

CHAPTER 5. REPORTING ON THE ADEQUACY OF MANAGEMENT CONTROLS

- 5-1. **Purpose.** This chapter describes the preparation of the Secretary's Annual FMFIA Statement and the supporting statements from each POH (Primary Organization Head).
- 5-2. **Policy.** The Secretary must send a report to the President and the Congress by December 31 of each year (unless a waiver is granted by OMB) containing a statement on the adequacy of the Department's system of management control and compliance with the Comptroller General's principles and standards contained in GAO's Standards for Internal Control in the Federal Government.
- 5-3. **General Reporting Requirements.**
- A. The Secretary is required to provide an annual statement of reasonable assurance, which indicates whether the Department's systems of management control fully comply with standards prescribed by the Comptroller General.
 - B. Reasonable assurance is a judgment made by an agency manager based on all available information that the system of management control is operating in accordance with the FMFIA. The FMFIA and guidance issued by OMB and GAO do not require absolute assurance but want to establish a satisfactory level of confidence by management that controls are operating in an effective and efficient manner. The Department will report reasonable assurance for only those functional elements where management believes, based on risk assessments, MCRs, AMCRs, OIG and GAO audits, operating and financial data, and other information, that management controls are, in fact, adequate. All uncorrected material weaknesses will be reported as exceptions to the reasonable assurance statements.
 - C. The statement of reasonable assurance should also include a report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General and OMB.
 - D. Supporting statements provide the basis for the Secretary's Annual Statement on the adequacy of management controls and other information on material weaknesses. Supporting statements are required from:
 - 1. Each POH; and
 - 2. The CFO on the Department's compliance with the FMFIA.

5-4. **POH Reports.**

- A. Reports from each POH are to be submitted annually (usually by December 1) to the Secretary through the CFO, upon the CFO's written request, for the fiscal year just ended. Each report should contain a statement of assurance and a discussion of any identified weaknesses in management controls which the POH believes to be material for reporting to the President and the Congress. The CFO's Office will prescribe the format for the following required submissions:
1. Statement of Assurance. Each POH must prepare a statement of assurance that necessary steps have been taken to ensure that an evaluation of management controls has been performed in accordance with OMB and GAO requirements. Managers and supervisors should complete Exhibit 2-1 to support the POHs' annual statement of assurance.
 2. Summary of Material Weaknesses. Each POH must also include a summary which lists and describes all known material weaknesses. Planned corrective actions, a timetable, and organizational responsibility should be included as an attachment to the statement of assurance. The weaknesses reported should include all those identified as a result of MCRs, AMCRs, management reviews, risk assessments, and any applicable CFO, OIG, and GAO reviews or audits.
 3. Certification of Managers' Performance. Each POH must certify that managers' EPPES/EPAS include management control accountability and that annual evaluations measure performance against the standards.
- B. The CFO will review reports prepared by POHs to ensure that identified weaknesses are reported. Final decisions regarding the reporting of material weaknesses in the Department's annual statement to the President and Congress are made by the Secretary, on the recommendation of the CFO. Detailed guidance is provided each year by the CFO to ensure that the reports conform to current OMB guidance.

5-5. **CFO's Report.** The CFO must provide a written statement of assurance that an evaluation of management controls was performed Department-wide in a thorough and conscientious manner. This report will be transmitted to the Secretary and should be based on a limited review of the quality of evaluations performed. This statement should also highlight any concerns regarding the Department's overall compliance with OMB's Guidelines and GAO's standards. Backup material for this assurance will consist of details of the concerns highlighted in the general statement of the assurance letter, information from the Department's Accountability Report, and results of quality control reviews performed.

5-6. **Secretary's Annual FMFIA Statement.** The CFO is responsible for preparing for the Secretary the Annual FMFIA Statement to the President and the Congress. The Statement and all supporting material must be submitted annually to the Secretary during the first week of December. (Waivers are granted by OMB to delay such submission to be included in the Agency's Accountability Report.)

- A. Statement of Assurance. The format for the statement of assurance will be provided by OMB. All identified material weaknesses must be included in the statement. The

statement must also include plans and schedules for correcting the weaknesses, including the status of actions taken to correct weaknesses noted in prior reports.

- B. Report on Accounting Systems. The Secretary must also report on whether the Department's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General. These requirements are described in GAO's revised Statement of Accounting Principles and Standards for Federal Agencies. The CFO will provide this information.
- C. Supporting Material. The POH's annual statements and the CFO's statement constitute the supporting material for the Department's annual assurance letter. In providing input to the POH's annual statement, managers should complete Exhibit 2-1 (the HUD Risk Assessment Worksheet) for each program or administrative function under their purview. This process will assist managers in focusing attention on those areas with the highest level of risk to the Department. Please note that a high risk assessment score does not necessarily mean that a material weakness exists. The management control systems in place could be sufficient to mitigate the risks.
- D. IG's Review. Upon the request of the Secretary or the CFO, the IG may provide comments on the Secretary's annual statement as to whether the Department's management control evaluation process is adequate.
- E. MCCs are responsible for ensuring that all functional areas are covered and that program manager input and documentation are adequate to support their POH's statement.

5-7. Responsibilities.

- A. The Secretary is responsible for the issuance of the Annual Statement to the President and the Congress.
- B. The CFO is responsible for preparing the report on the Department's compliance with the FMFIA, transmitting the report to the Secretary and providing guidance to the POHs regarding its format and preparation.
- C. POHs are responsible for preparing annual reports described in paragraph 5-4 and certifying that managers' EPPES/EPAS and performance evaluations include management control accountability.
- D. IG may review the Department's annual statement and comment on the Department's compliance with FMFIA.