

February 15, 2006

The Honorable Joshua B. Bolten  
Director  
Office of Management and Budget  
725 17<sup>th</sup> Street, NW  
Washington, DC 20503

Dear Director Bolten:

This letter transmits the *Corrective Action Plan* of the United States Commission on Civil Rights (the "Commission") as requested by the Office of Management and Budget (OMB) on November 15, 2005. This plan addresses reportable conditions noted in the Commission's fiscal year 2005 (FY05) financial statement audit. The plan presents each audit finding, provides context or background related to each finding, summarizes the recommendations made by the independent auditors, and discusses the corrective actions the Commission has implemented or is in the process of implementing. The plan also provides the Commission's target completion dates for corrective actions that are currently underway – and you will see that many of the corrective actions are already well under way – as well as indicates the actual completion dates for corrective actions already implemented.

The accounting firm of Williams, Adley & Company, LLP (WA&Co) audited the Commission's balance sheet as of September 30, 2005. In connection with the audit, WA&Co considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on the balance sheet. During the audit, five reportable conditions, the first two of which were considered material weaknesses, were noted involving the internal control over financial reporting.

- Inadequate controls resulting in errors and unrecorded financial transactions (not able to document/support disbursements and obligations).
- Human capital needs (inadequate staffing levels and the need for more staff training).
- Compliance with the Accountability of Tax Dollars Act (no audit for FY04).
- Inadequate documentation of travel transactions.
- Inadequate or outdated policies and procedures.

Also, four instances of noncompliance with laws and regulations were noted: failure to comply with the Federal Financial Management Improvement Act (FFMIA), failure to file an annual Federal Information Security Management Act (FISMA) report, failure to perform an FY04 audit of financial statements and submit unaudited quarterly reports pursuant to the Accountability of Tax Dollars Act

of 2002, and failure to request or ensure that financial services providers undergo an annual Statement on Accounting Standards (SAS) 70 review as OMB has mandated.

The conditions identified by the independent auditors were consistent with previous findings by the Government Accountability Office (GAO) concerning the Commission's financial management and control.

As a result, many of the recommendations made by the independent auditors have been, or are currently being resolved, through the Commission's ongoing management reform initiative. In April of 2005, the Commission adopted GAO's recommendations and began working to implement them as practicable. The Commission's new leadership put many new policies and procedures into place during FY05 and plans to implement others during FY06. To mention just a few examples, the Commission developed and implemented new policies governing budget formulation and execution, created a process for investigating and reporting Anti-Deficiency Act violations, and issued comprehensive new travel and procurement policies. Additionally, the Commission transitioned to the General Services Administration (GSA), Heartland Finance Center, as its accounting services provider as part of the Commission's plan to automate its accounting process, increase the integrity of its financial information, and improve the timeliness of its financial reporting. Moreover, the Commission will further these efforts by filling two staff positions with responsibilities related to financial operations. The Commission is recruiting an Information Technology Specialist to aid in ensuring agency compliance with FFMIA. The Commission is also recruiting a Budget Analyst to further support the financial management reforms previously implemented by the agency.

As you may know, the Commission experienced a transitional year in 2005 with a change in leadership late in the first fiscal quarter. At the same time, the Commission has faced challenges with respect to reduced personnel. The Commission, while recognizing that it has profound management and financial challenges to overcome, is optimistic about its ongoing implementation of new financial and operational controls and is deeply committed to working to resolve these issues during the year. We expect that the results of the corrective actions noted in our plan will be improved internal control, increased efficiency of financial transaction processing and reporting, and increased integrity and reliability of financial information.

I may be contacted at 202-376-7700 should you have questions concerning the Commission's attached *Corrective Action Plan*.

Sincerely,

KENNETH L. MARCUS  
Staff Director  
United States Commission on Civil Rights

cc: Danny Werfel  
Acting Branch Chief, Financial Standards and Grants Branch  
  
Erica Navarro  
OMB Program Manager

## **Finding: Inadequate Controls Resulted in Errors and Unrecorded Transactions**

### **Background:**

In FY05, the Commission's financial management system was a combination of manual and automated processes. The Commission supplemented its limited budget and finance staff by contracting for services with a private accounting services provider. The Commission's financial management processes included manual tracking of obligations and disbursements, and sending documents by facsimile and Federal Express between the Commission, its accounting services provider, and GSA for processing and disbursement. Additionally, the systems used by GSA, the National Finance Center (NFC), and the Commission's accounting services provider were not integrated and, therefore, required manual intervention to record transactions in the general ledger. Although controls were designed, they were ineffective.

### **Recommendations:**

It was recommended that the Commission:

- Investigate and implement automated solutions to replace the manual tracking of obligations and disbursements, and to allow for direct input into the accounting system used in FY06.
- Determine ways to streamline the processes to ensure appropriate levels of controls, accuracy in reporting, reliability, and timeliness of information.

### **Corrective Action Plan:**

Effective October 1, 2005, with the transition to GSA's Heartland Finance Center as its new accounting services provider, the Commission implemented an automated system to replace the manual tracking of obligations and disbursements. GSA inputs the financial transaction data it receives from the Commission and its vendors directly into its accounting system. The Commission is able to access and review this information online as it is processed by GSA.

Payroll related information is received from NFC by GSA via computer disk or CD ROM and requires no manual data entry. The Commission, GSA, and NFC are currently working to further improve this process by resolving technology related issues. With the resolution of these issues, the transmission of NFC data will be conducted completely over the internet.

Commission staff is required to prepare travel authorizations online using the GSA travel system, travel approvals and certifications occur online, and vouchers are submitted to GSA electronically for payment processing.

Furthermore, GSA's Heartland Finance Center provides an integrated core accounting and financial management system (Pegasys) that records, reconciles, and reports accounting transactions on behalf of the Commission. Specifically, GSA's Heartland Finance Center provides the following services to the Commission:

- accounts payable,
- accounts receivable,
- billing,
- disbursements/payment processing,
- travel,

- collection of debts,
- budget submission using OMB's MAX system,
- preparation of daily cash deposits,
- payroll file upload,
- standard general ledger reconciliation,
- systems analysis, and
- regulatory and managerial reporting.

Overall, the use of GSA's Heartland Finance Center as its sole accounting services provider simplified the Commission's access to accounting data and increased its ability to verify accounting entries. Also resulting from this transition, the Commission streamlined its accounting processes to ensure complete, accurate, and timely documentation, recordation, reconciliation and reporting of transactions.

The use of reports generated from GSA's Pegasys system, and the Commission's remote access to transactions and accounts at any time, eliminated the prior need to maintain "cuff records" and reduced errors resulting from manual manipulation of financial data. Cuff records are records, other than the official financial records maintained by GSA, previously used by the Commission to determine its existing financial position and make financial decisions.

Furthermore, in late FY05 as a part of the transition process, the Commission collaborated with GSA to establish Commission controls that ensure the integrity and timely processing of financial transactions. These controls include review and approval, authorization, verification, and reconciliation of accounts and transactions. During FY06, the Commission will review and revise these measures as required in order to meet agency goals.

As the Commission's accounting services provider, GSA also has accounting procedures and controls in place that include the following:

- Obligation and payment documents are either submitted directly to GSA from third parties or are submitted to GSA by the Commission via overnight mail. The Commission maintains a log to track obligation and payment documents and reconciles the log with transactions posted within the system to ensure completeness and accuracy.
- Posting of non-salary related transactions (travel and procurement) is controlled through the use of standard GSA forms and in accordance with the *Federal Acquisition Regulation* (FAR) and the *Federal Travel Regulation* (FTR). GSA will not record and process transactions without receipt of the proper forms and other required documentation.
- By converting to GSA's web-based travel management system, Travel and Miscellaneous Reimbursement or TMR, in early FY06 the Commission significantly reduced errors in travel claims such as overpayment, late payment, and improper payment of travel claims.
- GSA certifying officers review pertinent documents and certify vouchers for payment based on funds available to the Commission.
- GSA receives and disburses funds available to the Commission from the Treasury. GSA makes disbursements based on approved invoices or other official documentation provided by the Commission.

- GSA reconciles the Commission's general ledger quarterly and prepares and submits the following reports as required by Treasury and OMB: Monthly SF-224; Quarterly FACTS II; Quarterly SF-133; Annual FACTS I and II; Receivables Due the Public; Annual SF-2108; and Accountability of Tax Dollars Act Financial Statements.

GSA accounting system, Pegasys, is fully compliant with the Joint Financial Management Improvement Program (JFMIP). To be JFMIP compliant means that Pegasys contains the core financial system requirements for federal financial management systems. More specifically, Pegasys processes transactions in support of the major functions of a financial system (general ledger management, budgetary resource management, payment management, receivables management, cost management, fund balance with Treasury management, and system management) in accordance with documentation, internal control, and system features that are required of federal financial systems. GSA also complies with OMB Circular A-123, and the responsible systems managers and financial management officials have evaluated GSA's financial management systems in accordance with OMB Circular A-127. Pegasys' compliance with JFMIP financial system requirements, as well as GSA's adherence to OMB A-123 and A-127 requirements, lends credibility to the integrity and reliability of the Commission's accounting information.

## **Finding: The Commission Needs to Address Human Capital Needs**

### **Background:**

In FY05, the Commission relied on a few individuals, along with contract assistance, to perform substantial financial management, administrative, and information security duties. The range of responsibilities included, but was not limited to, the approval and tracking of obligations and disbursements; monthly, quarterly and yearly financial information review; development of financial policies and procedures; financial statement review; audit coordination; coordination with other agencies including OMB, GSA, and USDA; and information security compliance. During FY05 several key employees left the Commission resulting in knowledge gaps and inadequate transition of new employees.

### **Recommendations:**

It was recommended that the Commission:

- Determine the viability of cross training employees after consideration of abilities, job descriptions, and federal personnel regulations.
- Determine the training needs for the current employees to ensure that they are up-to-date on financial management, financial statements, and information technology and security.

### **Corrective Action Plan:**

A condition that contributed to accounting errors and the general unreliability of the Commission's financial information during FY05 was the lack of sufficient staffing within the Commission. Though a significant increase in staffing is not currently possible due to funding limitations, the Commission is engaged in hiring to fill two FY05 vacancies. A Budget Analyst (GS-0560-09) and an Information Technology Specialist (GS-2210-13) will be hired this fiscal year. The Budget Analyst will support the chief of the Budget and Finance Division by performing administrative functions and support duties related to budget planning, execution, fund control, and budget and program review.

The Information Technology Specialist, among other responsibilities, will utilize knowledge of IT standards, specifications, operations, integration, programming, policy, and management to ensure that the Commission's financial systems are Federal Financial Management Improvement Act (FFMIA) compliant. The specialist will also create appropriate corrective action plans and timetables, and will be responsible for Commission FFMIA reporting. The specialist will also have responsibilities related to Federal Information Security Management Act (FISMA) compliance.

The Commission temporarily eased the problems created by the lack of staffing by identifying and providing necessary training for current employees and by cross-training employees as appropriate. To support these efforts, the Commission increased its training budget for FY06 to \$36,000, a 900% increase from the FY05 budget amount.

- In January 2006, the chief of the procurement office participated in training on simplified acquisition procedures in the FAR. Additional training is scheduled in March and April 2006 that will focus on contract formation and administration.
- The director of the Office of Management received cross-training in January 2006. The director, who has management and supervisory responsibilities for the Budget and Finance

Division, attended training on the Government-wide Accounting (GWA) Account Statement application to enable her to support the chief of the Budget and Finance Division. Other similar opportunities for appropriate cross training will be explored during FY06.

- Budget planning and execution training will be provided to the chief of the Budget and Finance Division during FY06 consistent with existing budgetary resources.

The knowledge gap and the lack of transition planning identified in the audit report were addressed by the use of GSA as the Commission's accounting services provider, and the development of formal written policies and procedures to ensure complete, accurate, and timely processing of financial information. In FY05 and early FY06, the Commission issued new financial management policies, procedures, and goals, in the form of Administrative Instructions:

- Administrative Instruction 3-1, *Performance Budget Formulation*.
- Administrative Instruction 3-2, *Budget Execution*.
- Administrative Instruction 3-6, *Management of Project Accounting Codes*.
- Administrative Instruction 3-14, *Official Travel*.
- Administrative Instruction 3-16, *Updated Guidelines for Non-Salary Related Expenditure Transactions*.

AI 3-1, *Performance Budget Formulation*, ensures timely and more complete budget estimate submissions to OMB by the Commission, and AI 3-2, *Budget Execution*, creates accountability and specificity regarding financial management and clarifies agency operating goals, principles, and processes. These new policies also strengthen the ability of the agency to accurately monitor and track its financial resources, including detecting violations of the Anti-Deficiency Act. Newly revised AI 3-6 updates the Commission's project accounting code system to provide management with cost information to support decision-making related to program planning, program activity (i.e., hearings, briefings, investigations, reports, etc.) management and evaluation, and budget and fiscal accountability.

AI 3-14 establishes that an approved travel authorization is necessary prior to creating any travel obligation, establishes that vouchers must be submitted within 5 working days following completion of travel, and establishes that all Commission travelers require adequate documentation of travel expenditures. Furthermore, it establishes criteria for determining what constitutes an allowable travel expense, and creates review/approval/certification authority and procedures.

Finally, AI 3-16, related to budget AI 3-1 and AI 3-2, provides a detailed list of specific activities required to ensure that Commission non-salary related transactions are properly authorized, approved, and supported by appropriate documentation. This AI directs, for example, that accounts be periodically reviewed, that support for financial transactions be maintained, and that transactions be promptly processed.

Training is only as effective as the ability of the agency to accurately identify training needs and gaps in staff skill sets. In 2005, the Commission developed a draft *Strategic Human Capital Plan* and a *Human Capital Accountability System* in order to assess employee skills, identify training needs, and hold staff accountable for their performance. Additionally, the Commission conducted a human capital skills assessment with assistance from OPM to identify where improvements were needed in the skill sets required to fulfill the Commission's mission. Implementation is expected in late FY06, contingent upon approval of the draft strategic plan, and future assessments will be conducted consistent with applicable OPM policies.

## **Finding: The Commission Has Not Complied with the Accountability of Tax Dollars Act of 2002**

### **Background:**

The Commission did not comply with the Accountability of Tax Dollars Act of 2002 and OMB Bulletin 01-09 "Form and Content of Agency Financial Statements" that require the Commission to submit audited financial statements to OMB by November 15, 2004. The Commission contracted with an independent accounting firm to audit the FY04 financial statements; however, no report was issued. OMB waived the requirement for financial statements for FY03. Also, the Commission did not provide quarterly unaudited financial statements to OMB for FY04 and FY05.

### **Recommendation:**

It was recommended that the Commission institute policies and procedures to ensure that:

- Audited financial statements are prepared and provided to the appropriate oversight agencies by November 15th annually.
- Quarterly unaudited financial statements are provided to OMB in accordance with OMB requirements.

### **Action Plan:**

To ensure that an auditing firm is timely selected and that the audit report is completed before the November 15 submission date, the Commission will engage in early acquisition planning beginning with the FY06 audit. In February of each year, beginning in 2006, the Administrative Services and Clearinghouse Division will create and commence execution of a procurement action plan for the annual audit that will include timelines for key procurement actions leading to the completion of the following phases: consultation with the Budget and Finance Division, solicitation of bids, evaluation of bids, selection/award of the contract, and PAR production and/or delivery plans. In addition, the Commission will create a formal checklist in FY06 for the budget chief to use when preparing and gathering necessary information for the audit of its financial statements.

To facilitate the likelihood that an opinion will be issued on all of the Commission's financial statements for FY06, the Commission contracted the services of an accounting firm to provide audit preparation and consultation services. The primary goal of these consulting services is to reasonably ensure that all Commission financial statements for FY06 are auditable. In general, the consultants will:

- Conduct a wider, systemic review of Commission financial operations to identify areas in need of improvement not previously noted in reports by GAO and in the FY05 audit report.
- Recommend additional corrective measures based on a review of the Commission's financial operations.
- Assist the Commission in developing additional written policies and procedures for business functions and processes, as determined to be necessary, so that staff understand their roles and responsibilities, and agency processes.
- Test and provide feedback on the sufficiency of previously established policies and procedures.



- Ensure that the Commission has procedures in place to review monthly and quarterly financial reports prepared by GSA for propriety, and to monitor GSA adherence to its Memorandum of Understanding (MOU) with the Commission.
- Assist the Commission with implementation of corrective actions related to FY05 reportable conditions.

To ensure that quarterly unaudited financial statements are provided to OMB in accordance with OMB requirements, key Commission management officials worked closely with OMB and GSA in late FY05 on various aspects of internal control, and internal and external reporting requirements. Further, as defined by the MOU with the Commission, GSA prepares and submits the following reports on behalf of the Commission for FY06:

- Statements of Transactions (monthly, SF-224),
- FACTS II (quarterly),
- FACTS I and II (annually),
- SF-133 (quarterly),
- Accountability of Tax Dollars Act Financial Statements,
- Yearend Closing Statements (annually, SF-2108), and
- Receivables Due the Public.

## **Finding: Commission Travel Expenses Are Not Properly Supported**

### **Background:**

In FY05 the Commission's processing of travel vouchers was inefficient because it required the manual preparation of a voucher; manual transfer of voucher information onto GSA forms; and the transfer of disbursement information by facsimile or Federal Express to the accounting service provider and GSA. Furthermore, the Commission did not have adequate documentation to support expenses reported.

### **Recommendation:**

It was recommended that the Commission revise policies and procedures to:

- Ensure that supervisors and the Budget and Finance Division carefully review travel vouchers for adequate supporting documentation and proper authorization.
- Ensure that all travel vouchers and supporting documentation are properly maintained.

### **Action Plan:**

In early FY06, the Commission converted to the use of GSA's web-based travel management system referred to as TMR. All employees in the headquarters office of the Commission can access the system, and all regional offices should have full access by March 2006. Currently, employees outside of headquarters send their manual forms to headquarters for entry. This system has reduced errors in travel authorizations, requests for reimbursement, delays in reimbursement, and collection of overpayments. The TMR system identifies inconsistent and potentially erroneous travel information, ensures prompt payment, and automatically calculates interest if a payment is late under the Prompt Payment Act.

The Commission also created a new travel policy that is consistent with the requirements of GSA's *Federal Travel Regulation (FTR)*. Administrative Instruction 3-14, *Official Travel*, delegates and describes responsibilities related to submitting travel authorizations and vouchers, and approving and certifying authorizations and vouchers. It also describes the documentation required to support travel claims, creates timelines for submitting and processing travel documents, creates master travel file maintenance responsibilities, and establishes guidance in other areas related to official travel.

## **Finding: Commission Policies and Procedures Need Improvement**

### **Background:**

The Commission does not have formal written procedures for Fund Balance with Treasury (FBWT) reconciliations and the related reporting to the Department of the Treasury. Also, written procedures governing the procurement of goods and services and budget preparation are too general or are incomplete.

### **Recommendation:**

It was recommended that the Commission:

- Revise and reissue written policies and procedures that provide additional specificity related to FBWT reconciliation, financial reporting, interagency reporting, and travel.

### **Action Plan:**

The Commission revised several AIs with input and guidance from GSA and OMB during FY05 and FY06. The Commission recently revised its AI 3-2, *Budget Execution*, to include policies and procedures relating to FBWT reconciliations to ensure that the procedures clearly specify what GSA's role is in performing reconciliations and what procedures the Commission uses when reviewing the data that supports reconciliations. Fund Balance with Treasury reconciliations are performed by GSA, the Commission's accounting services provider, as part of the services provided in accordance with the MOU. The Commission's accounting services provider sends the reconciliation to the Commission 3-5 business days before it is due to Treasury.

Consistent with this MOU and Commission AI 3-2, issued in January 2006, the agency's accounting services provider is responsible for preparing and entering the reports required by Treasury and OMB for the Commission's good standing. The financial reports prepared by GSA include:

- Statement of Transactions (SF-224, monthly),
- FACTS I and FACTS II (annually),
- FACTS II (quarterly),
- SF-133 (quarterly),
- Accountability of Tax Dollars Act Financial Statements,
- Yearend Closing Statements (SF-2108), and
- Receivable Due the Public.

AIs on budget formulation and execution, travel regulations, and project coding were finalized and implemented in FY06 as discussed earlier in the Corrective Action Plan. In addition, the Commission's *Procurement and Acquisition Guide*, issued in January 2006, ensures that procurement is conducted in a manner above reproach with complete impartiality and without preferential treatment for any group or individual, provides the basics for reasonably ensuring that the Commission's procurement activities are conducted efficiently and economically, and is consistent with the FAR. Guidance is provided on Commission delegations of authority, review and approval requirements, simplified acquisition methods used by the agency, simplified acquisition procedures and requirements, Prompt Payment Act requirements, vendor/contractor performance evaluation, file documentation and maintenance, Federal Procurement Data Center reporting, and

other matters. It also includes Commission forms and checklists to ensure documentation of procurement activities, appropriate competition, determination of price reasonableness, and compliance with applicable provisions of the *Federal Acquisition Regulation* (FAR).

When used in conjunction with AI 4-16 (*Acquisition Management*), AI 4-16A (*Micro-Purchasing*), and AI 4-21 (*Updated Guidelines for Procurement of Goods and Services*) the guide enhances staff knowledge of the Commission's overall procurement and acquisition process.

## **Finding: The Commission Has Not Complied with the Federal Financial Management Improvement Act (FFMIA)**

### **Background:**

The Commission did not have an integrated financial management system and consequently used several cuff records and various systems to manage its operations. The Federal Financial Management Improvement Act (FFMIA) requires an integrated financial management system.

### **Recommendation:**

It was recommended that the Commission:

- Assess their financial management systems to ensure that the systems are compliant with the FFMIA including JFMIP standards and OMB Circular A-127.
- Assess controls in place over manual processes surrounding the systems to ensure completeness and accuracy.
- Review services provided by the new accounting services provider to ensure they meet the Commission's reporting requirements.

### **Action Plan:**

FFMIA requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127, JFMIP requirements, federal accounting standards, and the United States Government Ledger (SGL) at the transaction level. Effective October 1, 2005, the Commission acquired GSA's Heartland Financial Center as its accounting services provider. GSA uses the Pegasys system that is fully compliant with JFMIP. GSA also complies with OMB Circular A-123 and the responsible systems managers and financial management officials have evaluated GSA's financial management systems in accordance with OMB Circular A-127.

In an effort to ensure full compliance with FFMIA, and to address other information technology needs, the Commission is currently advertising an Information Technology Specialist vacancy with the intent to hire during FY06. The IT specialist will serve as the leading technical and IT policy authority within the Commission and will perform a wide range of services related to the management of the Commission's IT resources and technology, including those related to the Commission's financial systems. One of the responsibilities of the IT specialist will be to review and assess the SAS 70 reports of GSA's Pegasys system and NFC's payroll system. This review should determine whether the two external systems, in conjunction with any manual processing and review performed by the Commission, ensure that the Commission's overall financial management system is FFMIA compliant. If not, the IT specialist will determine the appropriate corrective action. The IT specialist is also responsible for Federal Information Security Management Act (FISMA) compliance and reporting.

FISMA, passed in 2002 as part of the Electronic Government Act, provides a framework for ensuring the security of federal information and assets. The IT specialist will write the FISMA report to summarize the results of annual IT security reviews of systems and programs, and any progress the Commission has made toward fulfilling their FISMA goals and milestones. The IT specialist will be responsible for utilizing extensive knowledge of IT standards, specifications, policy and programming to implement the necessary technical and administrative processes.

In addition ensuring the security of information, the Commission will also ensure the accuracy of its financial information. During FY06, from in or about February through in or about June 2006, the Commission and its financial management consultants, with the cooperation of GSA, will assess the clarity and consistency of its controls and their effectiveness in producing information that can be relied upon by program managers and other decision-makers. The financial consultant's report on Commission financial management will be issued in FY06.

Commission management officials, working closely with officials at OMB and Treasury, will monitor the quality, timeliness, and sufficiency of required internal and external reports prepared and submitted by GSA on behalf of the Commission. As defined by the MOU with the Commission, GSA will prepare and submit the following reports on behalf of the Commission for FY06:

- Statement of Transactions (monthly SF-224),
- FACTS I and II (annually),
- FACTS II (quarterly),
- SF-133 (quarterly),
- Accountability of Tax Dollars Act Financial Statements,
- Yearend Closing Statements (annual SF-2108), and
- Receivables Due the Public.

## **Finding: No SAS 70 Review of NetSuite was Performed**

### **Background:**

The Commission does not have its own accounting system and during FY05 the Commission contracted with an accounting service provider to provide accounting services that included use of the NetSuite application as its general ledger. The accounting service provider had not conducted an internal control review of the application nor had the Commission directed its third party service provider to have a review conducted in accordance with federal system requirements.

### **Recommendation:**

It was recommended that the Commission:

- Ensure that all service providers used by the Commission perform a Statement on Accounting Standards (SAS) 70 review each fiscal year. If no review is to be performed, then the Commission should direct that an internal control review be performed.

### **Action Plan:**

The SAS 70 provides guidance to organizations that outsource accounting tasks to service organizations. A SAS 70 review represents that a service organization has undergone an in-depth audit of their control activities, which generally include controls over information technology and related processes. SAS 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customer's auditors in a uniform reporting format. OMB mandated for FY06 that all federal agencies providing financial cross servicing to other federal agencies have a SAS 70 review performed on their financial systems.

Effective October 1, 2005, GSA became the Commission's accounting service provider and the NetSuite application is no longer used. GSA, though not the Commission's accounting services provider for FY05, reports having undergone a SAS 70 review as OMB has mandated. The SAS 70 review for FY06 is currently pending; however, the Commission has already requested a copy of the report and will follow-up with GSA if the report is not received by March 2006. The agency's MOU with GSA provides that the FY06 cost of the SAS 70 review is included in the base price for GSA's accounting services.

The Commission uses NFC for payroll processing and NFC's most recent SAS 70 review report is posted on their website. A copy will also be maintained on file by the Commission.

The SAS 70 reviews of GSA's Pegasys and NFC's payroll system allow the Commission to receive valuable information regarding the controls and the effectiveness of the controls within these systems. The results of these SAS 70 reviews lend credibility to the integrity and reliability of the Commission's accounting information. Further, the SAS 70 review reports will greatly assist the Commission's auditors in planning the audit of the Commission's financial statements.