

December 7, 2001

**OMB CIRCULAR A-123 MANAGEMENT ACCOUNTABILITY AND CONTROL
(RCN 04-0405)**

1. PURPOSE: This Veterans Health Administration (VHA) Directive provides policy and procedures for fulfilling requirements of the Office of Management and Budget's (OMB's) revised Circular No. A-123, "Management Accountability and Control," dated June 21, 1995, and the internal control review requirements of OMB Circular A-127, "Financial Management Systems." *NOTE: The procedures contained in this directive continue the VHA Management Accountability and Control Program and apply to all organizational elements in VHA Central Office and field facilities.*

2. BACKGROUND: The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires all Federal managers to maintain an effective and efficient system of management controls, periodically evaluate their control environment, correct control weaknesses, and report annually on their operations. *NOTE: The terms "management controls" and "internal controls" are synonymous. Refer to "Standards for Internal Controls in the Federal Government" issued by the General Accounting Office (GAO) for a more comprehensive explanation of controls.*

3. POLICY: It is VHA policy that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law.

4. ACTION: Implementation of the VHA A-123 Management Accountability and Control Program is as follows:

a. **Management's Assessment.** In keeping with OMB's streamlined reporting requirements, VHA managers are only required to report on areas of vulnerability where there is a clear indication of waste, fraud or mismanagement of Government resources.

b. **Reporting Period.** The reporting period for each year will coincide with the fiscal year (October 1 to September 30). The due date for the reports will be set in the annual A-123 Memorandum which is issued near the end of each fiscal year.

c. **Certification.** The Director (or equivalent executive) of each Network, facility, or VHA Central Office program and/or service must send the VHA Chief Financial Officer (173) a signed certification that the reporting organization has an effective Management Accountability and Control program in place, using the sample format found in Attachment C. It is to be submitted as directed in the annual A-123 memo.

d. **Responsible Officers.** The Under Secretary for Health has overall responsibility for the implementation of the A-123 Management Accountability and Control Program within VHA. The Chief Financial Officer (17) is the Internal Control Officer for VHA and has been delegated signature authority for the implementation of the A-123 Management Accountability and Control Program within VHA. The Assistant Deputy Under Secretary for Health (10N) is responsible for

THIS VHA DIRECTIVE EXPIRES DECEMBER 31, 2006

VHA DIRECTIVE 2001-076
December 7, 2001

ensuring that organizational elements under (10N) comply with the A-123 directive. All Network Directors and facility managers are responsible for ensuring that the A-123 program is appropriately implemented within their jurisdictions. All VHA Central Office Program and/or Service Directors must ensure that all aspects of the A-123 program are implemented within their respective program or service areas.

e. **Management Controls**

(1) Management Controls are the organizational policies and procedures used to ensure that:

(a) Programs achieve their intended results; resources are used consistent with the agency mission;

(b) Programs and resources are protected from waste, fraud, and mismanagement;

(c) Laws and regulations are followed; and

(d) Reliable data are obtained, maintained, reported and used for sound program decision-making.

(2) Internal controls need to be recognized as an integral part of what management uses to regulate and guide their operations, and in this sense, are management controls. Adequate management controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They facilitate the achievement of management objectives by serving as checks and balances against negative consequences.

(3) Managers are not to expect controls to guarantee either the success of agency programs or the absence of fraud, waste, and abuse. Rather, controls need to be viewed as a means of managing the risk associated with Federal programs and operations. To help ensure the controls are appropriate and cost-effective, managers need to consider the extent and cost of controls relative to the associated risk.

f. **Management Control Principles**

(1) **General Controls**

(a) Compliance with Law. All program operations and costs must comply with applicable law. Resources need to be efficiently and effectively allocated for duly authorized purposes.

(b) Reasonable Assurance and Safeguards. Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management controls developed for VHA programs need to be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.

(c) Integrity, Attitude, and Competence. Managers and employees must have personal integrity, and demonstrate an understanding of the importance of developing and implementing effective management controls for their programs. Managers and employees need to maintain a level of professional competence that allows them to accomplish their assigned duties.

(2) **Specific Controls**

(a) Delegation of Authority and Organization. Managers need to ensure that appropriate authority, responsibility and accountability is delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. Controls and related decision-making authority need to be in the hands of appropriate line managers and staff.

(b) Separation of Duties and Supervision. Key duties and responsibilities in authorizing, processing, recording, and reviewing agency transactions need to be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

(c) Access to and Accountability for Resources. Access to resource and records needs to be limited to authorized individuals, and accountability for the custody and use of resources needs to be assigned and maintained.

(d) Recording and Documentation. Transactions need to be promptly recorded and properly classified and accounted for, in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, as well as for other significant events and management controls, needs to be clear and readily available for examination.

(e) Correction of Known Deficiencies and Reported Findings. Managers should promptly:

1. Evaluate known deficiencies and reported audit and other findings and recommendations,
2. Determine the proper corrective actions to take, and
3. Complete these actions within established time frames.

g. **Evaluation of Management Controls**

(1) To meet the objectives of both the general and specific management controls, organization managers must periodically evaluate their programs, report on the effectiveness of their management controls, and determine whether they need improvement or change.

(2) To meet these overall objectives, organizations' management control activities must accomplish these essential tasks:

- (a) Identify all management controls that need improvement.

VHA DIRECTIVE 2001-076

December 7, 2001

(b) Prioritize improvement opportunities.

(c) Make local or in-house management control improvements, where possible or appropriate.

(d) Report to next level of management:

1. Any program improvements which require additional resources or approval of another office or organization, or

2. The fact that the improvement will take longer than the current fiscal year to correct.

(e) Report serious management control weaknesses, as they are identified, to the appropriate Network or VHA Central Office office.

(3) All managers must document their management control activities. Documentation does not need to be voluminous, highly structured or formalized. At a minimum, the organization's management control documentation must provide a sufficient paper trail showing the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer and clearly answers these questions:

(a) What and where is the problem?

(b) What is its extent?

(c) Who is responsible for fixing it?

(d) What must be done to correct it?

(e) When was it corrected or when will it be corrected?

h. Assessing and Improving Management Controls

(1) **Background.** VHA managers are responsible for continuously monitoring and improving the effectiveness of management controls associated with their programs. This continuous monitoring and other periodic evaluations provide the basis for the annual assessment of management controls, reported through appropriate channels to the Under Secretary for Health. This information, together with input from all agencies within the Department, will form the basis of the Secretary of Veterans Affairs' report to the President and Congress, as required by FMFIA.

(2) **Sources of Information.** VHA managers' assessment of management controls can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and needs to use other sources as a supplement to - not as a replacement for - its own judgment. Sources of information include:

- (a) Management knowledge gained from the daily operation of VHA programs and systems.
 - (b) Management reviews conducted either for the purpose of assessing management controls or for other purposes, with the assessment of management controls as a by-product.
 - (c) Office of Inspector General (OIG) and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.
 - (d) Program evaluations.
 - (e) Management's assessment of adherence to the Joint Financial Management Improvement Program's (JFMIP) "Core Financial System Requirements."
 - (f) Audits of financial statements conducted pursuant to the Chief Financial Officers' Act, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal controls, and compliance with laws and regulations; and any other materials prepared relating to the statements.
 - (g) Reviews of financial systems which consider whether the requirements of OMB Circular No. A-127, "Financial Management Systems," are being met.
 - (h) Reviews of systems and applications conducted pursuant to the Computer Security Act of 1987 (Title 40 United States Code (U.S.C.) 759 note) and OMB Circular No. A-130, "Management of Federal Information Resources."
 - (i) Annual performance plans and reports pursuant to the Government Performance and Results Act.
 - (j) Other reviews or reports relating to VHA operations.
- (3) **Assessing Vulnerabilities.** Management needs to ensure that all review processes include an evaluation of management controls. Agency management must avoid duplicating other reviews which assess management controls, and needs to use other evaluations to the extent practical. A-123 requirements may be met, therefore, by utilizing the results of other reviews to assess the level of vulnerability of an issue. For example, reviews of quality assurance continuous monitors, such as:
- (a) Results of surveys by external programs such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), College of American Pathologists (CAP), Occupational Safety and Health Administration (OSHA), Nuclear Regulatory Commission (NRC), Food and Drug Administration (FDA), etc.; and
 - (b) Other surveys required by Federal laws and regulations, may be used to fulfill the management control vulnerability assessment requirements for A-123.

VHA DIRECTIVE 2001-076
December 7, 2001

(4) If a manager determines that there is insufficient information available upon which to base an assessment of management controls, then appropriate reviews are to be conducted to provide such a basis.

5. REFERENCES

- a. Federal Managers' Financial Integrity Act - Public Law 97-255, September 8, 1982.
- b. OMB Circular A-123, "Management Accountability and Control," revised June 21, 1995.
- c. GAO Policy and Procedures Manual for guidance of Federal Agencies, Title 2, "Accounting," Appendix II, "General Accounting Office Standards for Internal Controls, October 31, 1984.
- d. OMB Circular A-127, "Financial Management Systems," revised July 23, 1993.
- e. OMB Circular A-130, "Management of Federal Information Resources, Appendix III," December 12, 1985.
- f. VA Directive 0070, August 2, 1996, Management Accountability and Control Program.

6. FOLLOW-UP RESPONSIBILITY: Financial Management and Budget Office (173) is responsible for the contents of this VHA Directive.

7. RESCISSIONS: VHA Directive 10-95-088, dated September 12, 1995, and its changes are rescinded. This VHA Directive will expire December 31, 2005.

S/ Timothy Buckley for
Thomas L. Garthwaite, M.D.
Under Secretary for Health

Attachments

DISTRIBUTION: CO: E-mailed 12/11/2001
FLD: VISN, MA, DO, OC, OCRO, and 200 – E-mailed 12/11/2001

ATTACHMENT A

VULNERABILITY ASSESSMENTS AND MANAGEMENT CONTROLS

1. This attachment is a suggested approach to identify and address areas of concern and management controls that need improvement. It may be tailored to meet a group's specific needs and requires periodic meetings at each managerial and/or supervisory level. The initial meeting on each level should be dedicated to identifying and ranking all known administrative and program weaknesses by performing the following five steps and documenting the responses; therefore, it will take longer than subsequent meetings. Subsequent reviews can be integrated into the regular management meetings since fewer new weaknesses will appear. The results of each meeting need to be documented with a summary of the major items and presented to the next level of management. A composite listing of all identified major weaknesses and opportunities is to ultimately reach the senior management of the organization.
2. During the subsequent meetings, it is suggested that both pending and resolved issues be discussed. Previously identified areas resolved during the interim period need to be used to encourage the staff to identify new opportunities to improve performance and effectiveness.
3. Some steps and/or questions for the initial review may be less appropriate for the subsequent meetings.

4. THE FIVE STEPS IN THE ASSESSMENT OF MANAGEMENT EFFECTIVENESS AND CONTROLS

a. **Step 1. Identify all Administrative, Program and Financial Areas that need Improvement**

- (1) Ask these questions about improving service:
 - (a) What are the top two or three things you would do to make this group more efficient or effective and why?
 - (b) What barriers prevent you from doing your jobs more effectively?
 - (c) What are the common complaints and/or concerns expressed by our customers or co-workers?
 - (d) What issues or problems continuously present themselves in the course of day-to-day work?
- (2) Ask these questions about vulnerabilities:
 - (a) What funds, property, and other things of value (assets) are we responsible for in our department?

VHA DIRECTIVE 2001-076

December 7, 2001

- (b) Which have the greatest potential for waste, loss or unauthorized use?
- (c) Which have the greatest potential for misappropriation? **NOTE:** *Usually this is cash, check, or purchase card.*
- (3) Ask these questions about management controls:
 - (a) Are the management controls identified?
 - (b) Has there been a recent management review of these controls?
 - (c) When were these controls independently tested and reviewed?
 - (d) Are these management controls described in writing and readily available to employees? **NOTE:** *If not, document and distribute them.*
 - (e) Are the applicable policies, laws and regulations, including the organization's procedures implemented in various work activities, documented in writing and distributed?
 - (f) Is there a "how-to" office manual? Is it consistent with governing legislation and regulation?
 - (g) Are previously identified weaknesses being corrected with adequate resources?
- (4) Ask these questions about financial management and control:
 - (a) Are the revenues and/or expenditures of our operations properly recorded and accounted for in the monthly financial statements?
 - (b) Do we have efficient and effective management controls in place to ensure that the obligations and costs incurred are in compliance with applicable law?
 - (c) Do our internal records support data in the financial system? If not, how serious is the problem and what is being done to remedy it?

b. **Step 2. Determine Priorities**

- (1) Prioritize and discuss the areas for improvement as a group for relevance, severity and cost of correction. Document those where the costs of improving the control exceed the expected benefit. Determine those that can be corrected rather quickly within the workgroup and correct them.
- (2) The remaining items should either be longer term projects or require assistance outside the immediate work group for resolution. Briefly document these items as well as the actions needed, i.e., recommended changes to local procedures or processes, coordination with other groups, preparation of corrective action plans, etc.

c. **Step 3. Improve Management Controls.** From the above priority list, select the most important issues to be sent to the next higher level of management with corrective action plans or recommendations for resolution. The issues may or may not require formal action plans depending on the complexity of the problem, or length of time required to correct it. **NOTE:** *Some improvements may be simply too costly for the level of risk associated with the function and, therefore, no corrective action should be taken. Maintain this documentation and rationale for your file.*

d. **Step 4. Report Serious Weaknesses to the Facility Director, the Network Director and the VHA Chief Financial Officer (CFO).** Senior management should be informed of serious weaknesses, or opportunities for improvement, as they are discovered. These issues should be reviewed for the degree of risk to determine which ones could have an agency impact and may need to be reported as potential administrative, clinical or financial management material weaknesses or as financial systems material non-conformance. These weaknesses should be presented to the VHA CFO with corrective action plans through the A-123 process.

e. **Step 5. Recognize and Reward Outstanding Management Control Accomplishments.** Determine the status of corrective actions for previously identified issues and recognize and reward the managers and employees who identified and corrected them. Use individual and group awards, including cash awards, plaques, recognition ceremonies, and other forms of recognition appropriate to the accomplishment.

ATTACHMENT B

A-123 REPORTING REQUIREMENTS

1. A-123 Management Accountability and Control Report (Report Control Number (RCN) 04-0405) is Required

a. Facility level managers, Network Offices, the Director, and Veterans Health Administration (VHA) Central Office Program and/or Service Directors must complete a vulnerability assessment and report the results of the assessment (low, moderate or high vulnerability) for all issues identified in the annual A-123 memorandum or locally. Negative reports are required.

b. All VHA reports will be submitted to the Financial Management Office (173). Reports will include the results of all vulnerability assessments, corrective action plans and/or updates for highly vulnerable issues.

c. When possible, A-123 requirements should be met by utilizing the results of other reviews to assess the level of vulnerability of an issue. For example, review of quality assurance continuous monitors; results of surveys by external programs such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), College of American Pathologists (CAP), Occupational Safety and Health Administration (OSHA), Nuclear Regulatory Commission (NRC), Food and Drug Administration (FDA), etc.; reviews by Office of Inspector General (OIG), General Accounting Office (GAO) or other external groups; special visits by VHA Central Office or Network staff focused on a program or activity; and required reviews under Federal laws and regulations may all be used to fulfill the vulnerability assessment requirement for A-123.

d. If these or other similar assessments are not available, then appropriate reviews need to be conducted. In all cases, however, it must be remembered that certain quality assurance data is protected under Title 38 United States Code (U.S.C.) 5705 such as the results of quality assurance studies. Only the title of the study and the methodology should be included in any written A-123 report.

e. Results of all vulnerability assessments must be reported using the prescribed format. Each issue is to be evaluated as: low, moderate or high vulnerability. Infractions which may seriously compromise the effective operation of a program or service are to be termed "high." They are usually significant enough to be reported to the highest level of management.

f. All high vulnerability issues must have a corrective action plan created which includes some action during the first year it is identified and submitted with the report. Action plans will:

- (1) Briefly describe the issue and why it has been identified as high vulnerability;
- (2) List the action(s) that will be taken to correct and/or analyze the problem; and

VHA DIRECTIVE 2001-076

December 7, 2001

- (3) List the time frame for completion of the action(s).

NOTE: High vulnerability areas must be assessed in each subsequent A-123 reporting cycle until corrective actions are completed.

g. The Department is responsible for implementing corrective actions for system-wide problems called “material weaknesses”, at the national level. Responsible program managers at facility or Network levels need to determine the local level of vulnerability on material weaknesses and to take any corrective actions which are under their control. Material weaknesses identified as highly vulnerable at facility or Network levels will have an action plan submitted. Material weaknesses are assessed in each subsequent A-123 reporting cycle until the material weakness designation is removed. Validation that deficiencies have not recurred one year after corrective actions are completed for material weaknesses is also required.

2. Annual Certification of Written Assurance. The Annual Certification of Written Assurance must be personally signed by the facility Director and/or Network Director and/or VHA Central Office Program and/or Service Office (see Att. C). It is to be included along with the A-123 Management Accountability and Control Report submitted annually.

3. Inquiries. Questions are referred to the Financial Management Office (173) at (202) 273-5303.

ATTACHMENT C

SAMPLE FORMAT FOR ANNUAL CERTIFICATION

As _____(Title)_____ (of or for)
_____(facility and/or Network and/or VHA Central Office Program and/or Service)
_____, I am aware of the importance of internal controls and have a system of management
controls in place in my organization. Management control evaluations are conducted regularly
and improvements are made as appropriate. When high vulnerability areas are identified,
appropriate action plans are prepared to implement corrective action.

This office, therefore, provides reasonable assurance of being in substantial compliance with Office of
Management and Budget (OMB) Circular A-123 and the Federal Managers' Financial Integrity Act of
1982 (Public Law 97-255).

(SIGNATURE) (DATE)

(TITLE)