



**Office of Inspector General**  
Washington, DC 20546-0001

August 14, 2007

TO: Assistant Administrator for Internal Controls and Management Systems

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on Audit of NASA's Compliance with Federal Internal Control Reporting Requirements (Report No. IG-07-025; Assignment No. A-07-004-00)

The Office of Inspector General (OIG) has completed an audit to evaluate the adequacy and effectiveness of NASA's process for complying with Federal internal control reporting requirements. Specifically, we determined the comprehensiveness of NASA's guidance for assessing and reporting on internal controls, the effectiveness of the tools (i.e., training and communication) for implementing the guidance, and the adequacy of the documentation supporting NASA's Statement of Assurance.<sup>1</sup> As part of the audit, we visited the Office of Internal Controls and Management Systems (OICMS), Office of the Chief Information Officer (OCIO), Integrated Enterprise Management Program (IEMP), and Goddard Space Flight Center (GSFC). (See Enclosure 1 for details on the audit scope and methodology.)

### *Executive Summary*

We found that NASA's process for complying with Federal internal control requirements was not adequate in FY 2006. While the FY 2007 process will see progress (e.g., additional guidance to be issued), additional improvements are needed. NASA's internal control reporting process was, and continues to be, developed without a well-defined and structured approach.

We found that NASA's FY 2006 guidance, as well as the guidance being drafted for FY 2007, were incomplete or lacked sufficient clarification and were not distributed in a timely manner. Also, while both the FY 2006 and the draft FY 2007 guidance require that program managers include an internal control matrix, neither guidance was clear as to why the matrix was required or how the matrix would ultimately be used; and the sample matrices provided in the guidance were insufficient. In addition, we found that

---

<sup>1</sup> OMB Circular A-123 notes that "The statement on reasonable assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of management controls within the agency. The statement must take one of the following forms: unqualified statement of assurance (no material weaknesses reported); qualified statement of assurance, considering the exceptions explicitly noted (one or more material weaknesses reported); or statement of no assurance (no processes in place or pervasive material weaknesses)."

the training was not comprehensive or attended by all key personnel, and that lines of communication among management and reporting bodies were not clearly defined and established. Furthermore, we found that there was not a clear audit trail of the documentation supporting the FY 2006 statements of assurance submitted by NASA offices and Centers, which was the basis for NASA's Statement of Assurance signed by the Administrator.

In our July 10, 2007, draft of this memorandum, we recommended that the Assistant Administrator of OICMS revise NASA's policy and implementing guidance and issue such guidance timely. We also recommended, after the guidance is clarified as to why there is a requirement for an internal control matrix and how the matrix will ultimately be used, that a better sample matrix be provided. In addition, we recommended the implementation of a training program and procedures to solicit feedback on the training program. Further, we recommended the establishment of well-defined lines of communication between OICMS and the rest of the Agency. Finally, we recommended that the Assistant Administrator of OICMS implement a quality control process for the Agency's internal control program.

Management concurred with all eight recommendations and requested closure of two recommendations (see Enclosure 2). We closed the two recommendations and will close the remaining recommendations upon completion and verification of management's corrective actions.

### ***Background***

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 (P.L. 97-255) and the implementing guidance, Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," establish Federal policy for agencies' requirements to improve internal controls and assess and report on the effectiveness of such controls. FMFIA amends the Accounting and Auditing Act of 1950 and requires Federal agencies to establish internal accounting and administrative controls to (1) prevent waste or misuse of agency funds or property and (2) assure the accountability of assets. Further, FMFIA directs the head of each agency to evaluate such controls annually and submit to Congress and the President either a statement that the controls are adequate or a report on any weakness(es) in such controls with a schedule for correcting the weakness(es).

OMB's Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. OMB revised A-123 in December 2004 because of a re-examination of existing internal control requirements for Federal agencies, in light of the new internal control requirements for publicly traded

companies contained in the Sarbanes-Oxley Act of 2002.<sup>2</sup> Circular A-123, as revised, became effective for FY 2006.

NASA's internal control policy is established in NASA Policy Directive (NPD) 1200.1D, "NASA Internal Control and Accountability," May 15, 2006. In FY 2006, NASA began several initiatives to improve internal accounting and administrative control processes. In addition to developing and distributing the new NPD 1200.1, NASA conducted training on the requirements and implementation of Circular A-123. Until February 2007, the Assistant Administrator for the Office of Infrastructure and Administration, within the Office of Institutions and Management, was the functional lead for internal control and accountability. The Management Systems Division (MSD), within the Office of Infrastructure and Administration, facilitated the overall coordination, implementation, and integration of NASA's internal control programs. On February 20, 2007, the Management Systems Division was abolished. The former division transitioned into the Office of Internal Controls and Management Systems (OICMS). OICMS' responsibilities include, but are not limited to, developing internal control policy and implementation practices, providing staff support to the Senior Assessment Team (SAT), providing resources (e.g., training, tools, website) for the Agency's internal control efforts, and conducting periodic reviews of the Agency's internal control practices.

SAT was established in FY 2006 to ensure that assessments of internal control over programmatic, institutional, and financial management are conducted as effectively and efficiently as possible. In FY 2006, SAT was chaired by the Deputy Chief Financial Officer and provided recommendations regarding internal control deficiencies for consideration by the Operations Management Council (OMC). OMC is one of NASA's three governing bodies that provide senior-level oversight of NASA's operations. OMC is chaired by the Deputy Administrator and its membership represents NASA senior leaders. In FY 2006, OMC met quarterly to review the status of internal control deficiencies and annually to decide on the deficiencies in Agency processes that would be reported as material weaknesses in the Administrator's Annual Statement of Assurance.

As communicated to OMC at its February 2007 meeting, refinements of SAT, in terms of its chair and responsibilities, were being proposed for FY 2007, which in turn would result in changes to the responsibilities of OMC. At the meeting, it was announced that the Director of the Office of Program and Institutional Integration would chair SAT. At the June 2007 OMC meeting, it was announced that SAT would serve as the functional owner of the Agency's internal control program. As functional owner, SAT will review and approve the annual Statement of Assurance process and guidance; evaluate and disposition proposed internal control deficiencies; review the annual Statement of Assurance and related reporting requirements; assess the adequacy of corrective action plans, which includes tracking the completion of such plans; and sponsor and review an annual plan of surveys, audits, and reviews. OMC will maintain cognizance of internal

---

<sup>2</sup> The Sarbanes-Oxley Act of 2002 (P.L. 107-204, 116 Stat. 745) establishes new or enhanced standards for all U.S. public company boards, management, and public accounting firms. One of the major provisions of the law is a requirement that public companies evaluate and disclose the effectiveness of their internal controls as they relate to financial reporting, and that independent auditors for such companies "attest" (i.e., agree, or qualify) to such disclosure.

control policies and initiatives; serve as final review mechanism for the annual Statement of Assurance process, the annual Statement of Assurance, and related reporting requirements; serve as final review mechanism for addition/deletion of items to NASA's "watch list"; and serve as the forum for addressing issues forwarded by SAT.

Reporting to SAT are the Institutional Control Team, the Programmatic Internal Control Team, and the Financial Management Internal Control Team. The roles and responsibilities of these teams were being delineated in each of their respective draft charters in FY 2007.

In August 2006, the Administrator issued a letter requesting, for the first time, that the Officials-in-Charge of NASA Headquarters offices (OIC) and the Directors of NASA Centers each prepare and sign a "statement of assurance" for their respective offices and Centers. The letter indicated that OIC and Center Director statements of assurance submitted for FY 2006 would be restricted in the number of goals reviewed and written at a summary level. The letter further indicated that the submissions for FY 2007 would be comprehensive in scope with internal control reviews performed and results documented in accordance with a Management Control Plan being developed. Enclosures and attachments to the Administrator's letter included (1) a partial list of significant audits and reviews conducted at NASA in FY 2006 the Administrator wanted OICs and Center Directors to consider when evaluating the effectiveness of internal control throughout programmatic, institutional, and financial management activities; (2) a sample cover memorandum for office and Center statements of assurance; (3) a template for summarizing key information about each material weakness identified; and (4) instructions and information for completing the Internal Control Matrix,<sup>3</sup> as well as a sample of a completed Internal Control Matrix. The Internal Control Matrix was to be submitted as an enclosure to OIC's and Center Director's statement of assurance cover memorandums. The Internal Control Matrix contained the following columns:

- Organizational Goal (Assessable Unit in FY 2007)
- Control Environment
- Risk Assessment
- Risk Rating
- Control Activities
- Information and Communications
- Monitoring
- Evaluation and Conclusion (column not included in the sample for FY 2007)

OICMS was responsible for compiling the results from all the OIC's and Center Director's statements of assurance. Using the compiled results for FY 2006, SAT provided to OMC recommendations for internal control deficiencies to be reported as material weaknesses.

---

<sup>3</sup> In the draft guidance for FY 2007 (i.e., Management Control Plan), the Internal Control Matrix is referred to as Management Control Plan Matrix.

### ***Guidance Not Timely Distributed, Sufficiently Clear, or Complete***

The Government Accountability Office's "Standards for Internal Control in the Federal Government"<sup>4</sup> (Standards) and Circular A-123 indicate that the communication of relevant, reliable, and timely information is imperative for an agency to achieve all of its objectives. As shown in the following table, NASA's internal control policy for FY 2006 was not issued until the third quarter, supplemental implementing guidance for FY 2006 was not issued until the fourth quarter, and no supplemental implementing guidance for FY 2007 had been issued as of June 2007, with only 3 months remaining in the fiscal year.

<b>Table 1. Issuance of Internal Control Reporting Guidance</b>			
<b>Guidance</b>	<b>General Purpose</b>	<b>Date Issued</b>	<b>Applicable FY</b>
NPD 1200.1D, NASA Internal Control and Accountability	Establish NASA's policy on internal control and accountability	May 15, 2006	FY 2006 and FY 2007
FY 2006 Administrator's letter to OICs and Center Directors	Additional guidance to supplement and facilitate the implementation of NPD 1200.1D. Includes requirement that OICs and Center Directors submit a signed Statement of Assurance.	August 10, 2006	FY 2006
Internal Control and Accountability Program—Management Control Plan (Draft)	Additional guidance to supplement and facilitate the implementation of NPD 1200.1D	Not issued as of June 30, 2007	FY 2007
FY 2007 SAT chair's letter to OICs and Center Directors	Additional guidance to supplement and facilitate the implementation of NPD 1200.1D	Not issued as of June 30, 2007	FY 2007

Even though NPD 1200.1D states that the responsibilities of OICs and Center Directors include reporting "severe or high-risk deficiencies to the Deputy Administrator to assess the need for assignment of actions and possible placement on the OMC's watch list," the policy did not elaborate on this responsibility in terms of what the responsibility entails or how it is to be met. Thus, it was not until the Administrator's letter was distributed in August 2006 that OICs and Center Directors became aware that they were required to submit a signed statement of assurance, which had not been required in prior years, and that the signed statements were to be submitted by September 15, 2006. Representatives of OCIO, IEMP, and GSFC indicated that the untimely distribution of guidance was, and continues to be, a concern for them. Specifically, they told us that the 1-month timeframe for preparing and signing statements of assurance for FY 2006 provided very little time to implement and respond to a new process. In addition, the three representatives commented that they had heard there would be changes in the FY 2007 process but that no additional guidance had been issued. In addition, one representative commented that delays in issuing final Agency-wide guidance would hamper the ability of some Centers and offices to issue Center- and office-specific guidance to implement the Agency-wide guidance.

<sup>4</sup> Government Accountability Office (formerly, General Accounting Office). "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999).

Based on our review of NASA's internal control guidance applicable for FY 2006 (i.e., NPD 1200.1D and the Administrator's letter dated August 10, 2006), additional guidance being drafted for FY 2007 (e.g., Management Control Plan), and guidance of two other Federal agencies, as well as interviews with personnel from various NASA offices and Centers as noted in the Scope and Methodology (Enclosure 1), we determined that neither the FY 2006 guidance nor the draft FY 2007 guidance was complete or contained sufficient detail to assist NASA staff in effectively implementing an internal control program. Circular A-123 states that the procedures for assessing effectiveness of controls may vary, however, "management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process."

On the basis of comments from interviewees and our own review of internal control documents, we provide the following observations:<sup>5</sup>

- The Policy section in NPD 1200.1D focuses on establishing and defining internal control instead of establishing a process to identify, evaluate, and report on the effectiveness of internal control at NASA.
- Neither NASA policy nor supplemental guidance specifies the type of documentation to be maintained to support the statements of assurance or the documentations' retention requirements.
- Although the supplemental guidance for FY 2006 and draft supplemental guidance for FY 2007 discuss the rating of identified risks as either low, medium, or high; the discussion does not categorize the types of risk that can be rated (i.e., inherent, control, and residual) or how each should be considered when asserting the level of assurance on controls. It became evident during our interviews and review of the statements of assurance that offices had interpreted the rating information differently. For example, of the two locations we visited that had at least one organizational goal with a high-risk rating, one submitted an unqualified statement of assurance for FY 2006 while the other submitted a qualified statement.
- The draft supplemental guidance for FY 2007 does not specify whether the institutional office at NASA Headquarters (e.g., OCIO) or the Centers will be responsible for assessing and reporting on the controls within the institutional assessable units selected for review. Unlike Headquarters program offices, the Centers have both program and institutional offices. If the guidance is not clear, some assessable units may not be reported on. For example, one Center may not include an assessable unit in its own assurance statement if it assumes the assessable unit was included in the institutional office's assurance statement.
- OICs and Center Directors may be uncertain about to which group within the internal control program organizational structure (e.g., SAT, OICMS, or the

---

<sup>5</sup> A comprehensive list of specific comments and observations based on our reviews and interviews was provided to OICMS under separate cover on April 3, 2007.

Programmatic Internal Control Team) questions should be directed. This could cause frustration and confusion, both for staff asking questions and unwitting staff contacted to provide answers, and result in an inefficient use of time.

Staff in OICMS told us that since that office received a limited number of questions after the issuance of guidance related to the internal control program, they assumed that the guidance was well written and easily understood. Interviewees' comments and our observations indicate that the assumption by OICMS was incorrect. Without the dissemination of timely and comprehensive guidance, the adequacy and effectiveness of the Agency's internal control program is diminished.

On June 22, 2007, OICMS asked our office to review and provide input on the SAT chair's draft FY 2007 letter to OICs and Center Directors regarding the Statement of Assurance reporting process. We provided comments to OICMS for their consideration when drafting the final letter. On July 3, 2007, the SAT chair distributed his final letter for the FY 2007 Statement of Assurance reporting process.

### ***Purpose of the Internal Control Matrix Unclear and Sample Was Insufficient***

Circular A-123 requires that agency managers "continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic assessments, should provide the basis for the agency head's annual assessment of and report on internal control required by FMFIA." Circular A-123 does not articulate the type and level of documentation needed to support the assessment on controls (other than those related to financial reporting) but rather leaves that to the discretion of agency management. Further, GAO's Standards stipulate that "information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities."

NASA required that an internal control matrix be submitted along with each OIC's and Center Director's statement of assurance. Based on our review of the guidance provided for the FY 2006 reporting period and the draft guidance for the FY 2007 reporting period, we determined that neither guidance clearly established why the matrix was required or how the matrix would ultimately be used. Specifically, Enclosure 4 of the Administrator's letter instructs OIC and Center Directors to "conduct an internal control evaluation of support . . . based on the five standards for internal control taken directly from OMB Circular A-123 . . . Complete the Internal Control Matrix (sample data included in Enclosure 4, Attachment 1) and enclose the matrix with your Statement of Assurance." The Administrator's letter does not specify what management intended this matrix to represent. The FY 2007 draft Management Control Plan attempts to specify the purpose of the matrix but ends up contradicting itself. In Section 1.5, "Conducting the Internal Control Review," it is stated that the matrix is for "documenting review results." However, in that same section it is noted that "this standard matrix must be used to *record risks and controls* [emphasis added] for all programmatic, financial, and institutional assessable units selected for review." Similar statements are made in Section

2.1, “Internal Control Evaluation Tools.” In addition, the FY 2006 sample matrix includes an Evaluation and Conclusion column that is not in the sample matrix included in the draft FY 2007 guidance, thus providing further confusion as to what management intends the matrix to represent. Without a clear understanding of why the matrix is required and how the matrix would be used, staff may not properly complete the matrix to satisfy management’s intentions.

Regardless of the purpose of the matrix, the example matrix provided as an attachment to the Administrator’s letter in August 2006 and as part of the Draft FY 2007 Management Control Plan was not sufficient. For example, the column Evaluation and Conclusion was not completed in the sample FY 2006 matrix, which may explain why less than 50 percent of the matrices submitted by OICs and Center Directors for the FY 2006 reporting year had completed the column Evaluation and Conclusion. Additionally, the type of data included in the sample under the column heading Control Activities sound more like corrective actions or control objectives than control activities. GAO’s Standards state that “control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives . . . They help ensure that actions are taken to address risks.” The Standards further state that control activities “include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.”

Following are excerpts from the sample matrices from the Administrator’s letter in FY 2006 and the draft FY 2007 Management Control Plan, respectively, which illustrate our point that the type of data included under the column heading Control Activities sound more like corrective actions or control objectives instead of control activities.

Excerpt from the FY 2006 Sample Internal Control Matrix in the Administrator’s letter:

<b>Organizational Goal</b>	<b>Control Activities</b>
Proper financial reporting of property, plant, and equipment assets.	Revise directives to define how property will be classified; Revise Financial Management Requirements (FMRs) to include appropriate accounting treatment per asset category and use.
All access to NASA information and information systems follows consistent, well-defined, and understood paths.	Rewrote NASA IT Security policy and requirements documents to reflect NIST guidance; Establishing a central database of all NASA systems and IT Security plans status; Expanded the NASA IT Security training program.



Excerpt from the FY 2007 Sample Management Control Plan Matrix:

Assessable Unit	Control Activities
Property, Plant and Equipment	Revise directives to define how property will be classified; Revise FMRs to include appropriate accounting treatment per asset category and use.
Integrated Asset Management	Fully implement Integrated Asset Management (IAM) and ensure complete, accurate, and timely input at the user level; link all business management systems, including procurement.

### ***Training Not Comprehensive or Attended by all Key Personnel***

The training NASA provided relative to complying with internal control reporting responsibilities was not comprehensive, and not all key personnel attended. GAO's Standards stipulate that "information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities." The training provided in FY 2006 and FY 2007, to date, focused broadly on internal controls and Circular A-123 as opposed to NASA's specific internal control policy and the implementation of such policy. Adherence to and understanding of NASA's policies, especially in the first year of implementation, are jeopardized if such policies are not included as part of the topics to be covered within the training courses. Furthermore, the individuals in IEMP and GSFC with primary responsibility for implementing NASA's internal control program did not attend any internal control related training offered by NASA; and were not aware that such training was available. The likelihood of improperly performed internal control assessments and reporting inaccurate results and assurances increases if the appropriate personnel do not receive training. In addition, OICMS stated that it did not solicit formal feedback from the attendees of any of the training classes. Soliciting feedback from training attendees is beneficial in assessing training aspects such as content, relevance, and depth and feedback can be used to modify and improve future training classes.

### ***Lack of Well-Defined and Established Lines of Communication***

The lines of communications between OICMS and the OICs and Center Directors responsible for submitting the statements of assurance were not clearly defined and established. As previously stated, both GAO Standards and OMB Circular A-123 emphasize the importance of communication. OICMS did not request that each OIC and Center Director provide the name of the individual(s) in their office responsible for overseeing the implementation of NASA's internal control program. During FY 2006, OICMS relied on the lines of communication between OICMS, the audit liaison representatives (ALR), and the Management Systems Working Group (MSWG). For FY 2007, OICMS assumed that the individual who submitted the statement of assurance

in FY 2006 was also the office's representative for the internal control program. When we visited OCIO, IEMP, and GSFC, we learned that none of the internal control program representatives were members of either the ALR or MSWG. While one office did a better job in relaying information (e.g., training being offered) from OICMS regarding the internal control program, the other two did not. This resulted in some key internal control program personnel not being aware of available training.

### ***Unclear Audit Trail***

Circular A-123 states that the procedures for assessing the effectiveness of controls may vary, however, "management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process." We found that there was no clear audit trail of the documentation used to support the FY 2006 OIC and Center Director statements of assurance. Specifically, there was no clear link between the documentation and the level of assurance asserted in the statements of assurance. In addition, the documentation was not readily available, as the data had to be gathered from various locations and sources.

The primary sources of support used by OCIO and GSFC were a combination of external audits, internal audits, internal program evaluations, and management's knowledge gained from the daily operation of agency programs and systems. The support source for IEMP, however, could best be categorized as management's knowledge. While various documentation was provided for our review, there was no evidence that any of it had been the basis for the applicable statement of assurance. For example, there was no summary of the data used as the basis for the statement of assurance and no explanation of how the OIC or Center Director was able to determine the level of assurance asserted based on data used. Without a clear audit trail, the risk increases that internal control assessments were not properly performed and that inaccurate results and assurances were reported.

### ***Recommendations, Management's Response, and Evaluation of Management's Response***

**Recommendation 1.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems revise, as appropriate, NPD 1200.1D and any additional guidance to ensure that the Agency's policy and implementing guidance is complete and comprehensive enough to permit offices/Centers to effectively and efficiently execute the Agency's internal control program to ensure compliance with Federal requirements. Sources of input as to how the guidance could be enhanced include, but are not limited to, comments previously provided by the Office of Inspector General, guidance and discussion with other Federal agencies, and feedback from OIC/Center representatives responsible for implementing the internal control program at their respective offices.

**Management's Response.** Management concurred stating that NPD 1200.1D is currently undergoing revision and the major elements of the new policy have been communicated to senior management (i.e., the Senior Assessment Team and the Operations Management Council) as well as the various Agency points-of-contact.

**Evaluation of Management's Response.** Management's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

**Recommendation 2.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems establish and adhere to a set schedule of when annual guidance will be disseminated. Guidance should be distributed as early in the fiscal year as possible to ensure that ample time exists for offices/Centers to effectively and efficiently implement the guidance. When establishing the distribution schedule, consideration should be given as to whether training may need to be offered if the guidance communicates significant modifications to the process.

**Management's Response.** Management concurred stating that the Senior Assessment Team released the FY2007 Statement of Assurance guidance approximately 6 weeks earlier than the previous year's guidance. Additionally, in future years, the current schedule anticipates the annual guidance to be released following the first quarterly meeting of the Senior Assessment Team, nominally scheduled for the March/April timeframe.

**Evaluation of Management's Response.** Management's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

**Recommendation 3.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems clarify in the guidance why there is a requirement for an internal control matrix and how the matrix will ultimately be used. Afterward, the matrix should be designed to support its purpose.

**Management's Response.** Management concurred that the control matrix featured in the FY2006 Statement of Assurance call letter and process was not accompanied by sufficient guidance regarding either the requirement for such a matrix nor the ultimate use of the matrix and the data contained therein. Management stated that there is no plan to use such a matrix in future internal control activities and, thus, requested that the recommendation be closed.

**Evaluation of Management's Response.** We reviewed the FY2007 Statement of Assurance call letter and found that, unlike the prior year, it did not include the internal control matrix. We consider the recommendation closed.

**Recommendation 4.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems provide a better example of an internal control matrix that is representative of the data being requested within the guidance to be included in the matrix.

**Management's Response.** Management concurred that the control matrix featured in the FY2006 Statement of Assurance call was not accompanied by an adequate example of representative data that was being requested for inclusion in the matrix. Management stated that there is no plan to use such a matrix in future internal control activities and, thus, requested that the recommendation be closed.

**Evaluation of Management's Response.** We reviewed the FY2007 Statement of Assurance call letter and found that, unlike the prior year, it did not include the internal control matrix. We consider the recommendation closed.

**Recommendation 5.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems develop and implement a training program for internal controls. When developing this program, OICMS should consider, at a minimum, the types of training to be offered (i.e., Federal related or NASA specific), the medium by which the training courses would be available (e.g., Web based or instructor led), who should attend, whether the training course would be mandatory or elective, and, if mandatory, the frequency with which the course must be taken.

**Management's Response.** Management concurred that NASA's internal control activities would benefit from additional training of NASA managers and personnel. A training program has been proposed.

**Evaluation of Management's Response.** Management's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

**Recommendation 6.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems implement procedures to solicit formal feedback from the attendees after all training classes. Solicitation of feedback from attendees is beneficial in assessing training aspects such as content, relevance, and depth. Based on feedback received, future training classes can be modified and improved, as necessary.

**Management's Response.** Management concurred stating that feedback will be requested from training participants in order to capture comments and suggestions for improvements.

**Evaluation of Management's Response.** Management's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

**Recommendation 7.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems establish well-defined lines of communication between itself and the rest of the Agency. During the establishment of such communication lines, OICMS should consider, at a minimum, obtaining the name of the individual(s) responsible for overseeing the implementation of NASA's internal control program for each OIC/Center Director. Further, OICMS should consider developing a Web site for internal control related matters that is accessible by all Agency personnel. This Web site could include, among others, the Agency's policies and guidance, training opportunities, and frequently asked questions.

**Management's Response.** Management concurred and indicated that OICMS solicited and received names from each of the required Headquarters organizations and Centers for the individuals engaged in the Statement of Assurance process. Further, OICMS is actively expanding its current Web site.

**Evaluation of Management's Response.** Management's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

**Recommendation 8.** We recommended that the Assistant Administrator of the Office of Internal Controls and Management Systems establish and implement a quality control (QC) process to ensure that internal control assessments were properly performed, results were accurately reported, and sufficient documentation was maintained and retained. Implementation of a QC process would assist the Agency not only in assessing its compliance with Circular A-123 and FMFIA but also in identifying additional guidance or training that may be helpful to the offices/Centers as they execute the Agency's internal control program.

**Management's Response.** Management concurred stating that this will be one of the primary responsibilities of the Office of Internal Controls and Management Systems. Beginning in November 2007 (i.e., following the completion of FY2007 Statement of Assurance process), OICMS will begin a rotating review of responsible Headquarters offices and Centers.

**Evaluation of Management's Response.** Management's planned action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

We appreciate the courtesies extended during our audit. If you have any questions, or need additional information, please contact Mr. Mark Jenson, Financial Statement Audits Director, at 202-358-0629 or me at 202-358-2572.

A handwritten signature in black ink, appearing to read "Evelyn R. Klemstine". The signature is fluid and cursive, with a large initial "E" and "K".

Evelyn R. Klemstine

2 Enclosures

cc:

Chief Information Officer  
Director, Integrated Enterprise Management Program  
Director, Goddard Space Flight Center

## Scope and Methodology

We performed this audit from January 2007 through June 2007 in accordance with generally accepted government auditing standards. The overall objective of the audit was to evaluate the adequacy and effectiveness of NASA's compliance with Federal internal control reporting requirements. Specifically, we determined the comprehensiveness of NASA's guidance, the effectiveness of the tools (i.e., training and communication) for implementing the guidance, and the adequacy of the documentation supporting NASA's Assurance Statement. Our focus was limited to NASA's programmatic and institutional internal control review process.

To achieve the audit objective we interviewed personnel representing the Office of Internal Controls and Management Systems (OICMS), Office of the Chief Information Officer (OCIO), Integrated Enterprise Management Program (IEMP), Goddard Space Flight Center (GSFC), and the Programmatic Internal Control Team (PICT). During the interviews, we discussed various topics including the internal control assessment and reporting process in place during fiscal year (FY) 2006, changes in the process contemplated for FY 2007, and the timing and type of training provided and to whom. In addition, we obtained and reviewed various documents, including but not limited to, the Federal Managers' Financial Integrity Act, OMB Circular A-123, the Standards for Internal Controls in the Federal Government, NASA's existing policy (i.e., NPD 1200.1D and Administrator's letter dated in August 2006), guidance being drafted by NASA for the FY 2007 reporting period (i.e., FY 2007 Management Control Plan), and related policies and guidance (e.g., internal control handbook or manual) of two other Federal agencies. Additionally, we reviewed the documentation supporting the FY 2006 office-level assurance statement for the OCIO, IEMP, and GSFC.

**Prior Coverage.** The Government Accountability Office (GAO) and the NASA Office of Inspector General (OIG) have not issued any reports of particular relevance to the subject of this report since the December 2004 issuance of the revisions to OMB Circular A-123, which became effective for fiscal year 2006. However, GAO provided Testimony to the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives on February 16, 2005, titled Effective Internal Control is Key to Accountability (GAO-05-321T). GAO's testimony can be accessed over the Internet at <http://www.gao.gov>.

# Management's Comments

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001



July 31, 2007

MEMORANDUM  
TO: Office of Internal Controls and Management Systems

TO: Assistant Inspector General for Auditing

FROM: Acting Assistant Administrator for Internal Controls and  
Management Systems

SUBJECT: Draft Memorandum on Audit of NASA's Compliance with Federal  
Internal Control Reporting Requirements (Assignment No. A-07-004-00)

Thank you very much for the opportunity to review and comment on the subject draft memorandum. We appreciate all of the suggestions provided to us by the auditors during the course of the audit, including those suggestions that were not incorporated as recommendations. I believe that we have made good use of those suggestions in developing our revised approach to internal control at NASA, and I look forward to further interactions with the Office of Inspector General, as well as with your staff in particular, as we continue to implement our new approach.

Our specific comments to the recommendations contained in the draft memorandum follow.

### OIG Recommendation

1. Revise as appropriate, NPD 1200.1D and any additional guidance to ensure that the Agency's policy and implementing guidance is complete and comprehensive enough to permit offices/centers to effectively and efficiently execute the Agency's internal control program to ensure compliance with Federal requirements. Sources of input as to how the guidance could be enhanced include, but are not limited to, comments previously provided by the Office of Inspector General, guidance and discussion with other federal agencies, and feedback from OIG/Center representatives responsible for implementing the internal control program and their respective offices.

### NASA Management Response

Concur. NPD 1200.1D is currently undergoing revision to incorporate the Agency's revised approach to internal control. The major elements of that new policy have already been communicated to senior management (i.e., the Senior Assessment Team and the Operations Management Council) as well as the various Agency points-of-contact for the



FY2007 Statement of Assurance process (now underway). We expect to issue a NASA Interim Directive (NID) no later than September 30, 2007 to ensure that the new policy is in place as we complete the Agency's FY2007 Statement of Assurance, and will submit the NID (as the basis for the new NASA Policy Document) for formal Agency review no later than December 1, 2007.

**OIG Recommendation**

2. Establish and adhere to a set schedule of when annual guidance will be disseminated. Guidance should be distributed as early in the fiscal year as possible to ensure that ample time exists for offices/Centers to effectively and efficiently implement the guidance. When establishing the distribution schedule, consideration should be given as to whether training may need to be offered if the guidance communicates significant modifications to the process.

**NASA Management Response**

Concur. This year's Statement of Assurance guidance was released by the Senior Assessment Team on July 3, 2007, approximately six weeks earlier than the previous year's guidance, providing each office/Center almost twice as long to prepare a response compared to FY2006. In future years, our schedule calls for the annual guidance to be released following the first quarterly meeting of the Senior Assessment Team, nominally scheduled for the March/April timeframe. Such a schedule will provide ample time for training and other required communications.

**OIG Recommendation**

3. Clarify in the guidance why there is a requirement for an internal control matrix and how the matrix will ultimately be used. Afterward, the matrix should be designed to support its purpose.

**NASA Management Response**

We concur that the control matrix featured in the FY2006 Statement of Assurance call letter and process was not accompanied by sufficient guidance regarding either the requirement for such a matrix nor the ultimate use of the matrix and the data contained therein. There is no plan, however, to use such a matrix in future internal control activities and we respectfully request that this recommendation be closed upon the issuance of the final memorandum.

**OIG Recommendation**

4. Provide a better example of an internal control matrix that is representative of the data being requested within the guidance to be included in the matrix.

**NASA Management Response**

We concur that the control matrix featured in the FY2006 Statement of Assurance call was not accompanied by an adequate example of representative data that was being requested for inclusion in the matrix. There is no plan, however, to use such a matrix in future internal control activities and we respectfully request that this recommendation be closed upon the issuance of the final memorandum.

**OIG Recommendation**

5. Develop and implement a training program for internal controls. When developing the program, OICMS should consider, at a minimum, the types of training to be offered (i.e. Federal related or NASA specific), the medium by which the training courses would be available (e.g. Web-based or instructor led), who should attend, whether the training course would be mandatory or elective, and, if mandatory, the frequency in which the course must be taken.

**NASA Management Response**

We concur that NASA's internal control activities will benefit from additional training of NASA managers and personnel. Our proposed training program will consist of three elements - general training in internal control (e.g., FMFIA, OMB Circular A-123, and the GAO's Standards for Internal Control in the Federal Government); training in the NASA-specific implementation of an internal control program; and specific functional training that may be required (e.g., in internal control over financial reporting). We intend to evaluate existing sources of general training in internal control and to make such training accessible to NASA employees, perhaps as part of the SATERN Learning Management System, during FY2008. During FY2008 we will also develop more detailed materials on the NASA-specific implementation of internal control and provide these materials in conjunction with the general training or as a separate session. A requirement for various functional offices to provide specific functionally-oriented internal control training will be incorporated into the new Agency internal control policy, mentioned above.

**OIG Recommendation**

6. Implement procedures to solicit formal feedback from the attendees after all training classes. Solicitation of feedback from attendees is beneficial in assessing training aspects such as content, relevance and depth. Based on feedback received, future training classes can be modified and improved, as necessary.

**NASA Management Response**

Concur. The SATERN Learning Management System, for example, has a built-in feedback feature that will be used to capture participant comments and suggestions for improvements. Training offered via other avenues will use appropriate feedback mechanisms.

**OIG Recommendation**

7. Establish well-defined lines of communication between itself and the rest of the agency. During the establishment of such communication lines, OICMS should consider, at a minimum, obtaining the names of the individual(s) responsible for overseeing the implementation of NASA's internal control program for each OIC/Center Director. Further, OICMS should consider developing a website for internal control related matters which is accessible by all agency personnel. The website could include, among other things, the Agency's policies and guidance, training opportunities, and frequently asked questions.

**NASA Management Response**

Concur. As part of the FY2007 Statement Assurance process, OICMS solicited and received such names from each of the required Headquarters organizations and Centers, and these individuals are now actively engaged in the Statement of Assurance process. Following the completion of that process we intend to use this group to maintain close communication with those organizations on the broader topic of internal control. In addition, the members on both the Senior Assessment Team and the Operations Management Council also serve as senior officials responsible for overseeing the implementation of NASA's internal control program. OICMS will continue to interact on a regular basis with both of these groups, and their inputs will be central to future refinements in the overall internal control program. With respect to an internal control website, OICMS is actively expanding its current website and will have updated content in place on a regular basis, but most notably by March, 2008 to support the roll out of the new Agency internal control policy and the FY2008 Statement of Assurance process.

**OIG Recommendation**

8. Establish and implement a quality control (QC) process to ensure that internal control assessments were properly performed, results were accurately reported, and sufficient documentation was maintained and retained. Implementation of a QC process would not only assist the Agency in assessing its compliance with Circular A-123 and FMFIA but also in identifying additional guidance or training which may be helpful to the offices/Centers as they execute the Agency's internal control program.

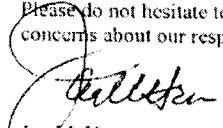
**NASA Management Response**

Concur. This, in fact, will be one of the primary responsibilities of the Office of Internal Controls and Management Systems. Beginning in November, 2007 (i.e., following the completion of this year's Statement of Assurance process), OICMS will begin a rotating review of responsible Headquarters offices and Centers. Each review will address the respective organization's compliance with Agency internal control policy and sound internal control practices, including - but not limited to - the appropriate performance of assessments, the accurate reporting of results, and the maintenance of sufficient documentation. Unless significant deficiencies in the Agency's compliance with its own

internal control policies are identified, we envision that each responsible organization will undergo such a review no less frequently than every other year.

Again, I appreciate the assistance that you have rendered in our efforts to improve the Agency's internal control program, and I trust that our responses to your recommendations are consistent with your overall intent.

Please do not hesitate to contact me on (202) 358-4741 if you have any questions or concerns about our responses.



Jay M. Henn