

**SUBJECT: POLICY FOR MEETING FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT REQUIREMENTS**

1. **PURPOSE:** This Order establishes policy for Secretarial (OST) Offices and Operating Administrations (OAs) to comply with the requirements of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).
2. **BACKGROUND:** The 1950 Budget and Accounting Procedures Act of 1950 (64 Stat 832) requires Federal managers to establish and maintain adequate systems of management control. Because of numerous instances of fraud, waste, abuse, and mismanagement, Congress passed the FMFIA. This Act requires the Head of each Agency to conduct an annual evaluation of its management controls (Section 2) and financial management systems (Section 4) and report the results to the President and Congress. OMB Circulars A-123 and A-127 (see REFERENCES) furnish guidance on complying with Sections 2 and 4, respectively.
3. **SCOPE:** This Order applies to all program and administrative offices of the Department of Transportation (DOT) and to all levels of management.
4. **POLICY:** Because OA and OST managers are in the best position to know and understand the nature of the problems they face, they will establish appropriate control mechanisms to ensure DOT resources are sufficiently protected from fraud, waste and abuse, and to meet the intent and requirements of the FMFIA and OMB Circulars A-123 and A-127. The mechanisms employed will provide reasonable assurance that the following objectives are met:
 - financial and other resources are safeguarded from unauthorized use or disposition;
 - transactions are executed in accordance with authorizations;
 - records and reports are reliable;
 - applicable laws, regulations, and policies are observed;
 - resources are efficiently and effectively managed; and,
 - financial systems conform with government-wide standards.

Annually, OAs and each OST office will report on the state of their management control systems in accordance with this guidance.

5. **RESPONSIBILITY.**
 - a. The Chief Financial Officer shall:

- (1) provide guidance for complying with reporting requirements of FMFIA Sections 2 and 4; and,
 - (2) prepare the consolidated DOT FMFIA annual report.
- b. OA and OST Managers:
- (1) will establish and maintain adequate management controls over the resources entrusted to them;
 - (2) will determine how best to meet the requirements of OMB Circulars A-123 and A-127, that is, to structure their internal management control systems in the most efficient and effective ways;
 - (3) are encouraged to vest accountability, responsibility and authority in their line managers to identify, assess, and monitor the controls over functional areas which are most appropriate and effective within the context of existing, limited resources; and,
 - (4) will periodically evaluate the control environment over the programs and resources for which they are responsible, and ensure that any deficiencies are corrected in a timely manner.
- c.. The Office of the Inspector General, as appropriate, will assess Departmental compliance with FMFIA requirements.

6. REPORTING REQUIREMENTS.

OAs and each OST office will submit to the OST Office of Financial Management an annual statement of assurance representing the OA or Office head's informed judgment as to the overall adequacy and effectiveness of management controls within his/her organization. FMFIA material deficiencies, material weaknesses, and material nonconformances, will also be reported. Appendix 1 defines these deficiencies and the criteria under which they become reportable. Each year, the OST Office of Financial Management will issue specific guidance for completing the end of year assurance statement and reporting on material deficiencies.

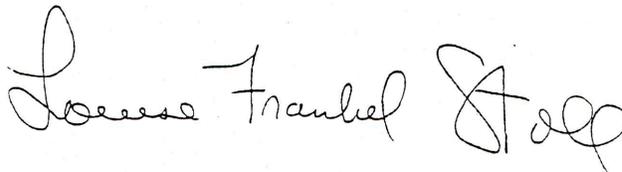
7. CANCELLATIONS.

- a. DOT Order 5100.4B, Department of Transportation Management Control Systems, April 16, 1991; and,
- b. DOT H 5100.4B, Management Control Guide, July, 1991.

8. REFERENCES.

- a. The Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255), 31 U.S.C. 1105, 1113, and 3512, which requires that the head of each executive agency conduct an annual evaluation and annually report to the President and Congress on the agency's system of management controls.
- b. OMB Circular A-123, Management Accountability and Control, dated June 21, 1995 which contains guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.
- c. OMB Circular A-127, Financial Management Systems, dated July 23, 1993 which prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

For the Secretary of Transportation:



Louise Frankel Stoll
Chief Financial Officer

**CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND MATERIAL
NONCONFORMANCES UNDER THE FMFIA**

A material weakness under Section 2 of the FMFIA must fall into one or more of the categories below plus merit the attention of the Executive Office of the President and the relevant Congressional oversight committees:

1. Significant weakness of the safeguards (controls) against waste, loss, unauthorized use or misappropriation of funds, property, or other assets.
2. Violates statutory authority, or results in a conflict of interest.
3. Deprives the public of significant services, or seriously affects safety or the environment.
4. Impairs significantly the fulfillment of the agency's mission.
5. Would result in significant adverse effects on the credibility of the agency.

A material nonconformance under Section 4 must fall into one or more of the categories below plus merit the attention of the Executive Office of the President or the relevant Congressional oversight committees:

1. Prevent the primary accounting system from centrally controlling financial transactions and resource balances.
2. Prevent compliance of the primary accounting system, subsidiary system, or program system with OMB Circular A-127.