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OFFICE OF MANAGEMENT AND BUDGET
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THE DIRECTOR

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M-18-16

MEMORANDUM TO THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Mick Mulvaney
Director

A handwritten signature in black ink, appearing to read "Mick Mulvaney", written over a horizontal line.

SUBJECT: Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*

As described in the President's Management Agenda, the use of data is transforming society, business, and the economy. The Federal Government must report high quality data to maintain the trust placed in it by the American people. To fulfill this mandate, and to achieve the goals of M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda*, the Office of Management and Budget (OMB) reexamined existing internal control reporting guidance to identify opportunities to reduce waste and burden on agencies, while balancing the need for transparency.

Pursuant to OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control (OMB Circular No. A-123)*, agencies are required to manage risk in relation to achievement of reporting objectives. This updated version of Appendix A, *Management of Reporting and Data Integrity Risk*, conforms to OMB Circular No. A-123. Prior to this update, Appendix A was prescriptive and rigorous in what agencies were required to implement in order to provide reasonable assurances over internal controls over financial reporting (ICOFR). This update balances that rigor with giving agencies the flexibility to determine which control activities are necessary to achieve reasonable assurances over internal controls and processes that support overall data quality contained in agency reports. OMB Circular No. A-123 provides a methodology for agency management to assess, document, and report on internal control over reporting (ICOR). As required by OMB Circular No. A-123 and Part 6 of OMB Circular No. A-11, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Performance Reports*, agencies must present their assurances in the agency financial report (AFR) or performance and accountability report (PAR), along with a report on identified material weaknesses and corrective actions. This memorandum includes a specific requirement for agencies to develop a Data Quality Plan to achieve the objectives of the Digital Accountability and Transparency Act (DATA Act) as described on page three below. This plan must be reviewed and assessed annually for three years or until the agency determines that sufficient controls are in place to achieve the reporting objective.

Background

Appendix A to OMB Circular No. A-123, *Internal Control Over Financial Reporting* (ICOFR) was issued in 2004. A reexamination of Appendix A was necessary in light of the 2016 update to OMB Circular No. A-123 and the 2014 update to the U.S. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (also known as the [Green Book](#)). A reexamination was also necessary in light of the implementation of recent statutory requirements, including the Data Accountability and Transparency Act (DATA) Act. The aims of this updated guidance are to: (1) effectively manage taxpayer assets, including government data; (2) improve data quality; and, (3) reduce burdens on agencies by shifting away from compliance activities and toward actions that will support the reporting of high quality data in support of data-driven decisions, Federal Government-wide management analyses, and transparency.

Agencies are subject to many legislative and regulatory requirements that promote and support effective internal controls. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 provides the statutory basis for management's responsibility for, and assessment of, internal controls. In addition, the Chief Financial Officers (CFO) Act of 1990 requires agency CFOs to, "develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls." 41 U.S.C. § 1702(b)(3) charges every Chief Acquisition Officer with "monitoring the performance of acquisition activities and acquisition programs of the executive agency [and] evaluating the performance of those programs." The requirements under the Federal Funding Accountability and Transparency Act of 2006 (FFATA), Pub. L. No. 109-282, 120 Stat. 1186-1190 (2006), as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), Pub. L. No. 113-101, 128 Stat. 1146 (2014), for reporting and posting certain data of Federal agency award-level and summary-level appropriations spending data on USASpending.gov, and the Fraud Reduction and Data Analytics Act of 2015 (FRDAA), Pub. L. No. 114-186, 130 Stat. 546-548 (2015), are recent examples that the Federal Government is moving towards increased transparency and usage of available data. OMB Circular No. A-123 requires agencies to integrate a risk-based approach towards meeting strategic, operations, reporting, and compliance objectives, all of which rely on high quality data being utilized internally and externally. At the heart of these initiatives is the need for higher quality data to support better data-driven decisions.

Pursuant to OMB Circular No. A-123, agencies are required to provide an annual assurance statement which represents the agency head's informed judgement as to the overall adequacy and effectiveness of internal controls within the agency related to operations, reporting, and compliance. In addition, OMB Circular No. A-123 expanded responsibilities for Federal managers beyond the CFO community to reinforce the purposes of FMFIA and the Government Performance and Results Act Modernization Act (GPRAMA), by requiring close collaboration from agency leadership (Chief Operating Officer and Performance Improvement Officer) across all agency mission and mission-support functions. Since the issuance of OMB Circular No. A-123's Appendix A, *Internal Control Over Financial Reporting* (ICOFR), in 2004, Federal agencies have made substantial progress in improving their internal controls over financial reporting. Continuing progress will help support the overall goal of program integrity and transparency in operations government-wide.

The following updates are being made to OMB Circular No. A-123's Appendix A:

- Aligns Appendix A to guidance in OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, in particular the integration of Internal Control Over Reporting (ICOR) with Enterprise Risk Management (ERM) processes and reasonable assurances over internal control, and with the Federal Acquisition Regulation requirements for the verification and validation of Federal procurement and procurement related data.
- Aligns Appendix A with the 2014 update to the GAO [Green Book](#) in part, by expanding the scope from ICOFR to include ICOR.¹
- Strengthens financial stewardship and accountability to meet management needs and provide transparency.
- Reduces burden and provides management with the flexibility to determine the manner in which the annual assurance over internal control over reporting is achieved.

New Requirement for Data Quality Plan

Spending data that is consolidated in an interoperable and consistent format not only provides visibility to taxpayers, but also enables Federal leaders to make informed decisions for mission accomplishment and positive performance outcomes. Since the implementation of FFATA in 2006, there have been meaningful and significant improvements towards transparency in Federal spending data. The passage of the DATA Act in 2014 and the focus on open data transparency has steered governance bodies, awarding agencies, and other stakeholders toward the common goal of producing quality, published spending data. Agencies are required to report spending data for publication on USASpending.gov on a recurring schedule. The financial attributes must be generated by the agencies' financial system of record, which must include the award identifier to link to the award data reported under the requirements of FFATA, as amended.² The quality of the information published in compliance with the DATA Act depends on agencies having effective (ICOR) for the input and validation of agency data submitted to USASpending.gov. The Administration encourages continued standardized approaches and data taxonomies that lay the foundation for automated reporting and efficient stewardship of taxpayer dollars across the Federal Government, such as Technology Business Management (TBM) for IT spend.

OMB Circular No. A-123 requires agencies to consider ICOR in addition to other controls in their existing annual assurance statements. This memorandum provides additional

¹ Section VI.H. of OMB Circular No. A-123 provides guidance on protecting classified matters from unauthorized disclosure.

² All Federal agencies must continue to assign a unique Federal Award Identification Number (FAIN) for financial assistance awards.

guidance to support that requirement as DATA Act reporting begins to mature. Agencies that have determined they are subject to the DATA Act reporting must develop and maintain a Data Quality Plan that considers the incremental risks to data quality in Federal spending data and any controls that would manage such risks in accordance with OMB Circular No. A-123. The purpose of the Data Quality Plan is to identify a control structure tailored to address identified risks. Agencies should leverage existing processes for identifying and assessing risks and reporting objectives as well as existing regulatory requirements over data quality for defined areas, such as procurement and procurement-related data.³ Agencies should also identify and eliminate duplicative and unnecessary processes that do not address identified risks. Quarterly certifications of data submitted by agency Senior Accountable Officials (SAO) should be based on the consideration of the data quality plan and the internal controls documented in their plan as well as other existing controls that may be in place, in the annual assurance statement process.⁴ Consideration of this plan must be included in agencies' existing annual assurance statement over ICOR beginning in fiscal year 2019 and continuing through the statement covering fiscal year 2021 at a minimum, or until agencies determine that they can provide reasonable assurances over the data quality controls that support achievement of the reporting objective in accordance with the DATA Act. The Data Quality Plan should cover significant milestones and major decisions pertaining to:

- Organizational structure and key processes providing internal controls for spending reporting.⁵
- Management's responsibility to supply quality data to meet the reporting objectives for the DATA Act in accordance with OMB Circular No. A-123.
- Testing plan and identification of high-risk reported data, including specific data the agency determines to be high-risk that are explicitly referenced by the DATA Act, confirmation that these data are linked through the inclusion of the award identifier in the agency's financial system, and reported with plain English award descriptions.⁶

³ Specifically, the existing processes for annual verification and validation of procurement data in the FAR. Additionally, consistent with terms and conditions of Federal awards, entities receiving Federal awards are required by 2 C.F.R. Part 25 and the Federal Acquisition Regulation (FAR) to submit accurate data to the System for Award Management (SAM) and the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) maintained by the General Services Administration (GSA). The quality of this data is the legal responsibility of the recipient. GSA provides an assurance statement that the systems are maintained appropriately and can therefore be used for public reporting. Agencies are responsible for assuring controls are in place to verify current registration in SAM at the time of the financial assistance award. Pursuant to 2 C.F.R. Part 200.513, agencies are responsible for resolving audit findings which may indicate if recipients are not complying with their requirements to register or report subawards. Agencies are not responsible for certifying the quality of data reported by awardees to GSA and made available on USASpending.gov.

⁴ Agency certifications should conform to specifications described in Management Procedures Memorandum No. 2016-03 available at: <https://obamawhitehouse.archives.gov/sites/default/files/omb/financial/memos/management-procedures-memorandum-no-2016-03-additional-guidance-for-data-act-implementation.pdf>.

⁵ Neither this memorandum nor any other requirement in this circular supersedes the Federal Acquisition Regulation Part 4.

⁶ Pursuant to Federal Funding Accountability and Transparency Act (FFATA), as amended by the DATA Act, agencies must provide full disclosure of Federal funds. Agencies must have controls in place to assure the data

- Actions taken to manage identified risks.

Consistent with the DATA Act, OMB and the Department of the Treasury will maintain existing DATA Act standards and will provide appropriate governance to maintain and adjust taxonomies for reporting.⁷

Conclusion

This memorandum is effective upon publication. Agencies are encouraged to take a maturity model approach towards implementation of Appendix A, with an emphasis on integrating internal control activities with the agency's Enterprise Risk Management (ERM) processes. OMB will work with agencies, the President's Management Council (PMC), other Executive Councils, and coordinate with the Council of Inspectors General on Integrity and Efficiency (CIGIE) to provide further implementation resources that illustrate best practices in each of these areas. Please contact Dan Kaneshiro (dkaneshiro@omb.eop.gov) or SpendingTransparency@omb.eop.gov in OMB's Office of Federal Financial Management with any questions regarding this guidance.

reported in accordance with the law meets the strategic objective of providing reliable information connecting financial information to awards for management decision making and for public accountability. Further, agencies should have controls to assure that award descriptions meet the standard of "[a] brief description of the purpose of the award." These data should be reported in accordance with the standards maintained by OMB and Treasury pursuant to FFATA, as amended by the DATA Act, available at <https://www.whitehouse.gov/omb/management/office-federal-financial-management/>

⁷ See footnote 6.

Appendix A, Management of Reporting and Data Integrity Risk

OMB Circular No. A-123 and OMB Circular No. A-11 define Enterprise Risk Management (ERM) as an enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides better insight about how to most effectively prioritize resource allocations to ensure successful mission delivery. ERM includes strategic, operations, reporting, and compliance objectives, and is an effective agency-wide approach to addressing the full spectrum of significant risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos. While agencies cannot mitigate all risks related to achieving strategic and performance goals, they should identify, measure, and assess challenges related to mission delivery, to the extent possible. This Appendix has no new requirements beyond OMB Circular No. A-123, and has flexibility for agencies to implement current requirements for controls over reporting.

Throughout the Appendix, the terms “must” and “will” denote a requirement that management will comply with in all cases. “Should” indicates a presumptively mandatory requirement except in circumstances where the requirement is not relevant for the agency. “May” or “could” indicate best practices that may be adopted at the discretion of management.

Internal Control Over Reporting Objectives⁸

Reporting objectives pertain to the preparation of reports for use by agencies and stakeholders. External reporting objectives may be driven by statutory requirements, or the need for integrity, accountability or transparent government data. Internal requirements generate internal reporting objectives and may be responsive to a variety of potential needs, including agency plans at strategic, operational or other various levels. The overall relationship among the four subcategories of reporting objectives can be illustrated and described as:

External financial reporting objectives. Objectives related to the release of the entity’s financial performance in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders.

External nonfinancial reporting objectives.⁹ Objectives related to the release of nonfinancial information in accordance with appropriate standards, applicable laws and regulations, as well as expectations of stakeholders.

Internal financial reporting objectives and nonfinancial reporting objectives. Objectives related to gathering and communicating information needed by management to support decision making and evaluation of the entity’s performance.

⁸ For considerations on managing privacy risks in Federal programs, see Section VII.A. of OMB Circular No. A-123.

⁹ This includes mission and mission-support data such as human resources, performance reporting, data posted to data.gov. See OMB Circular No. A-11, Part 6, Section 240 for applicability to agency Annual Performance Plans and Annual Performance Reports.

Figure 1 Illustrative Relationship within Reporting Category of Objectives



Note: Illustrative example, not exhaustive of all types of reporting objectives.

Note: Figure 1 is not exhaustive of all types of reporting objectives. The expansion from Internal Control Over Financial Reporting (ICOFR) to include Internal Control Over Reporting (ICOR) was already accomplished through the 2016 update to OMB Circular No. A-123, which introduced Enterprise Risk Management. Agencies must manage risk to reporting objectives.

Relationship to Agency Risk Profiles

OMB Circular No. A-123 requires agencies to identify and assess risk as part of the agency's risk profile. A critical component of developing the risk profile is the determination by management of those risks in which the application of formal internal control activities is the appropriate risk response. OMB Circular No. A-123 outlines criteria in which internal controls should be applied, including instances in which the risk identified by the agency's risk profile will have at least a medium impact on the achievement of agency objectives, and a medium likelihood of occurring. Agency management should utilize their risk profiles and apply the concepts of risk appetite and risk tolerance provided in OMB Circular No. A-123 when making assessments of risk to identify whether internal controls is an appropriate response. While this Appendix aligns with OMB Circular No. A-123's expansion of internal controls from financial reporting to all reporting objectives, leveraging the analysis of risk provided in the agency's risk profile across a portfolio view of the agency's objectives (e.g., strategic, operations, reporting, and compliance objectives) will allow an agency to effectively employ internal controls to only those reporting objectives where inaccurate, unreliable, or outstanding reporting would significantly impact the agency's ability to accomplish its mission and performance goals or objectives.

Materiality

Management has responsibility in determining risk to achieving reporting objectives and aligning the level of control activities to provide reasonable assurances over reporting. Generally,

materiality for controls over reporting is defined as the risk of error or misstatement that could occur in a report that would impact management's or users' decisions or conclusions based on the report. Management has responsibility for determining the materiality of internal control activities and whether these materiality thresholds align with the level of control activities needed to provide reasonable assurances. While government-wide standards and taxonomies establish required timelines for reporting, data definitions for accuracy and guidance on the universe of records required to be reported for completeness, agencies are responsible for determining the threshold of materiality to ensure controls are in place to manage risk in reporting data that achieves the reporting objective.

Methodologies to Improve Data Quality

Recognizing that the value of data as a Federal asset hinges on the reliability, validity and overall quality of the data itself, and consistent with OMB Circular No. A-123, agencies should leverage existing functions within the organization that currently monitor and assess risk. For government-wide reporting objectives, achieving improved data quality depends on the ability to report in accordance with the approved government-wide standards and taxonomy. Assessment of internal controls used to improve alignment with these standards may include procedures in the Independent Verification and Validation (IVV), service organization reviews, and the assessment of Internal Control Over Financial Reporting (ICOFR). These activities were previously included in Appendix A and may be retained as best practices. Data Reliability Assessments used in performance audits¹⁰ or Establishing Entity Level Controls using Shared Service Providers¹¹ may also be considered. Management has discretion to determine how and when to assess, test, document and correct deficiencies in order to provide reasonable assurances over ICOR objectives.

Requirements

All executive agencies are required by OMB Circular No. A-123 to integrate ERM processes and internal controls, and are required to include consideration of internal controls over reporting in their annual assurance statement. This update aligns ICOR with existing OMB Circular No. A-123 ERM efforts. This framework for internal controls over reporting may be phased in over several years as the agency's ERM process matures. As an agency's ERM process matures, the agency risk profile may begin to identify and link some enterprise risks with formal internal controls. As this integration occurs, management must include consideration of these controls in the OMB Circular No. A-123 assurance process.

Burden Reduction – Supersessions of Existing Guidance

In order to reduce administrative burden and confusion resulting from duplicative guidance, the following guidance documents are superseded as of the effective date of this Appendix. All

¹⁰ Assessing the Reliability of Computer Processed Data (GAO-09-680G)

¹¹ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, (2016), Section III.B1. Establishing Entity Level Controls and Service Organizations.

associated memoranda and guidance related to Appendix A are retained as best practices to be adopted at the discretion of management.

- OMB Circular No. A-123, Appendix A, *Internal Control over Financial Reporting* (December 21, 2004)
- OMB Memorandum: *OMB Circular No. A-123, Appendix A Implementation Plans* (August 1, 2005)
- OMB Memorandum: *Revised Frequently Asked Questions Regarding OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A* (April 13, 2006)
- OMB Memorandum: *Open Government Directive- Federal Spending Transparency* (April 6, 2010)
- OMB Memorandum: *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010)
- OMB Memorandum, *Improving Data Quality for USASpending.gov* (June 12, 2013)
- OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable* (May 8, 2015)