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BY THE U.S. GENERAL ACCOUNTING OFFICE

## Report To The Attorney General

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# First Year Implementation Of The Federal Managers' Financial Integrity Act By The Department Of Justice

GAO conducted a review of 22 federal agencies' efforts to implement the Federal Managers' Financial Integrity Act of 1982. The act was intended to help reduce fraud, waste, and abuse across the spectrum of federal government operations through annual agency self-assessment of its internal control and accounting systems.

This report highlights the progress made and problems encountered by the Department of Justice in its first year of experience with this new act. The report focuses on Justice's evaluation of internal controls, reviews of accounting systems, and the improvements being made as a result of identified problems.

GAO makes a recommendation where Justice could improve its internal control process by requiring its field office managers to play a more active role.



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

B-202205

MAY 8, 1984

The Honorable William French Smith  
The Attorney General

Dear Mr. Attorney General:

This report summarizes our evaluation of the Department of Justice's efforts to implement the Federal Managers' Financial Integrity Act and suggests specific actions which we believe will improve the Department's evaluation processes. This report is 1 of 22 federal agency reports with the primary objective of assessing agencies' processes for evaluating and improving systems of internal accounting and administrative control for reporting under the act.

This report contains a recommendation to you on page 23. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are providing copies of this report to the Director of the Office of Management and Budget. In addition, we will provide copies to the House and Senate Committees on Appropriations; the House Committee on Government Operations; the House Committee on the Judiciary; the Senate Committee on Governmental Affairs; and the Senate Committee on the Judiciary.

Sincerely yours,

*W. J. Anderson*

William J. Anderson  
Director



GENERAL ACCOUNTING OFFICE  
REPORT TO THE ATTORNEY GENERAL

FIRST YEAR IMPLEMENTATION OF  
THE FEDERAL MANAGERS' FINAN-  
CIAL INTEGRITY ACT BY THE  
DEPARTMENT OF JUSTICE

D I G E S T

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that an agency establish internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General and evaluate these controls in accordance with guidelines issued by the Office of Management and Budget (OMB). The act also requires that heads of executive agencies report to the President and the Congress annually on the results of their internal control system evaluations and provide a separate statement as to whether their accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

The General Accounting Office (GAO) undertook this review to evaluate the implementation of the FMFIA at the Department of Justice. GAO's review was limited to an evaluation of the implementation process. GAO did not attempt to independently determine the status of Justice's internal control systems or the extent to which Justice's accounting systems comply with the Comptroller General's principles, standards, and related requirements. GAO's review at Justice focused primarily on the Justice Management Division, Drug Enforcement Administration, Federal Bureau of Investigation, Immigration and Naturalization Service, Bureau of Prisons, and Office of Justice Assistance, Research, and Statistics.

YEAR-END STATEMENT AND REPORT  
APPEAR RESPONSIVE

The Department of Justice submitted its year-end statement and report on the status of its internal control system to the President and the Congress on December 29, 1983. In its report, Justice listed what it considered to be material weaknesses in its systems of

internal accounting and administrative control and identified plans and a schedule for correcting these weaknesses. The report format and language used by Justice followed OMB's suggested guidelines. (See pp. 15 and 16.)

PROGRESS MADE BUT MORE GUIDANCE  
NEEDED TO BETTER IMPLEMENT  
INTERNAL CONTROL PROCESS

The Department of Justice made progress in its first year effort to implement FMFIA. The preliminary policies and procedures needed for implementation were distributed to the Department's Offices, Boards, Divisions, and Bureaus. Although some improvements are needed, Justice has established an internal control evaluation process as required by the act.

Overall responsibility for implementation of the internal control process is at the Department level; however, the components generally developed their own policies and procedures for implementing the process. Justice provided limited guidance and allowed each component to implement the process by independently interpreting and following OMB guidelines. This decentralized approach resulted in the components carrying out the process in a manner which resulted in variations in implementation and the results achieved. (See pp. 9 and 10.)

GAO's review of the implementation of the process showed that

- some Justice activities were not covered by the process established to assess them;
- assessments of the vulnerability of Justice functions were useful, but improvements are needed;
- reviews of internal controls varied in quality and usefulness; and
- all follow-up and tracking systems are not yet in place. (See pp. 10 to 15.)

Also, GAO found areas in need of strengthening that relate to the implementation of the over-all process or involve more than one step in the process. These areas include

- developing a department-wide comprehensive training program,
- providing department-wide guidance on the type and extent of documentation required to support various steps in the process,
- strengthening the analysis of automated data processing internal controls,
- defining the role of the Justice Management Division's Audit Staff in the process, and
- expanding the involvement of field office managers in the FMFIA process.

Justice is currently working to strengthen its internal control evaluation process and has recognized the need to make most of the improvements identified by GAO. Except for directing its components to provide managers in the field offices with the expanded opportunity to participate in the process, Justice plans to address the above areas in future FMFIA guidance. GAO believes that field office managers could provide valuable insights into the operation of the internal controls in place, practices followed, and the quality of staff in certain positions. (See pp. 16 to 22.)

RECOMMENDATION TO THE  
ATTORNEY GENERAL

GAO recommends that the Attorney General incorporate in future FMFIA guidance a requirement that field office managers play an active role in the internal control process. (See p. 23.)

EFFORTS TO DETERMINE ACCOUNTING  
SYSTEM COMPLIANCE WERE REASONABLE  
BUT MODEST

Justice made a reasonable effort to assess the compliance of its eight accounting systems

with the Comptroller General's principles, standards, and related requirements. During its first year effort Justice has developed an inventory of systems and subsystems, compiled a list of deficiencies, and planned corresponding corrective actions.

In building on this first year effort, GAO believes that certain efforts should be made by Justice to enhance the success of future accounting system reviews. These efforts should include (1) developing a program for the evaluation of its accounting systems, (2) undertaking more extensive reviews so that the risks of not identifying material system deviations can be reduced, and (3) measuring the significance of deviations by testing and evaluating system and subsystem compliance with the Comptroller General's accounting principles, standards, and related requirements. The Justice Management Division's Finance Staff should be assigned an expanded role in the implementation of these efforts.

No formal training and minimal guidance and technical assistance were provided to the components during the first year effort. Justice officials did not consider training necessary and written guidance was not provided, although responses to components' questions were provided orally. In addition, documentation of components' system assessment efforts was lacking. GAO believes that future efforts in training, technical assistance, and guidance should be expanded as review activities grow and quality control needs arise. As a minimum, future efforts should include orientation on the act and relevant Comptroller General principles, standards, and related requirements; and the establishment of documentation standards. These efforts together should help ensure that accounting system reviews are consistent and sufficient for Justice to provide any necessary assurances. (See pp. 30 to 32.)

SIGNIFICANCE OF ACCOUNTING SYSTEM  
EXCEPTIONS LEADS TO QUESTION OF  
OVERALL SYSTEM CONFORMANCE

Based upon GAO's review of the exceptions included in the Department of Justice report



to the President and the Congress, several questions have arisen as to whether the Department's accounting systems, when taken as a whole, conform with the Comptroller General's principles, standards, and related requirements. Because GAO only reviewed Justice's accounting system evaluation process and did not review first hand the accounting systems, GAO was unable to take a position on the assurance provided by Justice that its accounting systems were in conformance. However, GAO urges that the exceptions identified be corrected during the coming year so that a more positive conformance statement for future reports can be fully supported. (See pp. 32 to 34.)

#### AGENCY COMMENTS AND GAO'S EVALUATION

The Department of Justice commented that this report presents a reasonable and balanced view of its efforts to comply with the requirements of FMFIA. Justice also recognized that the GAO staff provided encouragement and assistance during the development of its plan to further implement FMFIA. GAO has reviewed Justice's plan and believes its implementation should correct many of the deficiencies raised in this report.

Justice disagreed with GAO's recommendation that field office managers should actively participate in the internal control process. Justice's position is that requiring headquarters managers to consider field implementation of programs and administration is sufficient. Justice's position, however, does not provide for actual field manager input. OMB guidelines state that the internal control process should (1) provide complete coverage of all agency program and administrative functions and (2) include the individuals who operate the systems being reviewed. GAO believes that to fully achieve these goals it is necessary to obtain, in addition to the views of senior management, the input of field office managers. These individuals have first-hand knowledge of controls in place, the practices followed, and the quality of staff.

GAO's draft report made proposals on how Justice could enhance the success of future accounting system reviews. Justice has developed, in part with GAO's assistance, an implementation plan for improving its 1984-85 accounting system reviews. An analysis of this plan indicates that Justice is proceeding in the right direction to improve its accounting system reviews. GAO intends, in its continuing efforts, to monitor Justice's progress in implementing this plan and meeting the objectives described in our proposals.

Specific agency comments and GAO's evaluations are included on pages 24, 25, and 35. The full text of the comments appears in appendix II.

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## ABBREVIATIONS

ADP	Automated Data Processing
BOP	Bureau of Prisons
DEA	Drug Enforcement Administration
FBI	Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
ICR	Internal Control Review
IG	Inspector General
INS	Immigration and Naturalization Service
JMD	Justice Management Division
OBDs	Offices, Boards, and Divisions
OJARS	Office of Justice Assistance, Research, and Statistics
OMB	Office of Management and Budget

## CHAPTER 1

### INTRODUCTION

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. 3512 (b) and (c)) requires that an agency establish internal and administrative controls in accordance with standards prescribed by the Comptroller General and evaluate these controls in accordance with guidelines issued by the Office of Management and Budget (OMB). The act requires also that heads of executive agencies report annually on the results of those evaluations, including a separate statement as to whether their accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General. The General Accounting Office (GAO) assessed the processes followed by the Department of Justice during 1982 and 1983 to implement the act and evaluated the reports Justice issued in December 1983 on the results of that work.

#### FMFIA AND RELATED GAO PRINCIPLES AND STANDARDS AND OMB GUIDANCE

Management in each executive agency is required by the Accounting and Auditing Act of 1950 (31 U.S.C. 3512(a)(3)) to implement and maintain effective systems of internal control. The continuation of fraud, waste, abuse, and mismanagement in government despite that statutory requirement led to the FMFIA, which is intended to strengthen internal controls through annual reporting requirements that focus management attention on those controls.

The act requires each federal agency to establish systems of internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General, so as to provide reasonable assurance that

- obligations and costs comply with applicable law;
- funds, property, and other assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded, accounted for, and reported.

Each agency head is required to report annually to the President and the Congress beginning by December 31, 1983, on

whether the agency's systems of internal accounting and administrative control comply with the act. The act also provides for agency reports to identify any material weaknesses and describe plans for corrective action. Also, the act requires a separate report by each agency head on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

In December 1982, OMB issued guidelines that provide a basic approach for agencies to follow in evaluating, improving, and reporting on their internal control systems. In those guidelines OMB recommends a process for agencies to follow in evaluating their internal controls. That process calls for an agency, among other things, to

- develop an inventory of assessable units by systematically dividing or segmenting itself into organizational components, programs, and administrative functions for evaluation;
- conduct vulnerability assessments to assess the susceptibility of each assessable unit to the occurrence of waste, loss, unauthorized use, or misappropriation; and
- use the vulnerability assessment results and other information, such as resource availability and management priorities, to determine an appropriate course of action. One course of action emphasized by OMB is the internal control review (ICR), which is a detailed examination of a system of internal controls to determine whether adequate control objectives have been established and whether control techniques exist and are functioning as intended.

In June 1983, GAO issued 12 standards to be followed by executive agencies in establishing and maintaining systems of internal control. The standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated, including the following:

- Reasonable Assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.
- Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

- Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.
- Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
- Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
- Prompt Resolution of Audit Findings. Managers are to promptly evaluate findings and recommendations reported by auditors, determine proper actions in response to audit findings and recommendations, and complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management's attention.

In April 1983, to facilitate preparation of the annual reports dealing with accounting systems, GAO issued a statement specifying the accounting principles and standards that must be used to meet the conformity requirement of the act. Those principles and standards were not new; they were previously documented in GAO's Review Guide for Federal Agencies Accounting Systems Designs, issued in January 1977, and in Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

This report on the Department of Justice is 1 of 22 reports on federal agencies' efforts to implement FPMIA.

#### THE DEPARTMENT OF JUSTICE

The overall mission of Justice is to enforce the law in the public interest, to represent the United States in all Supreme Court cases, to represent the federal government in legal matters generally, and to render, upon request, legal advice and opinions to the President and to the heads of executive departments. The Department is headed by the Attorney General of the United States. In FY 1984, Justice was funded for approximately 58,700 positions with a budget of about \$3.4 billion.

The Department is organized into 31 components consisting of 15 offices, 7 divisions, 6 bureaus, and 3 boards located throughout the country. The largest components in terms of their budgets are the Federal Bureau of Investigations (FBI),

Immigration and Naturalization Service (INS), Bureau of Prisons (BOP), and Drug Enforcement Administration (DEA). Following is a brief description of the responsibilities of these components.

- The overall objective of the FBI is to have a significant effect on criminal activity, to investigate civil matters in which the federal government has an interest, and to provide national security information to the Executive Branch. The FBI has about 20,000 positions and a FY 1984 budget of over \$1 billion.
- The INS is principally responsible for the implementation of policy and the enforcement of laws related to immigration, naturalization, refugees, and those seeking asylum in the United States. The INS has over 10,500 positions and a FY 1984 budget of about \$500 million.
- The BOP is responsible for carrying out the judgments of the federal courts and providing offenders confined in its facilities with opportunities for self-improvement through education, vocational training, counseling, and a variety of other programs. It has about 10,000 positions and a FY 1984 budget of about \$500 million.
- The DEA enforces the controlled substances laws and regulations of the United States. These responsibilities include, among other things, investigating major violators who operate at interstate and international levels; regulating laws governing the manufacture, distribution, and dispensing of licit controlled substances; and coordinating with other enforcement authorities. The DEA has over 4,000 positions and a FY 1984 budget of over \$290 million.

The Attorney General directed the Assistant Attorney General for Administration, head of the Justice Management Division (JMD), to coordinate and oversee compliance with and implementation of the internal control program within the Department. JMD is responsible for coordinating the department-wide effort of evaluating, improving, and reporting on internal controls and accounting systems in conformance with the OMB guidelines and GAO principles and standards. Also, JMD will provide the assurance to the Attorney General that these processes were conducted in accordance with those guidelines, principles, and standards.



## OBJECTIVES, SCOPE, AND METHODOLOGY

We performed this review to evaluate the implementation of FMFIA at the Department of Justice. We conducted our study in accordance with generally accepted government audit standards. Because our first year review was limited to an evaluation of the implementation process, we did not attempt to independently determine the status of Justice's internal control systems or the extent to which Justice's accounting systems comply with the Comptroller General's principles and standards. Our review focused on the Department's efforts to (1) assess itself under the provisions of the act, GAO principles and standards, and OMB guidelines; and (2) develop plans for any necessary corrective actions.

The specific objectives of our review were to

- assess the Department's process for evaluating and improving internal accounting and administrative control for reporting under the act, and
- evaluate the annual reports required by the act, including the material internal control weaknesses listed and accounting system variations reported.

We reviewed background material on the implementation of FMFIA, including the act, OMB Internal Control Guidelines and relevant circulars, GAO's Standards for Internal Control in the Federal Government, applicable Comptroller General memorandums and reports, and Justice internal audit reports. We reviewed OMB's report and other documents gathered by OMB during its review of FMFIA implementation. We also reviewed the reports sent by the Department of Justice to the President and the Congress.

We interviewed officials responsible for implementing FMFIA at the DEA, BOP, INS, FBI; United States Attorneys Office; United States Marshals Service; Office of Justice Assistance, Research, and Statistics (OJARS); Office of Professional Responsibility; and JMD. Within JMD we interviewed the Deputy Assistant Attorney General for Administration, the official who headed the committee initially responsible for implementation of FMFIA; Office of the Controller staff who, since March 31, 1983, have been responsible for overseeing FMFIA implementation; and Department Audit Staff officials.

To provide insight into the performance of the internal control process, we concentrated our review on (1) evaluating

the role played by the coordinating committee and JMD in overseeing the implementation of the act and (2) reviewing in detail the internal control process at the four largest Justice components. In these components--the DEA, BOP, INS, and FBI--we reviewed applicable policies and procedures and analyzed budgets and organization charts.

These four components were selected because they contain 187 of the 534 total assessable units at Justice and 39 of the 47 highly vulnerable assessable units. (See App. I.) The four components represent about 67 percent of the FY 1984 budget expenditures and employ about 75 percent of the estimated FY 1984 personnel.

In the four components we completed detailed reviews of 22 vulnerability assessments: 5 each at the BOP, DEA, and FBI; and 7 at the INS. We chose seven at the INS because one of the functions we examined, vehicle management, had three separate vulnerability assessments. We used the following criteria to select the 22 assessments we reviewed in detail. We selected from each component

- two assessable units having programs/functions common to all four components, namely travel and procurement;
- two assessable units for which we identified a number of significant recommendations from GAO and Justice Audit Staff reports issued since FY 1981; and
- one assessable unit that we selected based on our overall knowledge of the vulnerability of certain areas of agency activity.

We reviewed all available ICRs in the four selected components. At the completion of our audit work, on January 9, 1984, the components were at various stages in completing their scheduled ICRs. The INS had completed all 22 of its planned ICRs; BOP had substantially completed all 8 of its planned ICRs; DEA had a draft report on 1 ICR on a sub-program of 1 of the 5 assessable units it had scheduled for review; and the FBI did not schedule any ICRs.

We reviewed at the BOP, DEA, INS, and FBI the tracking and follow-up systems developed for monitoring the progress of corrective actions identified by vulnerability assessments and ICRs. We also discussed with Department officials their plans to monitor and track the progress of corrective actions.

Our review of section 4 accounting systems compliance was conducted at six components--BOP, DEA, FBI, INS, JMD, and

OJARS--that were responsible for all eight Justice accounting systems. In these components we interviewed the officials who responded to and reviewed the accounting system questionnaires Justice used to gather system information and support the year-end certification statements. We reviewed the completed accounting system questionnaires and the certification letters to the President and the Congress that noted the deficiencies identified during the evaluation process. We also compared the questionnaire to the April 18, 1983, Statement of Accounting Principles and Standards for Federal Agencies issued by the Comptroller General. Finally, we interviewed officials and reviewed the tracking and follow-up systems at the six components that will be used to monitor the progress of corrective actions related to identified accounting system deficiencies.

In the Atlanta, Dallas, and Philadelphia regions, we interviewed officials in the field offices of the BOP, DEA, INS, and the FBI. We obtained their views on the implementation of FMFIA, examined documents available in the field, and analyzed organization and budget documentation.

## CHAPTER 2

### PROGRESS MADE BUT MORE GUIDANCE NEEDED

#### TO BETTER IMPLEMENT FMFIA

The Department of Justice made progress in its effort to implement FMFIA. It promptly established an internal control evaluation process, made responsible officials accountable for the process, and distributed to the components basic information on what was expected in implementation of the process. The Department used a decentralized approach that while giving autonomy to its components, contributed to the components having varying degrees of success in implementing the process. Justice generally allowed each component to implement the process by independently interpreting and following OMB guidelines. Our review of the four largest Justice components showed that variations existed in (1) how the components implemented the act and (2) the results achieved.

Over the next 2 years, the Evaluation Staff of the Department's JMD will be providing more central guidance to the components and plans to implement a department-wide reporting and follow-up system. These changes should result in better and more uniform implementation of the process.

#### FMFIA WAS IMPLEMENTED ON A DECENTRALIZED BASIS

The Attorney General has expressed support for the internal control evaluation process and the need to have senior management officials responsible for planning and implementing the process. He directed the Assistant Attorney General for Administration to coordinate and oversee compliance with and implementation of the internal control evaluation process. Each component head was directed to designate a senior management official to be responsible for planning, implementing, and coordinating the process. Although the Assistant Attorney General for Administration placed responsibility for coordinating the internal control process in JMD, the components generally developed their own informal policies and procedures for implementing the process.

#### High level officials responsible for FMFIA

The Attorney General and the heads of the components that we reviewed assigned responsibility for the internal control

evaluation process at sufficiently high levels. The Assistant Attorney General for Administration was designated to direct the Department's compliance with the process. This responsibility was initially fulfilled by a committee headed by a full-time special assistant. He later transferred this function to the Evaluation Staff in JMD which continues to have direct responsibility for overseeing implementation. In each component that we reviewed, the officials responsible for FMFIA report directly to the head of the component or his deputy. Our review showed that they have the responsibility and authority to assure effective action. These officials delegated the day-to-day management of the FMFIA process to individuals on their staffs. The involvement of the designated high level officials varied considerably among components. For example, at BOP, the designated Assistant Director was involved and familiar with each aspect of the internal control process, while the designated Assistant Administrator at DEA was much more removed.

Department-wide guidelines  
not established

Department-wide policies and procedures were not established for all phases of the internal control evaluation process, especially for internal reporting and follow-up systems, documentation, and quality assurance. The Department has taken some actions concerning follow-up systems and quality assurance, but these can only be considered preliminary, and more guidance is needed. However, we did find that some actions have been taken in these areas by the components.

Our review of the guidance developed in the four Justice components showed that they generally interpreted OMB guidance independently and established their own procedures without a department-wide perspective. Because of this independence, the components demonstrated varying degrees of success in implementing the internal control process. Although the BOP, DEA, FBI, and INS have not developed overall written policies for implementing FMFIA, they are in most cases planning to do so.

The Department has taken some positive steps in providing policies and procedures. First, it provided the OMB guidelines to the components. Second, the Assistant Attorney General for Administration issued memorandums that, among other things, requested the components to submit data on any weaknesses identified and corrective actions planned as a result of the FMFIA process. This information will become the basis for the planned department-wide follow-up and tracking system. Also, the components are planning review processes to

assure quality and consistency for their internal control evaluation process. Finally, the Audit Staff conducted a series of limited reviews at the Justice components to test the implementation of the requirements of OMB Circular A-123 and FMFIA. These reviews provided some quality assurance.

DECENTRALIZED APPROACH  
RESULTED IN MIXED SUCCESS

Justice's decentralized approach resulted in the offices, boards, divisions, (OBDs) and bureaus generally developing, with the help of OMB guidelines, their own methodologies, policies, and procedures for implementing FMFIA. In carrying out this approach Justice issued limited guidelines to its components.

Our review of the implementation of the process at four components showed that, among other things,

- some Justice activities were not covered by assessable units;
- vulnerability assessments were useful, but improvements are needed;
- internal control reviews varied in quality and usefulness; and
- all follow-up and tracking systems are not yet in place.

The components reported the results of their internal control processes at year-end to the Attorney General through the Assistant Attorney General for Administration. JMD consolidated these results for year-end reporting purposes.

Some Justice activities not  
covered by assessable units

Each component within the Department developed its own inventory of assessable units for conducting vulnerability assessments. OMB guidelines provide for the inventory of assessable units to cover all program and administrative functions. The individual assessable units are to be of an appropriate nature and size to facilitate the conduct of a meaningful vulnerability assessment. The guidelines generally exempt policymaking activities, statutory development, and other like functions from this requirement.

The Department of Justice identified a total of 534 assessable units. The components' inventories were made along both organizational and functional lines. Our review of four components showed that three of them, either by design or oversight, did not give their organizations comprehensive coverage when establishing their assessable units. For example,

--DEA omitted some staff offices, divisional field offices, and some offices in the Operations Division, particularly the Investigative Sections, from its inventory. Officials stated that many offices were omitted due to a lack of resources, the newness of some offices, and the belief that some offices are more critical than others. DEA field officials cited 15 additional areas that they believe should have been included in the inventory. DEA plans to update its inventory of assessable units during the next FMFIA evaluation cycle.

--INS omitted areas that had a limited resource commitment. These areas included the Offices of the General Counsel and Plans and Analysis.

--BOP's inventory of assessable units covered its operational divisions, but the Executive Office and some functions in the General Counsel and Review Office were omitted. At our suggestion, BOP is creating new assessable units to cover the areas omitted.

We had little basis to question the appropriateness of the size of assessable units. However, we noted that DEA found the five assessable units that it has scheduled for ICRs to be too large and is dividing them into sub-programs for the reviews. Each unit has been divided into as many as seven sub-programs, so that DEA may potentially conduct 25 ICRs.

Vulnerability assessments useful  
but improvements needed

Generally, we found that the vulnerability assessments conducted by the components were (1) useful in determining whether or not subsequent actions were necessary and (2) conducted in compliance with OMB guidelines. OMB guidelines provide for an overall methodology to be used by management in performing vulnerability assessments. These include the analysis of the general control environment, analysis of inherent risk, and preliminary evaluation of safeguards. Within these steps, several factors must be considered when making the overall evaluation. For instance, the guidelines

suggest that management attitude be assessed in the analysis of the general control environment. Although we found the components' overall methodology to be consistent with OMB guidelines, each component omitted some factors that we believe should have been included.

The vulnerability assessments we reviewed appeared to be useful to the Department and the components that performed them. In addition to identifying areas needing subsequent actions, the experience of performing the assessments should provide component staff with helpful experience for the next cycle. The results of the assessments were generally reported through the components' normal organizational lines.

The components primarily relied on OMB guidelines for instructing their personnel on the performance of vulnerability assessments. Although this resulted in some consistency within the Department, we found no evidence that all components fully evaluated certain factors that we believe, and OMB guidelines indicate, were important in the performance of vulnerability assessments. For example, we noted that different levels of emphasis were placed as follows:

- The BOP vulnerability assessments contained a description of the scope of the assessable units, while the other three components provided little or no such information.
- The DEA, FBI, and INS only briefly mentioned or did not mention in their assessments management attitude, while BOP more comprehensively addressed this factor.
- The BOP, FBI, and INS provided some narrative supporting their evaluation of safeguards, while the DEA used only a check mark to indicate whether or not preliminary safeguards were in place.

#### Internal control reviews varied in quality and usefulness

OMB guidelines suggest several alternatives to following up on the results of vulnerability assessments. These alternatives include such options as the conduct of ICRs, training programs, audits, increased or improved monitoring procedures, and modifying procedures. We found that the most often used method of follow-up at Justice was the conduct of ICRs. Our review showed that Justice components demonstrated different approaches to conducting ICRs. We believe that because of a lack of department-wide guidance, these different approaches



resulted in ICRs that varied in quality and usefulness. OMB guidelines define an ICR as a detailed examination of an internal control system to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner.

The components planned and, in most cases, conducted ICRs for the units they rated as highly vulnerable. By December 31, 1983, internal control reviews had been performed for 70 percent (33 of 47) of those assessable units rated highly vulnerable in the Department, and formal plans for conducting ICRs had generally been established in the remaining units. Three (DEA, INS, and BOP) of the four components we reviewed conducted ICRs. The FBI did not conduct any ICRs because it believed that the vulnerability assessments it conducted did not identify problems significant enough to require the conduct of an ICR.

Our review of the components' ICRs considered such factors as management involvement, training, guidance, and the quality and usefulness of the reviews. We generally found that the personnel performing the reviews were either managers or staff members in the areas being reviewed. The involvement of the internal control officer in the process varied by component. The training provided or planned for personnel performing ICRs ranged from non-existent to fairly comprehensive (training is discussed in more detail on page 17), and the guidance provided by each component also varied along with compliance to that guidance. The quality and amount of information provided in the various reporting formats, and the amount of time spent on the reviews, gives some indication of the quality and usefulness of the ICRs. Overall, we believe BOP's reviews are the most useful.

BOP's reviews appear to provide useful reports and information for improving or establishing essential internal controls for BOP's highly vulnerable areas. A BOP program manager commented after conducting an ICR that

"This project proved to be an excellent mechanism to review the most basic processes. . . . While it was quite involved, the exercise was well worth the time and energy."

BOP's internal control officer assisted in training personnel, including field staff, for the reviews and closely monitored the results of the reviews. Its reviews were generally done in compliance with OMB guidelines, GAO standards, and BOP specifically developed instructions. BOP did not have an estimate of the staff days involved in conducting its ICRs.

Based on a limited review of the ICRs at INS, it appears doubtful that they will provide significant internal control information. INS' reviews did not generally comply with the OMB guidance, properly use OMB forms, and did not follow GAO standards and INS instructions. For example, nine of the ICRs relating to information systems did not analyze internal controls associated with current systems, future systems, or controls associated in developing systems. Seven ICRs were presented in a single package with documents concerning each ICR spread throughout the report. The report was presented as a summary of problems at specific locations rather than as a presentation of facts relating to each ICR, and as a result, it could not be determined if internal control weaknesses existed at one or two offices or if the control weaknesses were systemic and existed at all offices. The two ICRs conducted by the management group did not use the OMB suggested forms and did not identify event cycles, internal control objectives, control techniques, or testing results.

INS developed and completed a one-page summary form for each of the ICRs. The form provided for a brief summary of the results, staff conducting the ICRs, offices visited, and recommendations/corrective actions. The amount of time spent on a single ICR ranged from about 2 staff days to 23 staff days.

DEA had completed only one ICR, the report for which was in draft. The draft ICR report was generally comprehensive and extensive; however, we believe it placed too great an emphasis on future operations rather than the evaluation of current operations. Although the draft generally followed DEA and OMB guidelines, there was insufficient documentation to determine if it fully complied with GAO standards. A DEA official estimated that about 20 staff days were used to complete the draft ICR.

#### Follow-up and tracking systems not yet in place

Although Justice does not have a department-wide follow-up and tracking system in place, it has begun developing plans for one. JMD has requested the results of the components' efforts on FMFIA and will use the information to develop its system. Even though the Department did not issue any overall guidelines, the components have also begun planning and implementing their own follow-up and tracking systems. We reviewed the status of the systems at four components and found three of the four have a system in various stages of development. The FBI did not plan to develop a separate system for the FMFIA process because it plans to follow-up on and track corrective actions under existing management processes.

The Director of JMD's Evaluation Staff in a memorandum dated July 7, 1983, noted the importance of initiating action to strengthen the Department's tracking and reporting system. The Assistant Attorney General for Administration subsequently issued a memorandum dated August 18, 1983, identifying dates for reporting the results of the components' efforts on FMFIA to his office and to the Attorney General. These reports should provide the Department with the basic information needed to begin its planned follow-up and tracking system in 1984. The Department plans to issue guidance to the components in early 1984 that will include requirements for a quarterly reporting system.

None of the components we reviewed at the close of our review had an operating follow-up system. However, BOP and DEA were developing plans for scheduling vulnerability assessments and ICRs; identifying weaknesses; scheduling, tracking, and monitoring progress on corrective actions; and summarizing and reporting results to key officials. INS was using its ICR summary report form to follow-up and track corrective actions. The FBI plans to meet this requirement by relying on its inspection follow-up process to track and monitor any corrective actions planned as a result of the internal control evaluation process.

None of the three components conducting reviews is planning to integrate its FMFIA follow-up systems with its existing audit follow-up system as suggested in OMB guidelines. However, they stated that some coordination will take place. The opportunity for effective coordination appears to be best at BOP, since the Office of Inspections will follow-up on both processes. INS' inspection staff will receive copies of the ICR summaries and the inspection staff is expected to follow-up. DEA's Office of Inspections will receive the ICRs for review prior to implementation of corrective action.

#### YEAR-END STATEMENT AND REPORT APPEAR RESPONSIVE

The Department of Justice submitted its year-end statement and report to the President and Congress in a timely fashion. As required, Justice listed what it considered to be material weaknesses in its systems of internal accounting and administrative control and identified plans and a schedule for correcting these weaknesses. The format and language used by Justice followed OMB's suggested guidelines.

As part of the Justice process for preparing the year-end statement and report, the component heads were required to submit to the Attorney General individual written assurances

that appropriate evaluations of internal control systems had been performed. These written assurances, which listed material weaknesses, were provided before Justice issued its statement and report.

FMFIA provides for the inclusion in the annual statements of the executive agency heads that

". . . any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described."

In this regard Justice stated that it had reasonable assurance that, taken as a whole, it complies with the act's requirements. Along with this statement, however, Justice did disclose some material weaknesses for which corrective actions have either been taken or planned. The Department included two material weaknesses that were considered department-wide and seven that were attributed to specific components. The material weaknesses in internal controls and the related corrective actions attributed to the components included the need to review permanent travel advances, insufficient procedures to insure periodic grant reviews, insufficient contracting procedures for detention/care of inmates, and the need to better control administrative funds.

Our review of the component's written assurances raised some concern about the accuracy of their reporting. The Department in its overall year-end statement and report to the President and the Congress listed two department-wide material weaknesses--non-drug seized assets and legal process debts. We agree that these are significant weaknesses. However, our review of components' assurances showed that in the case of non-drug assets, which are an important part of the activities at the INS, FBI, Marshals Service, U.S. Attorneys' offices, and DEA, none of these components listed this area as a material weakness in their written assurances. DEA listed non-drug seized assets as a "potential material weakness". The fact that the Department in its overall year-end statement and report listed non-drug seized assets as a material weakness, while none of the components involved in this program identified it as a material weakness, leads us to question the effectiveness of the Justice written assurance process.

OTHER IMPROVEMENTS NEEDED TO ENSURE  
SUCCESS OF INTERNAL CONTROL PROCESS

Several important improvements are needed in the Department's internal control process. The improvements are either

relative to the implementation of the overall process or are cross-cutting elements that relate to more than one step. They include

- developing a department-wide comprehensive training program,
- providing guidance from the Department on the type and extent of documentation required to support various steps in the process,
- providing field offices more opportunity to participate in the process,
- strengthening the analysis of automated data processing (ADP) internal control, and
- defining a role for the Audit Staff in the process.

More comprehensive training is needed

While we found some training efforts by Justice to be timely, they were often limited in scope and duration. For example, department-wide training was limited to sessions held on April 14 and May 25, 1982. These meetings were held before passage of FMFIA but did center on issues related to OMB Circular A-123 on internal control systems. The sessions focused on developing inventories of office functions subject to internal controls and the performance of vulnerability assessments. However, the meetings were directed at high level officials and appeared to be more informative than instructive. The memorandums of the meetings generally indicated that they consisted of explanations of the process and the Department's expectations concerning implementation of the internal control process. The Department did not provide any training that focused on the performance of post vulnerability assessment activities, such as ICRs.

The components we reviewed generally initiated a formal training program for instructing their personnel. However, we found that the training varied in the amount and type of coverage. For example, vulnerability assessment training at INS consisted of a 2-day session attended by approximately 40 central office and field personnel and included the completion of sample vulnerability assessments. In addition, INS gave numerous 2-hour presentations and field conferences to explain A-123. The training at DEA included a 1 to 1-1/2 hour presentation and a 1-day workshop with sample cases. BOP and the FBI conducted 2- and 4-hour sessions respectively.

Component training on ICRs also varied widely. The sessions at BOP and INS both included field people while DEA did not. The length of the ICR sessions varied from a 1-to-2 hour session at INS to 16 hours at BOP. The FBI did not conduct any ICRs and, as a result, did not provide any training.

At these four components, we interviewed 30 staff members concerning the amount of training and guidance they received. Of these 30 staff members 6 stated that they had not received adequate instruction on how to conduct and document vulnerability assessments and ICRs. These 6 DEA and INS staff members were responsible for conducting 11 vulnerability assessments and 10 ICRs in areas such as accounting for funds, cash management, and travel.

#### Better documentation of the internal control process is needed

Our review of the internal control process showed that Justice needs to provide some department-wide guidance on documenting the process. We found that the amount and nature of the documentation provided to support the analyses and conclusions varied throughout the Department. OMB guidelines state that adequate written documentation should be maintained. In particular, documentation should be included in vulnerability assessments, internal control reviews, and follow-up actions. The guidelines further state that the purpose of documentation is to provide a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached. This information will be useful for validating the conclusions reached, evaluating the performance of involved personnel, and performing subsequent assessments and reviews.

The Department's components developed their own approaches to performing vulnerability assessments. Some components chose a basically quantitative approach (numerical score) in their rating documentations and provided little or no narrative to support their final ratings. For example, DEA evaluated the factor "degree of centralization" in the physical security assessable unit. The supporting written comment was simply "some decentralization." Also, DEA field officials informed us that they were concerned about the accuracy of some vulnerability assessments, but, partly because of a lack of documentation, were unable to specifically comment on the headquarters' analyses.

The components exhibited inconsistencies in vulnerability assessment documentation that are called for in the OMB guidelines. These include:

--DEA and INS did not require a description of the assessable unit and/or the program and administrative function involved.

--DEA and INS did not require the person who prepared the vulnerability assessment to sign the form, making it difficult to identify the individual who performed the assessment.

--INS' guidance stated that narrative comments were optional.

The components we reviewed had performed ICRs on most of their highly vulnerable units. We concentrated our review on the ICRs completed by INS and BOP. Overall we found the BOP reviews to be comprehensive and thorough and the INS reviews to sometimes lack documentation. Because of a lack of documentation it was difficult from the INS reviews to (1) determine what aspect of an assessable unit was included or emphasized by the ICR and (2) evaluate the specific factors that were the basis for the final conclusion.

Justice did not provide any specific guidance to its components concerning the development of follow-up and tracking systems. At the conclusion of our review the components were in the process of planning or initiating their own systems. As a result, we are unable to comment on their documentation efforts in this area.

#### Need to involve field staff in FMFIA process

The Justice components we reviewed provided field office staff with limited opportunities to participate in the FMFIA process. OMB guidelines state that an agency-wide inventory of assessable units should be developed to provide complete coverage of all program and administrative functions. Also, the guidelines state that the internal control process should include the participation of the individuals who operate the systems being reviewed. In a March 1982 memorandum, the Assistant Attorney General for Administration required that an inventory of assessable units must also be made of the principal field offices of each bureau as well as significant OBD installations. However, our review at the four major components showed that only INS included field participation in the assessment process; INS and BOP included their field offices in the ICR process.

We believe that Justice's internal control system could be improved by increasing field involvement in the FMFIA

process. Programs, administrative functions, and internal control systems can vary in design or operation among locations. As a result, it appears that an effective internal control evaluation process should include obtaining input from field office staff.

We interviewed field office staff at the BOP, DEA, INS, and FBI to obtain their views on the field role in the FMFIA process. Although a majority of the field office officials we interviewed stated that the headquarters assessments generally represented their views, some did not believe that the assessments accurately reflected the vulnerability of certain units in their offices. They believed that the assessments did not reflect their knowledge of the controls in place, the practices followed, and the quality of staff in certain positions. Also, some officials stated that the areas covered by some assessments were too broad to be effectively evaluated, and others stated the assessments only reflected the vulnerability of a unit from the headquarters perspective.

#### Analysis of ADP internal controls needs strengthening

The Department of Justice considered ADP internal controls to some extent during implementation of FMFIA. We concentrated our review of ADP on the four major components and JMD and found that all five components identified ADP, either functionally or organizationally, in their inventory of assessable units. However, Justice needs to improve several areas to ensure thorough, consistent coverage of ADP throughout the Department. We found that some programs and related ADP systems were overlooked during the FMFIA process. In addition, Justice did not always use its most knowledgeable ADP staff in implementing the process. Finally, Justice did not provide guidance or training on evaluating ADP internal controls.

Some Justice programs and related ADP systems were overlooked in the FMFIA process and ADP internal controls were not adequately considered in assessments of other programs. In DEA, for example, at least one major ADP system in the Office of Intelligence as well as a major automated information center under the same office were overlooked. Additionally, in BOP, DEA, and INS some internal controls over uses of ADP were not assessed.

In this first FMFIA cycle, Justice did not take advantage of its knowledgeable ADP management, security staff, or audit staff. Neither JMD nor DEA included their ADP experts in the process to identify all areas subject to review. Furthermore,



in all five components, ADP audit staff either did not exist or were not involved in the FMFIA process. We believe that the Department can improve its evaluations of ADP internal controls by involving more knowledgeable people in its evaluation process. ADP managers, security staff, and auditors, because of their knowledge of ADP operations and internal controls, can contribute to organizing and planning the effort by identifying ADP resources and applications that might otherwise be overlooked. Furthermore, they can prepare guidance on evaluating ADP internal controls and should conduct or review vulnerability assessments and internal control reviews of ADP activities as well as activities supported by ADP systems.

Justice also did not provide training or guidance on evaluating ADP internal controls during the FMFIA process. For example, in all five components, ADP management believed the responsibility for assessing internal controls over ADP uses rested with ADP system users. However, Justice did not formally communicate that responsibility to system users and did not provide guidance or training on the importance of evaluating ADP internal controls. We believe that by providing more training and guidance Justice can improve its evaluations of ADP internal controls and help assure more consistent and adequate coverage of ADP in vulnerability assessments and internal control reviews. Also, this will help prevent confusion over responsibility for evaluating ADP internal controls. The guidance should identify and explain ADP internal controls in terms understandable to the non-ADP professional. Also, it should clearly identify the type of ADP internal control to be evaluated by the Justice Computer Service, ADP offices in individual components, and ADP systems users.

Finally, we believe that Justice can improve its evaluations of ADP internal controls by (1) better defining the activities conducted for ADP internal control purposes (OMB Circular A-123) and ADP security safeguard purposes (A-71, Transmittal Memorandum No. 1) and (2) clarifying the relationship between the two. In two components, the DEA and FBI, efforts to implement the two circulars were not coordinated. As a result, in DEA, ADP security did not appear to be completely assessed, and the FBI's A-123 evaluation of ADP security did not appear to be coordinated with work already performed under earlier A-71 risk analyses. Although analyses performed for purposes of evaluating security safeguards are not sufficient to be substituted for the ADP internal controls requirements, this work can supplement the Department's internal control program.

A need exists to clearly define  
the role of the Audit Staff

A formal, documented role has not been established for the Justice Audit Staff. OMB guidelines and Circular A-123 encourage the performance of certain tasks to ensure that the objectives of the internal control evaluation process are met. These tasks include encouraging the senior audit official to (1) provide technical assistance in the agency's effort; (2) advise the agency head on whether the agency's internal control evaluation process has been conducted in accordance with the Internal Control Guidelines; and (3) coordinate audit efforts with the agency's internal control evaluation, improvement, and reporting process.

Our review at Justice has shown that, when these tasks were carried out, they were done so on an ad hoc basis. Although the Audit Staff played a role in the process, it was not given a formal, defined role in FMFIA implementation. We found no evidence that the Audit Staff either was requested to or provided technical assistance to Justice components. The Audit Staff, although not requested or required by Department policy, did conduct a series of independent audits and advised the Attorney General on the status of the Department's implementation of the internal control process. Finally, we did not find any evidence that the Audit Staff, Department, or any of its components coordinated internal control review efforts.

We believe that responsibility for carrying out these tasks should be formally established within the Department's Audit Staff. The assignment of such responsibility to the Audit Staff should be made in such a way that it would not conflict with its responsibility to conduct independent audits.

CONCLUSIONS AND PLANNED EFFORTS

Although the Department of Justice made a reasonable effort to implement the internal control evaluation process, we found areas in which improvements could be made. A decentralized approach and a lack of guidance have contributed to the components having varying degrees of success in implementing the process. In response to this situation, Justice plans to issue department-wide guidance that should result in a more uniform approach to the process. According to Justice officials, this guidance will include

--ensuring a thorough department-wide training effort;

- requiring and maintaining comprehensive, understandable, and consistent documentation of the process, especially in the vulnerability assessments and internal control reviews;
- ensuring comprehensive coverage of the components through their assessable units;
- recognizing the need for an adequate review of ADP internal controls in the process;
- completing a tracking and follow-up system, which should provide a focal point for information on the entire internal control evaluation process; and
- defining the role of the Audit Staff in the internal control evaluation process.

Justice has begun to implement its plans to provide more guidance to its components. JMD's Evaluation Staff has already conducted a department-wide planning meeting for the internal control officers. Also, it has developed a 2-year plan for issuing instructions, reviewing components' plans for implementation, and requiring status reports on components' actions to improve their internal control evaluation process. The plans and schedules appear suitable, and if implemented as indicated, should result in Justice being able to provide more meaningful and reasonable assurance statements in future years.

There is one area, however, that the planned guidance does not adequately address. The guidance does not include a role for field managers in the internal control process. Although the guidelines require that field operations and the implementation of programs in the field be considered in the process, they do not provide for the direct involvement of field office managers. Based on our discussions with field office managers and their potential for constructive input, we believe that such a requirement should be included in the Justice guidance.

RECOMMENDATION TO THE  
ATTORNEY GENERAL

We recommend that the Attorney General incorporate in future Department guidance on the implementation of the internal control process, a requirement that the components provide field office managers with the opportunity to participate in the process. However, we recognize that their level of participation may vary to some degree based on the extent to which a component's operations are decentralized.

## AGENCY COMMENTS AND OUR EVALUATION

The Department of Justice generally agreed that our report presented a reasonable and balanced view of the Department's efforts to comply with the requirements of FMFIA. Its comments recognized that our report demonstrated an awareness of Justice's weaknesses as well as the progress made implementing its internal control process. The Department has developed an expanded implementation plan, in part with our assistance, that it believes will result in it more fully complying with the requirements of the act. After reviewing this plan, along with the related draft order and guidance, we agree that these improvements should result in a more effective internal control process.

Justice disagreed with our recommendation that field office managers play an active role in the internal control process. Justice believes that requiring headquarters managers to consider field implementation of programs and administrative functions is sufficient. This position, however, does not provide for field manager input. OMB guidelines state that the internal control process should (1) provide complete coverage of all program and administrative functions and (2) include the individuals who operate the systems being reviewed. We believe that to fully achieve these goals it is necessary to obtain, in addition to the views of senior management, the input of field office managers. These individuals have first-hand knowledge of controls in place, the practices followed, and the quality of staff.

Justice also commented that the order and guide that it plans to issue will include a role for its Audit Staff like the one suggested in our draft report. Our review of these documents showed that the activities we identified for the Audit Staff would be undertaken with the implementation of the proposed order and guide.

Justice commented that DEA did not involve field operations in vulnerability assessments or ICRs because of its newly adopted central control management organization. This comment was made relative to our finding that DEA did not include certain staff offices, field offices, and some offices in the Operations Division in its inventory of assessable units. OMB guidelines specifically state that organizational functions and offices such as these are required to be included in the inventory of assessable units. It appears that Justice has confused the need to include, during the segmentation phase of the process, all of its organizational functions in its inventory of assessable units with field

office participation during the vulnerability assessment and ICR phases of the process. Our position continues to be that DEA did not include certain of its functions in its inventory of assessable units and that this situation should be corrected.

The full text of the Justice comments is included as appendix II.

### CHAPTER 3

#### EFFORTS TO DETERMINE ACCOUNTING SYSTEM

#### COMPLIANCE WERE REASONABLE BUT MODEST

The Department of Justice made a reasonable effort to assess the compliance of its eight accounting systems with the Comptroller General's principles, standards, and related requirements. We believe that Justice's first year effort, although modest, was sound given the short timeframe during which the assessment was made.

The Comptroller General, in the absence of OMB guidelines, made a September 29, 1983, speech that presented some constructive actions for agencies that he believed were needed to implement the act in the best way possible during the first year. These actions generally called for each agency to begin now to organize itself, assign responsibilities, and establish policies and procedures for future years efforts. The Finance Staff in Justice's JMD was delegated the responsibility for assessing component compliance. Its effort primarily consisted of sending self-assessment questionnaires to the components for completion. The components were generally responsive in completing and returning the questionnaires. We believe that this effort successfully resulted in Justice meeting many of the goals established by the Comptroller General in that it had an inventory of systems and subsystems, a list of deficiencies, and scheduled planned corrective actions.

The Comptroller General further suggested that in building on this first year effort, agencies should begin such efforts as validating their inventory of accounting systems, initiating upgrades of systems, and documenting the overall accounting system structure. Our review showed that to further enhance its efforts and meet future goals, Justice needs to provide more technical assistance, training, and guidance to its components; develop documentation standards; and make a greater effort to evaluate the quality of the information it gathered.

Justice reported on December 29, 1983, to the President and Congress that with certain exceptions, taken as a whole, its accounting systems conform in all material respects to the principles, standards, and related requirements of the Comptroller General. However, the weaknesses identified by the Department are so significant and material that it is

questionable whether the Justice accounting systems, when taken as a whole, conform with the Comptroller General's principles, standards, and related requirements.

METHOD OF IMPLEMENTATION WAS  
SOUND UNDER THE CIRCUMSTANCES

We believe that the method used for implementing the accounting systems compliance section of the act was sound. JMD had overall responsibility for implementing the act and delegated the accounting system compliance portion to its Finance Staff. The Finance Staff carried out its responsibility by designing a questionnaire and overseeing its completion for the eight accounting systems operated by the six Justice components.

The questionnaire was designed as a self-assessment guide for each component to use. While it covered 16 broad areas, including cash, accounting, reporting, advances, inventories, and payroll, the depth of the component responses was modest. Most responses were merely a single yes, no, or check mark, and components generally did not elaborate on their responses. Justice implemented its program in 10 weeks and generally met the goals established by the Comptroller General.

Refinement of accounting  
systems inventory

All Department of Justice appropriations and funding sources are accounted for by one of the accounting systems included in the Justice inventory. The Finance Staff initially identified 12 separate accounting systems in the Department and its components. However, based on the Comptroller General's April 18, 1983, FMFIA accounting system definition, the staff revised the listing and determined 4 of the 12 systems to be subsystems or segments of larger administrative systems and did not review them. We agree that for purposes of this year's effort the systems were appropriately defined as segments or subsystems. A Finance Staff official stated that they plan to include the four subsystems in the next review cycle.

The following table identifies the eight accounting systems and the Department of Justice component responsible for each system.

Table 1

Department of Justice Accounting Systems

<u>Accounting systems</u>	<u>Department of Justice component responsible</u>
Legal Activities and General Administration	JMD
Centralized Payroll System	JMD
Bureau of Prisons Accounting System	BOP
Bureau of Prisons Commissary Accounting System	BOP
Drug Enforcement Administration Accounting System	DEA
Federal Bureau of Investigation Accounting System	FBI
Immigration and Naturalization Service Accounting System	INS
Office of Justice Assistance, Research and Statistics Accounting System	OJARS
 <u>Questionnaire approval appropriate under circumstances</u>	

The compliance review questionnaire developed by the Finance Staff generally included all of the principles and standards contained in the April 18, 1983, Comptroller General Statement of Accounting Principles and Standards of Federal Agencies. Questionnaires were completed for each of the eight accounting systems by component personnel who were responsible for operating the system. At five of the components, (BOP, DEA, FBI, JMD, and OJARS), which had highly centralized systems, the evaluations were performed at the headquarters level. At INS, which has a decentralized system, the regional offices participated in completing the questionnaire.

The questionnaire was designed to assure broad coverage of each accounting system. We reviewed the questionnaire contents and compared it to the Comptroller General's Statement of Accounting Principles and Standards for Federal Agencies. Our comparison showed that the questionnaire covered all but 6 of the over 180 principles and standards.

The approach and amount of resources used to complete the questionnaire were left to each component's discretion. We discussed with component officials the methods used to complete the questionnaires. These officials stated that the methods included (1) reviewing applicable policies and procedures, (2) interviewing system users, and (3) reviewing past audit reports to identify prior problems and evaluate their status.



Our review of the supporting documentation for the responses, however, showed the component's efforts to be modest and that many were simple yes, no, or check mark answers and included little supporting documentation. Furthermore, transactions or processes were not tested to determine whether the systems were operating in accordance with the Comptroller General's accounting principles and standards. For example, in response to a question in the cash area "Are two authorizing signatures required on all vouchers which exceed a stipulated ceiling?" JMD responded by stating "no" and providing no further documentation. We believe that a negative response to a question related to what could be the lack of an important internal control should be followed by either an explanation or planned effort to correct the deficiency.

Primarily due to time constraints, the Finance Staff's role was generally confined to questionnaire development and a rather limited review of the responses submitted by the components. The staff's major post-submission effort was limited to assuring that the components' assurance letters identified the deficiencies cited in the questionnaire. Also, we reviewed the components' assurance letters and generally found that they included open findings from prior GAO and internal audit reports.

Deficiencies identified by components  
were generally reported in assurance letters

The six component heads responsible for the accounting systems submitted letters to the Department stating that their accounting systems, with certain exceptions, conformed to the Comptroller General's principles, standards, and related requirements. The Finance Staff analysis of these letters generally concluded that the exceptions identified in the questionnaires were included in the assurance letters.

We reviewed component certification letters to see if problems mentioned in prior GAO and Justice internal audit reports were noted as deficiencies. Generally, we found that unresolved problems were cited as exceptions. For example, a 1977 GAO report on DEA stated that

". . . collections were not recorded, logged in or controlled in mailrooms, and headquarters did not always acknowledge receipt of collections sent in by the field. GAO also found that outstanding travel advances were not periodically reviewed, cashier duties were not properly segregated. . . ."

In its certification letter to the Attorney General, DEA cited the following among its list of exceptions:

- Financial supervision, definition of duties, and maintenance of internal controls have suffered.
- Incoming checks, drafts, and other negotiable instruments are not being listed as they are received by mailrooms.
- Travel advances have not been adequately controlled.
- Debt collection procedures do not provide for prompt follow-up or use of appropriate collection techniques.

EXPANDED INVOLVEMENT BY FINANCE  
STAFF IMPORTANT IN NEXT CYCLE

The Finance Staff effort to test first year accounting system compliance was limited but reasonable. We believe, however, that certain efforts should be made to enhance the success of future accounting system compliance reviews. These efforts should include (1) providing more guidance, training, and technical assistance to those who are conducting the compliance reviews; and (2) developing a program, including component participation, for evaluation and detailed testing of the accounting systems to determine if they are operating in compliance with the Comptroller General's standards, principles, and related requirements.

We believe that Justice, when planning future accounting system reviews, should expand the role of the Finance Staff. JMD's Finance Staff should be responsible for establishing department-wide guidance, training, and documentation standards. Also, we believe that the Finance Staff should establish a long range program, including component participation, for evaluating and testing accounting systems to determine their compliance with the Comptroller General's standards, principles, and related requirements.

Testing accounting system compliance  
and following up on reported deficiencies

We discussed with a Finance Staff official the extent to which the information submitted by the components was validated. He informed us that due to time constraints, the Finance Staff was unable to perform an in-depth analysis of the component questionnaires. He stated that tests were not conducted on the accounting systems to validate questionnaire results and the questionnaires were not examined to determine if similiar problems existed in more than one area.

Given the time constraints and lack of timely guidance we believe Justice's approach this first year was reasonable. However, to improve next year's system evaluation effort, Justice needs to test its systems and subsystems for compliance with the Comptroller General's accounting principles, standards, and related requirements by (1) establishing and documenting control objectives based on GAO's requirements, (2) identifying the techniques operating in the accounting systems to satisfy the specific control objectives, and (3) testing the critical techniques in operation to make sure they are effective in providing the necessary control to insure compliance with the principles and standards. By evaluating the accounting systems in this manner, Justice can reduce the risk of not identifying material system deviations and improve its ability to measure the significance of any deficiencies listed in the year-end report. We recognize that control testing is more resource intensive than assessing known deviations; however, priorities can be established for such testing.

The Finance Staff is developing a follow-up system to monitor the corrective actions prescribed for the deficiencies identified in the components' written assurances. In a February 1984 memorandum, the Deputy Assistant Attorney General, Office of the Controller, requested the components to report quarterly on planned corrective actions, projected target dates, and actions taken to rectify reported deficiencies. The first quarterly report is due on March 31, 1984, and reporting will continue until all deficiencies have been resolved. Also, at the conclusion of our review, some components were developing their own follow-up systems. We believe that the development of these systems will help ensure continued improvements in accounting system compliance.

#### Need for more guidance, training, and technical assistance

The Finance Staff provided no formal training and minimal guidance and technical assistance to the personnel conducting the accounting system compliance reviews. No written guidance was provided to the components; instead, the Finance Staff responded orally to questions raised by the components during their reviews. Officials stated that training was not considered necessary because responsibility to conduct the system reviews was delegated to personnel who operated the systems. We believe that this effort sufficed for the first year's accounting compliance review; however, the effort should be expanded for future accounting compliance reviews.

Future efforts for determining accounting system compliance will require an expanded role for the Finance Staff and a need to establish quality control policies and procedures to ensure the reliability of accounting system reviews. At a minimum these policies and procedures should include documentation requirements and an outline of the responsibilities and objectives to be met by the accounting systems reviewers. The documentation requirements should include information on the scope and methodology of the compliance review process, the source of the information gathered, and the conclusions reached. Documentation should ensure that a comprehensive written record be developed of transactions from the initial request for spending authority through the final reporting of financial results in program and administrative operations.

As Justice expands its program, we also believe that additional technical assistance and training are needed. The Finance Staff should oversee a training program for personnel involved in the review process to insure that they fully understand their responsibilities under the act, the process used to conduct compliance reviews, and the Comptroller General's principles, standards, and related requirements. Technical assistance should then be provided on a continuing basis to assure compliance with the guidelines and procedures issued by the Department.

#### ACCOUNTING SYSTEMS CONFORMANCE IS QUESTIONABLE

Based upon the significance of exceptions included in the Justice December 31, 1983, report to the President and the Congress, it is questionable whether the Department's accounting systems, taken as a whole, conform to the Comptroller General's principles, standards, and related requirements. However, we are unable to conclusively state whether the Department's accounting systems conform or do not conform because

- (1) the scope of our work was limited and did not include system review work;
- (2) the wording and tone of several significant deficiencies differed between how two components reported them to the Attorney General and how they were reported to the President and the Congress; and
- (3) some uncertainties exist in the Department's compliance letter itself due to the lack of overall guidance for completing the questionnaires and

determining the materiality of system deficiencies, and the limited nature of the documentation in and verification of the questionnaire results.

On December 29, 1983, Justice reported to the President and the Congress

". . . that the accounting systems of the Department of Justice operated during the year ended December 31, 1983, taken as a whole, conform in all material respects to the principles, standards, and related requirements of the Comptroller General, except as follows. . . ."

The report identified a total of 24 exceptions to the principles and standards. The exceptions disclosed in the report raise questions as to whether several of the Department's accounting systems are in full compliance with the Comptroller General's prescribed principles, standards, and related requirements in several important areas. For example, the FBI's program cost data were reported to be incomplete, and reconciliation of its property accounting system with its general ledger accounts is deficient. Also, DEA's system was reported to have insufficient property accounting, cost accounting, full accrual accounting, and general ledger subsidiary records. Internal controls are weak in several areas, and timely and reliable reports are not available from its financial data base. However, a DEA official stated the accounting system deficiencies as reported by the Department appear to be more serious than DEA represented in its accounting system assurance letter to the Attorney General. Based upon the different wording and tone of the two letters, we cannot fully determine the significance and materiality of the deficiencies without a more thorough review of DEA's accounting system.

Another example concerns two of the exceptions cited in the Justice report on the INS accounting system. According to the letter, INS cash disbursements were not entered into the system in the period in which they were incurred, and controls to ensure that revenue claims are promptly and accurately established and negotiated were reported to be inadequate. The significance of these two exceptions cannot be understated. These accounting system deficiencies could result in the following negative situations or the potential for them to occur would increase:

--Financial statements and reports used for internal and external reporting and control purposes would be inaccurate and incomplete because of corresponding mis-

statements in receivable, liability, obligation, or expense accounts.

- Understating the amount of funds returned to Treasury at year-end could occur because of misstatements in the amounts owed to the agency and in the amounts owed by the agency for delivered and undelivered goods and services.
- Receivables or advances could go uncollected because the receivable or advance record would not be established in the accounting records and INS would have no way to control the receivables and advances made.

The existing deficiencies represent significant internal control weaknesses and departures from the Comptroller General's prescribed accounting principles, standards, and related requirements. We are unable at this time to confirm the Justice compliance report, and we urge that the exceptions identified be corrected during the coming year so that a more positive conformance report for 1984 can be fully supported.

#### CONCLUSIONS

The Department of Justice made a reasonable but modest effort during its first year to assess the compliance of its eight accounting systems with the Comptroller General's prescribed principles and standards. Because of an early lack of guidance, the Department had only 10 weeks to complete its accounting compliance review. This effort was primarily implemented through completing a self-assessment questionnaire for each of the Department's accounting systems. We believe that this was a reasonable effort under the time constraints, but also believe that this effort must be expanded upon to enhance the reliability and quality of future efforts.

Our review of the exceptions included in Justice's assurance letter on accounting systems compliance has raised questions as to whether the accounting systems, when taken as a whole, conform to the Comptroller General's principles, standards, and related requirements. These questions are primarily based on the significance and materiality of some of the deficiencies listed in the assurance letter. We urge that the exceptions identified in the Justice statement be corrected so that in the coming year a more positive and supportable conformance report can be issued.

## AGENCY COMMENTS AND OUR EVALUATION

Justice stated that our report demonstrated an awareness of the weaknesses in the Department's accounting system review process and recognized the progress made in this area. In our draft report we made proposals on how Justice could expand upon its first year's effort and enhance the success of future accounting system reviews. These proposals related to the development of written guidance, establishment of a training program, provision of technical assistance, and testing of accounting systems for compliance. The Department has developed an implementation plan, in part with our assistance, for improving its 1984-85 accounting system reviews. We intend, in our continuing efforts, to monitor Justice's progress in implementing this plan and meeting the objectives described in our proposals.

Justice also commented that INS is aggressively pursuing a resolution of the two accounting system deficiencies noted in our draft report. We are encouraged by the INS plans to correct its deficiencies and hope that the other Justice components develop plans to pursue corrective actions.

SUMMARY OF THE DEPARTMENT OF JUSTICEVULNERABILITY ASSESSMENTS

<u>Component agencies</u>	<u>Total</u>	<u>Low</u>	<u>Moderate</u>	<u>High</u>
Office of Attorney General	4	4	0	0
Office of Deputy Attorney General	4	4	0	0
Office of Associate Attorney General	4	4	0	0
Antitrust Division	10	9	1	0
Bureau of Prisons	31	12	12	7
Civil Division	8	6	2	0
Civil Rights Division	11	9	2	0
Community Relations Service	43	43	0	0
Criminal Division	10	3	7	0
Drug Enforcement Administration	24	9	11	4
Executive Office for Immigration Review	1	1	0	0
Office for U.S. Attorneys	4	4	0	0
Executive Office for U.S. Trustees	21	15	4	2
Federal Bureau of Investigation	54	34	20	0
Foreign Claims Settlement Commission	3	3	0	0
Immigration and Naturalization Service	78	23	27	28
Intelligence Policy and Review	1	1	0	0
Interpol	7	7	0	0
Justice Assistance Research/Statistics	44	17	23	4
Justice Management Division	103	88	13	2
Land and Natural Resources Division	20	20	0	0
Office of Legal Counsel	1	1	0	0
Office of Legal Policy	7	5	2	0
Office of Legislative Affairs	1	0	1	0
Office of Pardon Attorney	1	1	0	0
Office of Professional Responsibility	4	4	0	0
Office of Public Affairs	4	3	1	0
Office of Solicitor General	2	1	1	0
Tax Division	5	5	0	0
United States Marshals Service	21	10	11	0
United States Parole Commission	3	3	0	0
Total all components	<u>534</u>	<u>349</u>	<u>138</u>	<u>47</u>





## U.S. Department of Justice

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April 17, 1984

Washington, D C 20530

Mr. William J. Anderson  
Director  
General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Anderson:

We are responding to your request to the Attorney General for the comments of the Department of Justice (Department) on your draft report entitled "First Year Implementation of the Federal Managers' Financial Integrity Act by the Department of Justice."

In general, the report presents a reasonable and balanced view of the Department's efforts to comply fully with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, Internal Control Systems. The report demonstrates an awareness of the Department's weaknesses in some areas of the internal control and accounting system review processes, but it also recognizes the significant progress that has been made in these areas. That the Department has been able to develop an implementation plan which utilizes its existing management control structures and mechanisms is due, in part, to the encouragement and assistance provided by members of the General Accounting Office (GAO) Internal Controls Task Force assigned to this study.

The draft report has been reviewed in detail by Departmental organizations, and in most instances the questions and concerns regarding specific issues in the report have been resolved through discussion, memoranda, and meetings involving various Department and GAO officials. Since GAO has redrafted pertinent sections of the report to clarify factual material and adjust conclusions accordingly, no further comments on the items raised are necessary.

The one major issue raised in the report is that of field participation in the internal control process. On page iii of the Executive Summary of the draft report, and in subsequent references on page 23, GAO recommends:

". . . that the Attorney General incorporate in future FMFIA guidance a requirement that field office managers play an active role in the internal control process."

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The GAO Internal Controls Task Force has been provided a copy of the Department's draft order and draft guide for the implementation of FMFIA. Both documents make numerous references to field considerations in carrying out internal control processes, and specific documentation requirements are established which, in our view, will enable the Department to comply with GAO's field requirement.

While the Department concurs with GAO's conclusion on page 23 that the assessment process must reflect implementation at the program and service delivery level, and not an idealized view of what should be, the concept must be perceived in a rational, balanced manner. In giving cognizance to the field office staff role, the internal control process will not be useful if it does not maintain its strong identity with the senior management of the organization, which exists at the national level. Senior managers who are responsible for the overall assessments and reviews will have to be creative in the approaches they adopt in order to incorporate field perspectives into their assessments in a cost effective manner.

The draft report also notes that the role of the Audit Staff needs to be documented, more technical assistance provided organizational components, and audit efforts more closely coordinated with the agency's internal control evaluation, improvement, and reporting process. Issuance of the Department's draft order and guide for implementation of the FMFIA will, in our view, include the necessary tasks to ensure that the above functions are carried out and the objectives of the internal evaluation control process are met.

Page 11 of the report refers to DEA's omission of some staff offices, divisional field offices, and some offices in the Operations Division from participation in vulnerability assessments and reviews. DEA decided not to involve field operations in vulnerability assessments and reviews because of the newly adopted central control management organization. However, field divisions and laboratories are involved in testing systems, reporting system deficiencies and implementing in-place internal control systems.

On page 33 of the report, GAO expresses concern about two Immigration and Naturalization Service (INS) accounting system deficiencies cited in the Department's report to the President and the Congress--entering cash disbursements into the system in the period in which they occurred, and improving controls to ensure that revenue and claims are promptly and accurately established and negotiated. INS is aggressively pursuing resolution of the two deficiencies.

Overall, we believe that strict adherence to the Department's order and guide for implementing FMFIA and the internal control evaluation process will result in a more positive conformance report for 1984. Further, we look forward to a continuing and close working relationship with GAO as the Department moves into the implementation of the 1984-1985 internal control cycle and accounting system review.

We appreciate the opportunity to comment on the draft report. Should you have need for additional information, please feel free to contact me.

Sincerely,



William D. Van Stavoren  
Deputy Assistant Attorney General  
for Administration

GAO Note: Page numbers have been changed to correspond with final report.

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