to receive reports on weaknesses, RMD always advised the program and Regional offices to report these weaknesses to the affected NPMs as well. In all cases, POHs provided their assurance letters directly to the Deputy Administrator in accordance with EPA's chain-of-command. RMD received copies of these assurance letters.

ACCOUNTS RECEIVABLE

We recommend deleting accounts receivable (page 17) as an example that "the Agency did not always report its material weaknesses in a timely manner," because it is factually inaccurate. The draft report does not recognize early and continuing actions taken by EPA to identify and address accounts receivable problems through the chain-of-command. For example, in 1990 EPA issued Chapter 9 of the Resource Management Directive 2540D to prescribe detailed procedures for handling accounts receivable, and in 1991, EPA formed the Accounts Receivable Task Force, which conducted Regional reviews to verify the completion of corrective actions. EPA management declared accounts receivable a material weakness in 1992 as a result of the continuing problems disclosed by these reviews.

TRAINING

The draft report does not address that the primary responsibility for front-line management integrity training rests with the SROs. It is unclear from the draft audit report "who" provides training (page 6, ¶2, last sentence; and page 11, ¶4, sentence 1).

Additionally, the draft report suggests (page 12, ¶4, last sentence) that RMD "just now" recognizes the need for additional resources to conduct training. In reality, since the inception of the program, RMD has recognized that training is critical to successful *Integrity Act* implementation. However, past and continuing travel and staff resource constraints have limited RMD's ability to conduct national training.

The draft report states (page 11, ¶5, sentence 1) that "RMD developed the management integrity training package and presented it to Management Control Coordinators (MCCs) in June 1993." Given resource constraints in the late 1980s, RMD prepared a "train-the-trainer" package for MCCs to use in training their managers.

The draft report implies that training consisted of two-hour boiler plate sessions (page 11, ¶4, sentence 2). Over the years, RMD has worked with MCCs to tailor training that is responsive to office needs and focuses on relevant program issues.

OARM REORGANIZATION

The draft report refers to the potential future location of *Integrity Act* oversight responsibilities (page 4, last sentence). The OIG should clarify that RMD will no longer exist as an organization and that its functions will be transferred elsewhere within the Office of the Comptroller. As currently written, the statement gives the impression that RMD will still exist, but with other duties.

APPENDIX II

ABBREVIATIONS

Agency	Environmental Protection Agency
AA	Assistant Administrator
CAAA	Clean Air Act Amendments
CFO	Chief Financial Officer
GAO	General Accounting Office
GPRA	Government Performance and Results Act
Integrity Act	Federal Managers' Financial Integrity Act of 1982
MCC	Management Control Coordinator
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORD	Office of Research and Development
OSWER	Office of Solid Waste and Emergency Response
RA	Regional Administrator
RMD	Resource Management Division
SRO	Senior Resource Official

APPENDIX III

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