



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

REPORT  
No. 90-025

December 28, 1989

MEMORANDUM FOR DIRECTOR, ON-SITE INSPECTION AGENCY

SUBJECT: Report on the Fiscal Year 1989 Evaluation of the  
Implementation of the Federal Managers' Financial  
Integrity Act of 1982 at the On-Site Inspection Agency  
(Project No. 9FH-5020)

### Introduction

We are providing this report on the FY 1989 Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982 (the Act) at the On-Site Inspection Agency (the Agency). The objective of our evaluation, made from September 21 through October 20, 1989, was to determine how effectively the Agency has complied with the requirements of the Act; Office of Management and Budget (OMB) Circular No. A-123, "Internal Control Systems," August 4, 1986; and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. In FY 1989, the Agency employed about 200 civilian and military personnel conducting inspections in the Soviet Union under the Intermediate-Range Nuclear Forces (INF) Treaty. Simultaneously, the Agency coordinated Soviet inspections at U.S. sites. The Agency's FY 1989 operation and maintenance budget was \$40 million.

### Scope of Evaluation

We made this evaluation to provide technical assistance to the On-Site Inspection Agency and to assess the adequacy of the internal management control program (the Program) at the Agency. We reviewed the Agency's assessable units, risk assessments, and subsequent actions, including internal control reviews and the corrective actions completed, initiated, or planned for any weaknesses reported or discovered during FY 1989. However, we did not analyze the results of the program or the efficiency and effectiveness of the procedures used in implementing the Act.

We interviewed personnel, evaluated internal policies and guidance, and reviewed documentation prepared in FY 1989 that supported the Agency's conclusions reached in each stage of its self-evaluation process. The evaluation was made in accordance

with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. However, since this evaluation was a review of procedures and not an audit of program implementation, we did not perform tests of all applicable internal controls.

### Background

In September 1982, the Congress passed Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982." The specific requirements of the Act are discussed in Enclosure 1 of this report. Basically, the Act requires each agency of the executive branch to establish internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General, and to provide reasonable assurance that:

- obligations and costs are in compliance with applicable law;

- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

On August 4, 1986, OMB Circular No. A-123 was revised to provide for the development of a 5-year Management Control Plan that identifies the assessable unit inventory, shows risk assessment ratings, and provides for evaluations over a 5-year period. The purpose of this revision was to streamline internal management control reviews. The revision requires management to update its risk assessments only once every 5 years if staffing, budget, or mission do not change significantly and to use alternatives to its own risk assessments and internal management control reviews, including audit and inspection reports and management or consultant studies. The new guidance gives managers more latitude and greater flexibility in performing self-evaluations. DoD Directive 5010.38 was revised on April 14, 1987, to implement these changes.

The Agency is a field operating agency of the Department of Defense. The Agency reports to an Executive Committee chaired by the Under Secretary of Defense for Acquisition, with the Under Secretary of Defense for Policy and the Chairman of the Joint Chiefs of Staff as members.

The Agency recruits, trains, equips, and manages U.S. teams that inspect installations under provisions of the INF Treaty in the Soviet Union, Czechoslovakia, and East Germany. The Agency provides escorts for Soviet teams inspecting installations in the United States. The Agency coordinates all activities associated with INF inspections by the Soviet Union on U.S. territory or at U.S. Forces locations in Belgium, the Federal Republic of Germany, Italy, the Netherlands, and the United Kingdom.

The Agency consists of personnel from all branches of the armed services and includes civilian technical experts and support staff from various U.S. Government agencies. The Agency's three Deputy Directors are from the Arms Control and Disarmament Agency, the State Department, and the Federal Bureau of Investigation.

### Discussion

The Program at the Agency was generally in compliance with the requirements of the Act and with OMB Circular No. A-123. The Agency was responsive in implementing an internal management control program. However, our initial evaluation, made between September 21 and October 20, 1989, disclosed deficiencies in certain areas of the Agency's Program that the Agency needs to improve. We provided the Director of the Agency with a list of specific deficiencies and the actions necessary for the Program to comply with OMB Circular No. A-123 before the Director of the Agency prepares the annual statement to the Secretary of Defense. The Agency took immediate corrective actions, and our subsequent evaluation, made on November 6, 1989, confirmed that the actions taken were adequate and the program was in compliance with the Act. The deficiencies found during our initial evaluation and the corrective actions taken by the Agency to eliminate them are discussed below.

Training. Adequate training was not provided to all personnel with internal management control responsibilities. Although the Agency provided some training on videotape, our discussions with managers indicated that additional training was needed. Videotapes used for training were outdated and lacking in quality. The Agency has agreed to provide training twice yearly for managers with internal management control responsibilities.

Performance Standards. Internal management control responsibilities were not included in all managers' performance evaluations. From interviews with civilian and military managers of assessable units, we found that many military managers were not annually evaluated for their internal management control programs. Civilian personnel evaluations have been updated to

include internal management control requirements for all Agency managers with internal management control responsibilities. For all military personnel who have internal management control duties, these duties will be added to their next efficiency reports.

Follow-Up Systems. Our review disclosed that a formal follow-up system had not been properly implemented at the Agency. OMB Circular No. A-123 requires that Federal agencies establish formal follow-up systems that record and track recommendations from audit or inspection reports and material weaknesses reported in previous annual statements of assurance to the Secretary of Defense and to the President. The purpose of the formal follow-up system is to ensure that internal control deficiencies and material weaknesses receive corrective action and followup by management at Federal agencies. The Agency acknowledged OMB's requirement and established a formal follow-up system.

We provided a draft of this memorandum report to the addressees on November 27, 1989. Because there were no recommendations, comments were not required, but management's response to a draft of this report (Enclosure 2) conformed to the provisions of DoD Directive 7650.3. No unresolved issues exist. Accordingly, additional management comments on the final report are not required.

The cooperation and courtesies extended to the audit staff are appreciated (Enclosure 3 lists audit team members). If you have any questions about this report, please contact Mr. Raymond D. Kidd at (202) 694-1682 (AUTOVON 224-1682) or Mr. Richard A. Levine at (202) 693-0461 (AUTOVON 223-0461). Copies of the final report are being distributed to the activities listed in Enclosure 4.



Edward R. Jones  
Deputy Assistant Inspector General  
for Auditing

Enclosures

cc:  
Comptroller of the Department of Defense

## FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

The Federal Managers' Financial Integrity Act of 1982 (the Act) requires each executive agency to periodically evaluate its systems of internal accounting and administrative controls in accordance with Office of Management and Budget guidelines and to report annually (by December 31 of each year) to the President and the Congress. The agency's report should state whether or not the agency's systems comply with the requirements of the Act and identify the agency's material control weaknesses, if any, and plans for correcting the weaknesses.

The Secretary of Defense has determined that his internal control statement will be based primarily on data furnished by DoD Component heads. These data are to be received no later than November 15. The Inspector General, DoD, is tasked with providing technical assistance and evaluating the adequacy of the internal control evaluation process at those DoD Components for which the Inspector General, DoD, has audit cognizance. The Inspector General, DoD, also provides the Comptroller, DoD with comments on internal control areas requiring management attention and corrective action before the annual statement is submitted to the Secretary of Defense.

The Office of Management and Budget guidelines required by the Act give each agency's management officials guidance in their development of specific plans for performing their self-evaluations. The guidelines provide a detailed, seven-stage approach for evaluating, improving, and reporting on internal controls. This approach describes procedures for organizing the evaluation of internal controls, segmenting the agency into assessable units, conducting risk assessments, developing plans for subsequent action, performing internal control reviews, taking corrective actions, and reporting on the status of internal controls. The Comptroller General's directive, "Standards for Internal Control in the Federal Government," June 1, 1983, defines the minimum level of quality acceptable for internal control systems and constitutes the criteria against which systems are to be evaluated.

In August 1986, the Office of Management and Budget issued Circular No. A-123 (Revised), "Internal Control Systems." This Circular prescribes policies and standards to be followed by executive agencies in establishing, maintaining, evaluating, improving, and reporting on their systems of internal controls. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, updated the DoD program for internal controls; incorporated the requirements of the Act, the revised OMB circular, and the Comptroller General's standards; and provided policies, prescribed procedures, and assigned responsibilities to the DoD Components.





**On-Site Inspection Agency**  
Washington, D.C. 20041-0498

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MEMORANDUM FOR DIRECTOR OF FINANCIAL MANAGEMENT, OFFICE OF THE  
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Report of FY 1989 Evaluation of the  
Implementation of the Federal Managers' Financial  
Integrity Act of 1982 at the On-Site Inspection Agency  
(Project No. 9FH-5020)

Thank you for the opportunity to comment on the attached draft report resulting from the recent audit of the On-Site Inspection Agency (OSIA) and implementation of the Internal Management Control (IMC) program. We are a new agency and have made a great effort in a very short period of time to incorporate all the IMC requirements, including training and inclusion of IMC managers' responsibility in all personnel performance standards. All actions are currently being implemented.

Your team was very helpful in assisting us to focus our program and to polish the procedures for our final program instructions. Messrs. Raymond Kidd, Richard Levine, William Bazemore, and Dale Guy spent several days reviewing our program and the risk assessments. Their efforts have provided the critical assistance that was necessary for preparation of OSIA's letter of assurance to the Secretary of Defense about our ability to monitor and track our activities to avoid waste, fraud, and abuse. The program has proven to be a very useful management tool to monitor the activities of this Agency. We look forward to your assistance in the growth of the Internal Management Control program at OSIA.

A handwritten signature in black ink, appearing to read "Roland Lajoie", is written over the typed name.

Roland Lajoie  
Brigadier General, U.S. Army  
Director

Attachment:  
As stated





AUDIT TEAM MEMBERS

Nancy L. Butler	Director, Financial Management Directorate
Raymond D. Kidd	Program Director for Financial and Accounting Systems
Richard A. Levine	Project Manager
William F. Bazemore	Auditor
Dale Guy	Auditor



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