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United States General Accounting Office 128600

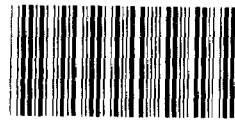
GAO

Report to the Attorney General

October 1985

FINANCIAL INTEGRITY

Justice Made Progress but Further Improvements Needed



128600

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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-216946

October 31, 1985

The Honorable Edwin Meese III
The Attorney General

Dear Mr. Attorney General:

This report discusses the Department of Justice's progress and problems in its second year implementation of the Federal Managers' Financial Integrity Act. The report focuses on the status of accounting, automated data processing, and internal control weaknesses; on actions taken to correct the weaknesses; and on the need for these systems to be evaluated and tested in greater depth.

The report contains recommendations to you on page 42. 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 sending copies of the report to the Director, Office of Management and Budget; internal control coordinators of Justice's Offices, Boards, and Divisions; and interested committees of the Congress.

Sincerely yours,

A handwritten signature in black ink that reads 'W. J. Anderson'.

William J. Anderson
Director

Executive Summary

Purpose of This Review

The Department of Justice acts as the government's legal counsel and plays an important role in guarding against crime and subversion, ensuring business competition, and—through its litigative and investigative activities—enforcing the nation's laws, such as for drugs and immigration and naturalization. Because of these important missions, GAO reviewed Justice's fiscal 1984 progress in evaluating the adequacy of its internal controls and accounting systems under the Federal Managers' Financial Integrity Act.

Background

The act requires that executive agencies evaluate their systems of internal accounting and administrative controls to determine whether they comply with the Comptroller General's internal control standards and provide reasonable assurance that (1) obligations and costs comply with applicable law; (2) funds, property, and assets are safeguarded; and (3) revenues and expenditures are properly accounted for. Agency heads must report annually to the President and the Congress on the results of these evaluations. Also, each agency must report on whether its accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General. (See pp. 8 and 9.)

Results in Brief

Evidencing its commitment to improve its internal control and accounting systems, Justice continued to make progress in its second year implementation of the act. In its 1984 annual report to the President and the Congress, Justice stated that its seven accounting systems did not conform to the Comptroller General's accounting principles, standards, and related requirements. Justice has initiated several long-term efforts to correct these deficiencies and has also made progress in correcting the material internal control and accounting systems weaknesses reported in its fiscal 1983 annual reports.

Justice also reported that its system of internal accounting and administrative control, taken as a whole, provided reasonable assurance that the act's objectives were met. Notwithstanding the progress Justice has made, GAO believes it did not have an adequate basis for giving this assurance for the system as a whole because:

- it has not yet corrected the accounting, automated data processing (ADP), and internal control weaknesses, which are of such magnitude as to impair the systems' ability to provide this assurance; and
- its internal control and ADP systems were not evaluated and tested in sufficient depth for Justice to know if its controls were adequate and its

accounting system evaluations contained insufficient testing to know the extent to which the systems did not conform to the Comptroller General's requirements.

Principal Findings

Justice is bringing its accounting systems into compliance with the Comptroller General's requirements; it will spend over \$45 million on several long-term system design and enhancement projects. Justice is also taking actions to correct the nine material weaknesses it reported in 1983 to the President and the Congress. For example, the Bureau of Prisons is developing an accounting system to replace its inadequate bureau-wide system. The new system, scheduled to be operational by the end of fiscal 1986, will also correct 1983 internal control deficiencies involving reporting and controlling of inmates' personal funds held in trust. (See pp. 14 to 18.)

Weaknesses Impair Assurance

Justice's accounting and ADP systems are an integral part of its operations. Given Justice's reliance on these systems, the materiality of uncorrected accounting and ADP weaknesses impairs Justice's ability to assert that its systems, taken as a whole, provide reasonable assurance that the act's objectives were met.

Justice's accounting systems maintain administrative control of about \$4 billion of appropriated funds. Accounting systems problems reported by Justice included the following:

- Drug Enforcement Administration's system provided insufficient cost, property, and accrual accounting data, and debt collection procedures were inadequate.
- Office, Boards, Divisions, and the U.S. Marshals Service system was not fully documented; field reports were frequently late and inaccurate, causing inaccurate general ledger balances; and financial policies and accounting processes need to be improved in safeguarding and managing about \$270 million in seized assets and in processing invoices for timely and accurate payment.

Justice also has serious ADP internal control weaknesses involving most of its components. Justice's components are heavily dependent on ADP for a wide range of operations, such as payroll processing; prison inmate monitoring, which includes prison assignment and computation of time served and release date; and verifying the legitimacy of orders for controlled drugs.

Weaknesses in Justice's ADP controls include lack of control over issuance of user identification and passwords and an inability to ensure that only authorized users access ADP systems. These weaknesses would allow, among other things, fraudulent transactions to be entered into Justice's computer systems, audit trails to be altered to prevent detection, and information to be erased or extracted for unlawful use. For example, two Immigration and Naturalization Service analysts were able to fraudulently authorize a Service computer system, operated at a contractor's data center, to issue permanent resident alien cards which were sold to aliens who had illegally entered the United States. (See pp. 22 to 26.)

Furthermore, three material weaknesses reported in 1983 remain substantially uncorrected. For example, Justice continues to have control deficiencies involving the collection and reporting of about \$4 billion in criminal fines and penalties and civil debts owed the government. It lacks a departmentwide system to account for, control, and report on its debt collection activities and its components have inadequate supporting records. (See pp. 26 to 28.)

Finally, Justice made few in-depth tests of its internal control and accounting systems in operation. In-depth tests of these systems are necessary to ensure they provide adequate protection against fraud, waste, and abuse. Justice also needs to involve its field managers more fully in evaluations of their operations. Because field managers have first-hand knowledge of operating risks, controls in place, and procedures being followed, GAO believes that their exclusion detracts from the usefulness and reliability of evaluations. (See pp. 29 to 33.)

Recommendations

GAO recommends the Attorney General ensure that (1) sufficient in-depth testing is done of the accounting, ADP, and internal control systems in operation; and (2) field office managers are included in evaluations of the activities for which they are responsible. (See p. 42.)

Agency Comments

Justice disagreed with GAO's conclusion that Justice did not have an adequate basis to report that its system of internal control, taken as a whole, provided reasonable assurance that the act's objectives were met. Justice stated that GAO gave disproportionate weight to the accounting and ADP system weaknesses and, because these systems represent a relatively small portion of the Department's activities, such

weaknesses do not impair Justice's ability to provide reasonable assurance for the agency as a whole. Justice also disagreed with the bases for GAO's recommendations concerning the need for additional systems testing and additional involvement of field managers in the evaluation process. Justice noted that GAO's report did not fully reflect the extent of either the testing that was done or the field managers' involvement because it focused primarily on only four of the Department's components.

GAO believes its conclusion is sound and that its recommendations should be implemented. GAO did place greater weight on the weaknesses in accounting and ADP systems because virtually every Justice activity uses such systems or information stored and processed by such systems in carrying out its operations. GAO disagrees that testing or field manager involvement was adequate. The four components reviewed account for about 70 percent of Justice's expenditures and personnel, and three of these components did not adequately test their systems or involve their managers in the evaluations. (See pp. 34 to 42.)

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Abbreviations

| | |
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| ADP | Automated Data Processing |
| FBI | Federal Bureau of Investigation |
| FIA | Federal Managers' Financial Integrity Act |
| GAO | General Accounting Office |
| OMB | Office of Management and Budget |

Introduction

The Congress, in September 1982, enacted the Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255) in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets across a wide range of government operations. The goal of this legislation is to help reduce fraud, waste, and abuse and improve management of federal operations. The act provided, for the first time, a continuous self-assessment process to identify and correct internal control and accounting system problems that hamper effectiveness and accountability, potentially cost the taxpayer needless dollars, and diminish the public's confidence in the government. The Department of Justice is one of 23 agencies included in our review of the status of federal agencies' efforts to implement the act during the second year.

Framework Established to Implement the Act

The Federal Managers' Financial Integrity Act (FIA) reaffirmed the concept first incorporated in the Accounting and Auditing Act of 1950 that the primary responsibility for adequate systems of internal control and accounting rests with management. The act has two primary sections to address this concept—section 2 and section 4.

Section 2 of the act requires the head of each executive agency to establish internal accounting and administrative controls that are consistent with standards prescribed by the Comptroller General and provide reasonable assurance that

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Agency heads are required to prepare annual statements to the President and the Congress on whether their internal accounting and administrative control systems fully comply with the act's requirements. To the extent the systems do not comply, agency heads must identify any material weaknesses in their systems together with plans and schedules for corrective actions.

Section 4 of the act requires that agency heads include in the annual statement a separate report on whether the agencies' accounting systems conform to the Comptroller General's accounting principles, standards, and related requirements (hereinafter referred to as the Comptroller General's requirements).¹

To provide the framework for implementation, as prescribed by the law, the Comptroller General issued standards in June 1983 for agencies to meet in establishing their internal control systems. The standards apply to program management as well as to traditional financial management areas and encompass all operations and administrative functions.

The Office of Management and Budget (OMB), in consultation with GAO, issued guidelines in December 1982 for agencies to use in evaluating, improving, and reporting on their internal control systems. In short, OMB's guidelines provide that agencies segment their programs and functions into assessable units; evaluate the controls in each unit by assessing their actual or potential vulnerability to fraud, waste, and abuse; make in-depth tests of those controls deemed vulnerable or take appropriate action to correct the vulnerability; and identify, report, and correct all material internal control weaknesses.

Department of Justice Organization and Operations

The Department of Justice acts as the government's legal counsel and plays an important role in guarding against crime and subversion, ensuring the healthy competition of business, and—through its litigative and investigative activities—enforcing the nation's laws, such as for drugs and immigration and naturalization. Justice is headed by the Attorney General of the United States. In fiscal year 1985, Justice had about 61,800 employees and a budget of about \$4 billion.

Justice is organized into 31 components. The largest are the Federal Bureau of Investigation (FBI), Immigration and Naturalization Service, Bureau of Prisons, and Drug Enforcement Administration. These four components account for about 47,800 employees and \$2.7 billion.

¹The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards, while titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowance and fiscal procedures, respectively. Also, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements such as Treasury Financial Manual and OMB Circulars.

The FBI investigates violations of federal law, conducts all foreign intelligence investigations within the United States, collects evidence in which the United States is an interested party, and performs other duties by law, Attorney General, or Presidential directive. The Immigration and Naturalization Service implements policy and enforces laws related to immigration, naturalization, refugees, and those seeking asylum in the United States. The Bureau of Prisons is responsible for the incarceration and rehabilitation of federal offenders. The Drug Enforcement Administration is responsible for investigating drug violators who operate at interstate and international levels; regulating laws governing the manufacture, distribution, and dispensing of controlled substances; and coordinating with other enforcement authorities.

The Attorney General assigned overall responsibility for coordinating and overseeing Justice's FIA implementation efforts to the Assistant Attorney General for Administration, who heads the Justice Management Division. This division is responsible for coordinating the evaluations, reporting on internal controls and accounting systems, and providing assurance to the Attorney General that the Department's efforts are consistent with OMB's guidelines.

Summary of Justice's 2-Year Efforts

The Department reported to the President and the Congress on December 29, 1983, that its systems of internal accounting and administrative control, taken as a whole, provided reasonable assurance of complying with the objectives of the act. It identified nine material weaknesses and specified corrective actions taken or planned for each weakness. Justice reported separately that, with certain exceptions, on the whole its accounting systems conformed to the Comptroller General's requirements. The Department identified 24 separate exceptions and stated it intended to correct these problems by upgrading and integrating its accounting system segments.

In our first year report² we stated that Justice could strengthen its program by expanding the involvement of field office managers in the process, improving its analysis of automated data processing (ADP) controls, developing a comprehensive departmentwide training program, and issuing departmentwide guidance.

²First Year Implementation of the Federal Managers' Financial Integrity Act by the Department of Justice, (GAO/GGD-84-63, May 8, 1984).

We also stated that, because of the significance of the 24 identified accounting system weaknesses, we questioned whether Justice had a reasonable basis for asserting that its accounting system, as a whole, conformed with the Comptroller General's requirements.

Justice's second year report stated that it had reasonable assurance that, on the whole, its system of internal control complied with the objectives of the act, but that its accounting system did not fully comply with the Comptroller General's requirements. To correct the inadequate accounting system, Justice is developing a departmentwide master plan to (1) manage the Department's accounting system evolution, (2) insure resolution of current deficiencies, and (3) guide components in the future application of accounting principles.

Objectives, Scope, and Methodology

We reviewed Justice's implementation of the act because of the high priority given by the President and the Congress to improving the government's internal controls. We did not attempt to evaluate Justice's internal control system or the extent to which Justice's accounting systems comply with the Comptroller General's requirements.

The objectives of our review were to:

- evaluate Justice's second year progress in implementing its internal control and accounting system evaluation process,
- assess Justice's progress in correcting internal control and accounting system weaknesses identified during the first year under the act, and
- assess the reasonableness of Justice's second annual reports.

Audit work was done primarily at the Drug Enforcement Administration, Bureau of Prisons, FBI, and Immigration and Naturalization Service, because they account for about 71 percent of Justice's expenditures and about 77 percent of its personnel. We also did audit work at the Justice Management Division, as it was responsible for coordinating FIA activities.

Our work involving the internal control process (section 2 of the act) consisted of interviewing internal control coordinators; selected program managers; Justice Management Division officials and staff responsible for ADP and overseeing the implementation of FIA; and the Justice audit staff. We examined relevant correspondence, directives, and procedures and reviewed actions designed to correct the nine material

weaknesses identified in the first year internal control report to the President and the Congress.

Our work in assessing Justice's accounting systems evaluation and improvement efforts (section 4 of the act) was done at the six components responsible for the Justice accounting systems: Bureau of Prisons, Drug Enforcement Administration, Immigration and Naturalization Service, Justice Management Division, Office of Justice Programs, and FBI. We ensured that all systems were identified, reviewed systems deficiencies and the adequacy of enhancement efforts, determined whether accounting systems were adequately evaluated and tested, and evaluated whether all known material weaknesses were included in the annual report to the President and the Congress. We also reviewed the work done by a contractor hired by Justice to conduct a quality assurance review of the components' questionnaire responses and assess the Justice Management Division's accounting system and the central payroll system.

Our review was conducted between June 1984 and April 1985 and was performed in accordance with generally accepted government audit standards.

Progress Made in Justice's Second Year Implementation of the Financial Integrity Act

Justice's second year FIA efforts evidenced its commitment to the act. Justice has initiated long-term actions to correct the material weaknesses in its accounting system which led the Department to report that its system does not fully conform to the Comptroller General's requirements. Justice has also begun correcting the nine material internal control weaknesses it reported in 1983. In addition, the Department responded to criticisms we made of its first year effort and improved certain aspects of its FIA evaluation process.

Justice Is Taking Steps to Correct Its Inadequate Accounting System

The Department of Justice reported in its 1984 annual report to the President and the Congress that a significant portion of the Department's resources are accounted for by system segments which do not fully conform to the Comptroller General's requirements. The Department is taking corrective actions and has begun several long-term system design or enhancement efforts to correct reported material deficiencies in its components³ systems.

The Department has six general ledger systems and a centralized payroll system, which control about 40 fund accounts totaling about \$4 billion. A brief description of each system follows.

- The Financial Management System is the Bureau of Prisons' administrative control of funds/general ledger system. The system is operated and maintained by the Bureau's central office and controls over \$623 million annually. The primary sources for recording data into the system are from the Bureau's field locations. The system receives daily summary data from its field locations concerning the status of obligations, accounts payable, procurement, real property, and accounts receivable.
- The Drug Enforcement Administration Accounting System provides administrative control of its funds/general ledger system and accounts for approximately \$338 million annually. It accounts for all transactions and provides all financial reports which portray the Administration's financial condition, status of appropriated funds, and results of operations.
- The FBI's Central Accounting System is located at FBI Headquarters. In fiscal year 1984, it accounted for and controlled about \$1.2 billion. The system provides a centralized, fiscal data processing mechanism which serves the accounting and payroll needs of headquarters and 59 field offices.

³Bureau of Prisons, Drug Enforcement Administration, FBI, Immigration and Naturalization Service, U.S. Marshals Service, Justice Management Division, and Office of Justice Programs.

- The Financial Accounting and Control System is the Immigration and Naturalization Service's automated system which maintains general ledger accounts and provides for administrative control of about \$583 million annually. The system records allotments, commitments, obligations, accrued expenditures, receivables/advances, and collections.
- The Offices, Boards, Divisions/U.S. Marshals Service System, which is administered by the Justice Management Division, maintains the general ledger for the Offices, Boards, Divisions, and U.S. Marshals Service and controls over \$1 billion annually. The system prepares bills, reconciles accounts, provides imprest fund services, processes claims, and prepares reports. Also, the system records unliquidated obligations, disbursements, and receipts processed during each month by field offices of the U.S. Marshals Service.
- The Office of Justice Programs Accounting System controls and accounts for about \$134 million annually. The general ledger and the accounts payable and accounts receivable subsidiary records are automated, but other files are manually maintained, such as for grants, contracts, and undelivered orders.
- The Central Payroll System computes entitlement pay for all Justice employees except those of the FBI, which has its own payroll system. In fiscal year 1984, the system accounted for payroll costs of about \$1.4 billion. It interfaces with all accounting systems but the FBI's.

Evidencing its commitment to the Financial Integrity Act, the Department identified and reported many material weaknesses in these systems. For example, the report stated that the Drug Enforcement Administration's system provided insufficient cost, property, and accrual accounting data, and debt collection procedures did not provide for prompt follow-up or use of appropriate collection techniques.

Also, the report stated that the Immigration and Naturalization Service's system was inefficient, and cash management policies were not always followed in reconciling cash, processing vouchers, recognizing receivables promptly, providing an allowance for uncollectible accounts, and reporting undelivered orders. The Service reported separately that \$14 million of its \$16 million in outstanding accounts receivable at September 30, 1984, was delinquent.

In addition, the Department reported that the accounting system for Offices, Boards, Divisions, and the U.S. Marshals Service was not fully documented; reports from field locations were frequently late, inaccurate, and difficult to verify, which resulted in inaccurate general ledger balances; subsidiary records could not be reconciled to the general

ledger without extensive manual effort; and financial policies and accounting processes need to be improved in safeguarding and managing seized and forfeited assets and in processing invoices for timely and accurate payment.

Further, the Department reported that major segments of the central payroll process involved cumbersome and error prone procedures, and manual adjustments were inefficient and exposed payments to additional risk or error. The report also stated that the FBI's system lacked complete cost data, and the Bureau of Prison's system did not provide the most efficient and timely method of recording and reporting financial data.

The Department has numerous corrective actions underway to resolve the accounting systems deficiencies reported under section 4 of the act. Many will require long-term effort. The Department will spend in excess of \$45 million by the time these efforts are fully implemented and operational. The Department's long-term system development and enhancement efforts include:

- Developing a Resource Management System at the FBI. The system is intended to encompass all aspects of financial and program management and will replace the existing accounting system. The Department reported that the new system should enable the FBI to more closely monitor the travel and travel advances of each employee—a material internal control weakness reported in 1983 under section 2 of the act. Development of the system is progressing and it is expected to be completed by 1990 at a total cost of about \$36 million.
- Designing a Property Management System at the Drug Enforcement Administration to provide a complete property inventory management system. The system was implemented in fiscal year 1985 at an estimated cost of \$350,000. An additional \$250,000 has been requested to design and develop cost and accrual accounting capabilities in the Administration's accounting system.
- Developing a Trust Fund System at the Bureau of Prisons to replace its current bureau-wide accounting system. This system should also resolve a material internal control weakness which was reported in 1983 under section 2 (see p. 28). The new system is expected to be fully operational by the end of fiscal 1986 at a total cost of about \$7 million.

In addition, Justice has developed a 5 year financial management plan to establish and maintain a single departmentwide integrated financial management system which can be supplemented by subsidiary systems.

This effort is consistent with the goals and objectives set forth by OMB Circular A-127. The plan also provides that new system efforts be viewed from a departmentwide perspective. Representatives from each major component are participating in the development of the plan. The involvement of the components is vital to building consensus for the plan and is the primary means the Department has to ensure all viewpoints are considered in developing the plan.

It is too early to determine whether these, and similar projects, will resolve the Department's accounting system problems, because their results will not be known until they are designed, implemented, and tested. Such long-term corrective actions will require a sustained effort. Management's continued high degree of support and oversight of these projects will help assure that they result in systems which are efficient, up-to-date, and designed to produce information needed to carry out the Department's mission. This will greatly increase the likelihood that the Department can ultimately report that its accounting operations conform to the Comptroller General's requirements.

Progress Made in Correcting Internal Control Weaknesses

The Department of Justice did not report any new non-accounting-related internal control weaknesses in its 1984 annual report. The Department did report that it had made progress in correcting the nine material weaknesses identified in 1983. Of these, three—which are accounting related—are being addressed by Justice's efforts to improve its accounting systems. The following discusses the correction of three other weaknesses which related to:

- two Bureau of Prisons' weaknesses regarding the need to establish procedures for periodic reviews of grants and contracts to ensure compliance with bureau policies; and
- consolidating and reorganizing some of the Department's offices and bureaus and establishing policies and procedures to enable the Department to more effectively fulfill its responsibilities.

The remaining three weaknesses continue to be materially unresolved and are discussed in the following chapter.

The Bureau of Prisons determined in 1983 that its procedures for periodic reviews of its assistance grants to state and local correctional agencies and its contracts for inmate care were insufficient to ensure compliance with established policies. These grants and contracts totaled

about \$67 million at the beginning of fiscal 1985. The Bureau established an annual audit program for its grant program and, as of August 1, 1985, a Bureau official told us that 30 audits were completed. For its inmate care contracting procedures, four of the five regions were audited for compliance with Bureau policies. Bureau officials told us the audits showed that, generally, Bureau regulations and procedures were being complied with in the award and administration of the grants and contracts.

Justice also changed the organizational structure, delegation of authority, and transmittal of policies and procedures of several of its small operating offices and bureaus by establishing the Office of Justice Programs. The Bureau of Justice Assistance, National Institute of Justice, Bureau of Justice Statistics, and Office of Juvenile Justice and Delinquency Prevention, which previously reported directly to the Attorney General, now report to him through the Assistant Attorney General who heads the Office of Justice Programs. The reorganization of autonomous components with distinctive programs into one Office was done to establish clear lines of authority and reporting to the Attorney General, improve adherence to Justice policies and procedures, and improve program effectiveness.

Improvements Made in Second Year Evaluation Process

Justice addressed several criticisms we made of its first year FIA effort. For example, Justice issued departmentwide guidelines for implementing the act, established a training program for its managers, had a contractor review the results of accounting system self-assessment questionnaires for quality, and developed a follow-up system.

In May 1984, the Attorney General transmitted departmentwide policies and procedures for implementing FIA to each of Justice's component heads. The guidance, which is generally consistent with OMB's guidelines, established specific requirements and time frames for complying with the act and addressed the need to adequately document the various process phases. In addition, the guidelines emphasized that ADP systems and controls should be reviewed.

Justice also developed a 2 day internal control training course which is offered quarterly to internal control coordinators and managers responsible for assessing the vulnerability of their units to fraud, waste, and abuse. In addition, Justice components sponsored several training sessions. For example, about 400 managers attended component-sponsored

training sessions during the first 9 months of 1984. The primary emphasis of these sessions was devoted to explaining how vulnerability assessments should be done.

Also, although Justice had assessed the vulnerability of its controls in 1983, it had its components do a new round of vulnerability assessments. These assessments are usually done every other year, consistent with OMB's guidelines. The components completed all 433 of their assessments by September 30, 1984.

The Department also made several accounting system evaluation improvements. For example:

- The Department issued written instructions for the accounting system evaluations. In addition, the Immigration and Naturalization Service developed supplemental instructions for its field activities.
- The Department evaluated all of its accounting systems using a questionnaire augmented by limited testing. The questionnaire covered 15 broad accounting areas, such as cash, accounting, reporting, fund control, property, and payroll.
- The Department used a contractor to review the quality of the self-assessment questionnaires completed by each component. The contractor reviewed relevant system documentation, interviewed individuals who conducted the self-assessment, and tested questionnaire responses. The contractor also visited eight Bureau of Prisons and Drug Enforcement Administration field activities and identified a number of instances where the questionnaire responses prepared by the headquarters staff did not accurately reflect conditions as they existed in the field. The contractor's observations and suggestions for improvement were provided to Justice.

Justice also established a departmentwide follow-up system in 1984 to monitor correction of identified internal control weaknesses. It did not have a similar system for monitoring identified accounting system weaknesses in 1984. However, a Justice official told us that in March 1985 the internal control follow-up system was expanded to include accounting system weaknesses.

Conclusions

Justice, evidencing its commitment to improve its internal control and accounting systems, continued to make progress in its second year implementation of the Financial Integrity Act. Justice is taking steps to bring its components' accounting systems into conformance with the

Chapter 2
Progress Made in Justice's Second Year
Implementation of the Financial Integrity Act

Comptroller General's requirements and to correct its reported material internal control weaknesses. Also, certain improvements, such as the issuance of departmentwide guidance and establishment of a training program, were made to the Department's evaluation process.

Justice Did Not Have an Adequate Basis for Its Reasonable Assurance Statement

The Department, in its second annual report to the President and the Congress, stated that its system of internal accounting and administrative control, taken as a whole, provided reasonable assurance that the act's objectives were achieved. Although Justice made progress in its second year efforts to implement the act and is in substantial compliance with OMB guidelines, we believe it lacked an adequate basis for providing this assurance for two primary reasons.

First, its accounting systems, ADP, and internal control weaknesses are of such magnitude as to impair the system's ability, taken as a whole, to provide reasonable assurance that obligations and costs comply with applicable law; funds, property, and other assets are adequately safeguarded; and revenues and expenditures are properly recorded and accounted for. The actions being taken to correct the weaknesses identified by Justice have not yet progressed to the point where the weaknesses are no longer material. Second, Justice did not sufficiently test its ADP and internal control systems in operation to know if these systems met the Comptroller General's standards, and its accounting systems evaluations contained insufficient testing for Justice to know the extent to which the systems did not conform to the Comptroller General's requirements.

Magnitude of Weaknesses Impairs Reasonable Assurance

Justice's accounting and ADP systems are an integral part of its operations; accounting and automated processes permeate agency activities in support of the myriad administrative and programmatic requirements which must be met in carrying out Justice's mission. The materiality of the accounting, ADP, and internal control weaknesses gives us reason to doubt that these systems, taken as a whole, provide reasonable assurance that the act's objectives were achieved.

Accounting System Weaknesses Acknowledged

As discussed in the prior chapter, Justice reported that its accounting systems represented a departmentwide material weakness. It acknowledged that a significant portion of the Department's resources are accounted for by components' systems which do not fully comply with the Comptroller General's requirements. These systems maintain administrative control of appropriated funds totaling almost \$4 billion. The magnitude of identified problems, in our opinion, impairs Justice's ability to assert that its systems, taken as a whole, provide reasonable assurance that its obligations and costs comply with applicable law; assets are safeguarded from fraud, waste, and abuse; and revenues and expenditures are properly recorded, accounted for, and reported.

ADP Weaknesses Exist

In addition, although not specifically addressed in the second annual report, Justice management is aware of serious and widespread ADP internal control weaknesses. Justice relies on ADP to meet the objectives of its programs as well as accomplish its day-to-day administrative activities. Each of its components is heavily dependent on ADP for a wide range of operations, such as payroll processing; inmate monitoring, which includes prison assignment and computation of time served and release date; verifying the legitimacy of orders for controlled drugs; and identifying the millions of aliens arriving in and departing the United States each year.

During the last 3 years, Justice's Office of Information Technology—the organization responsible for ADP center operations—issued several reports to management officials disclosing serious ADP internal control weaknesses. These weaknesses concern Justice's two data processing centers in Washington, D.C., and in Dallas and their users. All Justice components except the FBI use the data centers.⁴ Many of the weaknesses are beyond the control of the Office of Information Technology to fully correct because it is also the responsibility of data center users to assure that controls over their own ADP activities are adequate (that is, the data being submitted to the centers for processing are accurate and properly authorized, access to computer terminals is restricted to authorized users for valid purposes, etc.).

The following table lists the ADP control weaknesses identified by the Office since March 1984. As shown by the March 1985 report, weaknesses identified in 1984 remained uncorrected 1 year later.

⁴The Immigration and Naturalization Service also uses a contractor operated data center for computer preparation of its permanent resident alien identification cards.

Chapter 3
Justice Did Not Have an Adequate Basis for
Its Reasonable Assurance Statement

Table 3.1: ADP Weaknesses Identified by the Office of Information Technology

| Weaknesses | 3/84 Status report^a | 4/84 Risk analysis^b | 9/84 Vulnerability assessment^c | 3/85 Status report^d |
|--|---------------------------------------|---------------------------------------|--|---------------------------------------|
| Lack of control over issuance of user identification and passwords | x | x | | x |
| Lack of terminal identification and control | x | x | | x |
| No contingency capability or contingency plan | | x | x | x |
| Lack of security awareness and cooperation among data center users | x | x | | x |
| Inadequate periodic personnel security background investigations | x | | | x |
| Inadequate air conditioning, electrical, and fire alarm systems | x | | | x |
| Insufficient security staff | | x | x | x |

^aStatus report on ADP security at the Washington, D.C., Data Center.

^bIdentification and analysis of ADP security risks at the Dallas Data Center, which began operations in May 1984.

^cAn assessment of the Washington, D.C., and Dallas Data Centers' susceptibility to waste, loss, unauthorized use, or misappropriation.

^dStatus report on ADP security at the Washington, D.C., and Dallas Data Centers.

The Office's reports questioned Justice's ability to continue necessary ADP operations, using back-up processing centers, in the event data center facilities were closed because of fire or electrical or air conditioning problems. Data processing equipment is very sensitive to heat and electrical fluctuations; cool temperatures must be maintained and temperature and support systems must be monitored. A small rise in temperature has immediate consequences in the form of ADP equipment malfunctions. Both the March 1984 and March 1985 security status reports recognized problems with the Washington, D.C., Data Center's environment. For example, the reports cite:

- major problems with the air conditioning system: the required constant temperature cannot be maintained; frequent compressor failure results in excess heat build-up and the need for repairs to other parts of the air conditioning system;
- the Access Control Security System's inability to expand and incapability to monitor critical support systems within the facility; and

- the fire detection system's obsolescence, lack of connections to the building fire system, and lack of spare parts.

Some of the control shortcomings reported by the Office of Information Technology, such as a lack of control over issuance of user identification and passwords and a lack of terminal identification and control, would allow unauthorized persons to manipulate computer-based information with little fear of detection. The increasing use of personal computers in place of remote terminals has added to Justice's terminal control problem with the result that the vulnerability of sensitive information processed at the data centers has increased. Thus, among other things, fraudulent transactions could be entered into Justice's computers, audit trails could be altered to prevent detection, and information could be erased or extracted for unlawful use.

A case recently investigated by the Immigration and Naturalization Service's Office of Professional Responsibility demonstrates the importance of computer system users having adequate internal controls. Two Service computer systems analysts fraudulently initiated computer generation at a contractor-operated data center of permanent resident alien identification cards which were sold to aliens who had illegally entered the United States. Because of inadequate controls over data entering the system, the analysts were able to authorize the computer system to issue the cards. Blank forms—which, when filled out, are the source of data entered into the ADP system—were neither adequately controlled nor properly accounted for by the Service. These forms were readily available to the analysts. In addition, they were able to submit the fraudulent forms directly to the processing facility without the need for additional authorization.

The Service's Office of Professional Responsibility, in January 1985, recommended that the Justice Audit Staff audit the Service's ADP systems' security. In July 1985, the Director of Justice's Audit Staff told us that he believes the ADP systems security issue is a significant one for all Justice organizations processing information at the Washington, D.C., and Dallas Data Centers. He therefore started an audit of ADP systems security in all Justice organizations which are served by the two data centers.

The Office of Information Technology is working to correct those security and continuity of operations problems which it can affect. For example, the Office developed a security manual for data center operations and drafted a second security manual for data center users. It also

developed procedures to ensure that appropriate safeguards are included in new data center computer applications as well as in significant modifications to existing applications. In addition, the Office is developing a comprehensive contingency plan for emergency data center operations. Finally, in early 1985, Justice signed separate contracts

- to renovate the Washington, D.C., Data Center's electrical and air conditioning systems, and
- to identify optimum procedures and mechanisms which can be used to assure the security of sensitive information processed at the two data centers.

The initiated corrective actions, when fully implemented, may alleviate Justice's ADP weaknesses. Nonetheless, given the seriousness of Justice's current ADP internal control weaknesses and the dependence of its components on reliable ADP-generated data, we believe there is reason to doubt that Justice's system of internal control, taken as a whole, is adequate to satisfy the objectives of the act.

Three 1983 Weaknesses Remain Unresolved

In addition to the accounting systems and ADP control weaknesses, three of the material internal control weaknesses disclosed in the first year's report under section 2 of the act remain unresolved. Departmental action to correct these problems has not yet progressed to the point where they are no longer material.

Two of the three weaknesses are Justice-wide problems— poor controls over non-drug seized assets and inadequate collection and reporting of certain debts owed to the federal government.

In 1984, the Comprehensive Crime Control Act (P.L. 98-473) provided the Department additional authority to seize and obtain forfeiture to the government of property used in the commission or obtained from the profits of certain crimes. The act authorizes the FBI, Drug Enforcement Administration, and the Immigration and Naturalization Service to seize privately owned assets under certain conditions, such as when the assets (cars, airplanes, boats, etc.) are suspected of being used in the commission of a crime or purchased with funds derived from criminal activities. If the owners of the assets are found innocent, the assets revert to them, but if they are convicted, the property may be forfeited to the government. Usually, the government sells the assets.

Chapter 3
Justice Did Not Have an Adequate Basis for
Its Reasonable Assurance Statement

The act also increased the value of property which may be forfeited to the government administratively rather than through court proceedings. As a result, Justice can seize and obtain ownership of more property and sell it faster and for more money than it previously could. Whether the outcome of a case results in the government obtaining the assets by forfeiture or returning them to their owners, the assets should be properly cared for to maintain their value and prevent theft.

To effectively use its new powers, Justice established a national seized property management office in the United States Marshals Service to oversee the management of property seized in 94 Federal judicial districts. The Department also took steps to streamline operations by consolidating the legal staffs previously responsible for property seizure and disposal. With this reorganization, Justice expects to more effectively fulfill its custodial and disposal responsibilities over seized property.

Although Justice has completed its reorganization, seized assets—which are valued at about \$270 million—continue to be inadequately controlled. In a 1983 report on this subject,⁵ we concluded that the poor condition of the seized assets was a major contributor to large disparities between the seizure value and the sales price of assets. Vehicles sold for only 58 percent of their seizure value, boats for 43 percent, and aircraft for 35 percent. Our current FIA review disclosed that storage and maintenance problems similar to those we reported in our July 1983 report continue. For instance, many vehicles are stored out of doors for lengthy periods where they are subject to theft, vandalism, and deterioration from the weather. Numerous cars were unlocked, had flat tires, and were leaking fluids. Several officials told us that, generally, preventive maintenance was not done.

For example, a Drug Enforcement Administration headquarters official stated that with the exception of a joint government storage facility in Florida, storage and maintenance practices had not changed much from the time of GAO's 1983 report. Officials at the Washington, D.C., and Philadelphia field offices said maintenance was not done on seized vehicles. Immigration and Naturalization Service officials stated that theft and vandalism continue at the storage site for vehicles seized by the Service's Chula Vista and San Ysidro locations in California, among others.

⁵Better Care and Disposal of Seized Cars, Boats and Planes Should Save Money and Benefit Law Enforcement (GAO/PLRD-83-94, July 15, 1983).

Justice also continues to have material control deficiencies involving the collection and reporting of legal process debts. The debts, which Justice estimates at about \$4 billion, essentially represent either criminal fines and penalties or civil debts, such as for student loans or overpayments of welfare benefits which have been referred by a federal agency to Justice for collection. Collection and reporting responsibilities are shared by most Justice components, including the U.S. Attorney's Office, which has collected over 57 percent of the legal process debts collected by Justice during fiscal years 1982 through 1984.

Justice lacks a Department-wide system to account for, control, and report on its legal process debt collection activities, and its components' subsidiary records cannot be reconciled to control totals without an extensive manual process. Thus, its current systems do not result in accurate centralized data, such as the total amount of debt it is responsible for collecting. Justice has initiated actions to correct its weaknesses, including developing for the U.S. Attorneys a Prosecutor's Management Information System. This new system will include accounting for legal process debts. However, the system is not expected to be fully implemented until September 1987.

The third reported material weakness which remained uncorrected at the time of Justice's annual report is the Bureau of Prisons inadequate accounting for inmate trust fund operations. Deficiencies in inmate trust fund operations are long-standing, involving inadequate reporting and control of inmates' personal funds held in trust and inventories of items available for sale to inmates. To correct these problems, the Bureau is developing a new accounting system but it is not expected to be operational until the end of fiscal 1986.

Significant Weakness
Unreported

A final internal control weakness of considerable significance, which we believe is material and should have been reported to the President and the Congress, pertains to the Immigration and Naturalization Service's program for processing alien applications for U.S. citizenship and other changes in status. The Service's Office of Professional Responsibility identified internal control weaknesses in this program which included alien records vulnerable to alteration, inadequate separation of duties, lack of supervisory and quality assurance reviews, and poor document control. Justice did not include these problems in its annual report, notwithstanding that in the past 3 years over 100 employees have been charged with fraudulently altering alien registration records and/or

accepting bribes and 17 were convicted. An example of fraud and control deficiencies in this program is discussed on page 25.

An Adequate Basis Must Be Built on Quality Evaluations

The second reason we believe Justice lacked an adequate basis for providing reasonable assurance is because it did not make sufficient in-depth evaluations to know if its system of internal accounting and administrative control was effective. Justice needs to expand the scope and depth of its testing of its internal control and accounting systems in operation, including its automated systems. Further, as we recommended in our first year report, Justice needs to expand the involvement of its field personnel when evaluating its programs, functions, and accounting systems.

Systems in Operation Must Be Tested

Justice's components made few in-depth tests of their operational automated and manual internal control systems and most did not test their accounting systems in operation, although required to do so. An effective testing program is imperative for Justice to know whether systems, which appear to be in conformance with the Comptroller General's standards and requirements, are operating as intended.

In our first year report to Justice, we noted the need to make in-depth tests of internal control and accounting systems in operation, including automated controls. In particular, we outlined a three-step process for testing accounting systems: (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 ensure they are effective in providing the necessary control to insure conformance with the Comptroller General's requirements.

Justice concurred and reiterated the importance of testing in its 1984 guidance on implementing FIA. Further, its response to the House Committee on Government Operations report on the first-year implementation of the act stated that tests of each accounting system would be done to ascertain if the systems conform to the Comptroller General's requirements.

However, Justice's components did very little testing of their accounting systems. Department officials told us that in performing accounting system evaluations, only the Justice Management Division and one Immigration and Naturalization Service region conducted transaction testing.

The testing that was done consisted of tracking previously recorded transactions through the system to ensure they were properly recorded and reported and that all supporting documentation was available. The Division and the Service's region tested 16 and 10 transactions respectively.

Justice Management Division's tests involved the review of cash receipts, disbursements, and receivables. The cash receipts were tested to ensure that all deposits were made in a timely manner. They were. In regard to cash disbursements, of three transactions tested, two were found to have been paid early and one was paid late. At the Service's regional office, testing centered on disbursement transactions. The tests were designed to ascertain the adequacy of document control and determine whether expenditures were supported by appropriate documentation. The tests disclosed untimely posting of disbursement transactions.

Justice's internal control evaluation process provides for internal control reviews, which include detailed tests of controls in operation, to be done every other year. Vulnerability assessments, which do not involve testing of controls, are done in the other year. Although OMB's guidelines allow the assessments to be done every other year, internal control reviews are to be done on an ongoing basis.

Justice did not make any in-depth tests of its internal control system in 1984. It did complete seven reviews of internal controls it initiated in 1983, but they included little testing of internal controls in operation. We therefore concluded that the reviews were inadequate for Justice to determine if its controls were operating effectively. A Department official acknowledged that the internal control reviews involved only limited testing. Guidelines were issued in March 1985 requiring that sufficient in-depth tests be done.

Further, the Department's components did not test their automated internal control systems in operation. For example, we found no indication that the Immigration and Naturalization Service tested any of about 50 ADP and telecommunications systems which it operates. One such system is the Border Patrol's automated intrusion detection system, which electronically alerts Border Patrol agents to the occurrence and location of illegal crossings of the southwest border. This system should have been tested, especially in light of the significance of illegal alien problems.

The types of ADP internal controls which need to be tested can be divided into two major categories: general controls and application controls. General controls are those which apply to the overall management of the ADP function. These controls have a direct effect on the quality of service rendered to ADP users and cover the processing of all ADP application systems. The controls include (1) organizational controls for the ADP unit; (2) system design, development, and modification controls; (3) data center management controls; (4) data center security controls; (5) system software controls; and (6) hardware controls. Application controls are those which are unique to each software application system. These controls are intended to assure the quality of data origination, input, processing, and output. ADP systems must be tested to verify that application and general controls are in place and working.

In the future, the Department needs to expand the testing of its manual and automated internal control and accounting systems in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Thus, testing should also be done on systems operating at field locations. Since three teams may be involved in independently testing a unit's internal controls, ADP controls, and accounting systems, coordination should be maintained to prevent duplication of effort and to incorporate the results of any prior system testing. By evaluating its systems through testing, the Department can enhance its ability to identify, and subsequently correct, system weaknesses.

Testing should be done on critical aspects of a system. In most cases, any one of the testing techniques by itself would not be sufficient to test all key aspects of a system. Testing may include

- interviewing persons who operate systems and execute control functions,
- observing operating and control procedures,
- examining system documentation, including that which shows evidence of control techniques,
- performing control procedures on live transactions and comparing results,
- direct testing of computer-based systems and controls by use of simulated transactions, and
- reviewing error reports and evaluating error followup procedures.

In reviewing its internal control and accounting systems, the Department needs to evaluate manual controls as well as the ADP internal controls built into its automated systems. The Department should identify and test each major type of accounting transaction and all suspect control techniques and transaction routines to determine whether controls are effective and applicable requirements are met. Tests should be designed to disclose whether valid transactions are processed properly and the systems reject invalid transactions. The tests should cover the full life cycle of control techniques and transactions, from initial authorization through reporting in output records.⁶

In light of the comprehensive accounting systems enhancement efforts underway, it may not be productive to test the existing systems at some components, such as the FBI and the Bureau of Prisons. However, at other components, such as the Drug Enforcement Administration and the Immigration and Naturalization Service, we believe those segments not being enhanced should be tested to ensure that all system weaknesses are clearly identified and reported.

**More Extensive Field
Involvement Is Needed**

Justice's components did not involve most of their field offices in this year's evaluations, even though in our first year report we recommended they do so and the Department's guidance stressed the importance of including them. We continue to urge the components to include field office managers in the evaluation process.

Generally, field managers did not assess the vulnerability of the operations for which they are responsible. Vulnerability assessments of field operations were mostly done by headquarters managers. In our view, field managers should assess the adequacy of their internal and ADP controls in operation because they have first-hand knowledge of the risks inherent in the activity, the controls in place, and the practices being followed. We believe that excluding field managers from the assessment process impinges upon the usefulness and reliability of assessment results.

Field involvement will also enhance the Department's ability to identify all accounting system weaknesses because, although field activities follow standard Departmental accounting policies and procedures, actual

⁶This testing criteria, as it pertains to accounting systems, has been adopted by OMB and included in Appendix H of its publication, "Guidelines for Evaluating Financial Management/ Accounting Systems" (May 20, 1985).

implementation can—and sometimes does—vary among locations. For instance, the Bureau of Prisons, Drug Enforcement Administration, and FBI, have 48, 19, and 59 field offices respectively. According to Department officials, these components did not involve their field activities in the accounting systems evaluations even though the Department's guidance suggested including them. Their accounting systems evaluations were done by headquarters staff.

The Department's contractor, as part of its review of accounting system evaluation quality, identified instances in which the questionnaire responses prepared by headquarters staff did not accurately reflect conditions as they existed in the field. For example, an evaluation done at the Drug Enforcement Administration's headquarters indicated that field offices had adequate audit trails. However, the contractor found at a field office that it was not possible to trace transactions from beginning to end. The contractor tested several purchase orders and found that some had not been assigned control numbers and receipts were missing or notification of payment was not attached. These problems indicate an unsatisfactory control environment and an inadequate audit trail.

Another reason we believe it imperative that field activities be involved in accounting system evaluations is because field activities are the point of origin for many financial transactions. This is the case at the Bureau of Prisons, Drug Enforcement Administration, FBI, Immigration and Naturalization Service, and the U.S. Marshals Service. Internal control weaknesses in field office accounting systems could cause inaccurate and unreliable data to be submitted to headquarters for processing. This could result in faulty management information reports and end-of-period accounting reports.

Conclusions

We believe that Justice lacked an adequate basis for reporting that its system of internal accounting and administrative control, taken as a whole, provided reasonable assurance of satisfying the act's objectives. The significant weaknesses Justice has identified in its accounting, ADP, and internal control systems and the insufficient testing of its systems in operation lead us to that conclusion. Justice needs to correct the serious weaknesses it has identified. It also needs to improve the quality of its evaluations to ensure that adequate controls are in place and operating as intended and that all weaknesses are identified, reported, and corrected. It can do this by expanding its testing of operating systems and involving its field office managers in the evaluation process.

Agency Comments and Our Evaluations

The Department of Justice disagreed with our conclusion that it did not have an adequate basis to report that its system of internal control, taken as a whole, provided reasonable assurance that the act's objectives were met. Justice also disagreed with the bases for our recommendations concerning the need to ensure that (1) sufficient in-depth testing of accounting, ADP, and internal control systems be done and (2) field office managers are included in the FIA evaluations of activities for which they are responsible. We continue to believe our conclusions are sound and that the Attorney General should implement our recommendations for the reasons cited in the following evaluation of Justice's comments. The full text of Justice's comments is included in the appendix to this report.

Justice Believes It Had Adequate Basis for Reasonable Assurance Statement

Justice disagreed with our assertion that the Department's accounting, ADP, and internal control system weaknesses are of such magnitude as to impair the ability of the system of internal control, taken as a whole, to provide reasonable assurance that the act's objectives were met. Justice stated that in the absence of clear definitions or criteria of materiality or reasonable assurance, our assertions are an expression of opinion rather than an objective measurement of the Department's internal control performance.

Justice also stated that in reaching our opinion, we gave disproportionate weight to accounting and ADP systems. In Justice's view, all programs are significant parts of the Department's entire internal control system. Therefore, because accounting and ADP systems represent a relatively small portion of the Department's activities, the accounting and ADP systems weaknesses do not impair Justice's ability to provide reasonable assurance for the agency as a whole. Furthermore, Justice stated that the ADP security weaknesses are isolated to specific program areas and we erred in concluding they are departmentwide internal control weaknesses.

It is true that our assertion is an opinion and, in reaching that opinion, we did place greater weight on the weaknesses in the accounting and ADP systems. We disagree, however, that it was not an objective measurement of the Department's performance, that the weight given was disproportionate, and that the ADP weaknesses are not departmentwide.

First, the ADP weaknesses affect and/or pertain to the users of the Washington, D.C., and Dallas Data Centers—centers which process data for all Justice organizations except the FBI. Weaknesses identified by

Justice's Office of Information Technology included the following (underscoring provided for emphasis):

- "... password administration in user organizations is poor and there is no provision for periodic change to provide for continuing protection in the event of undisclosed compromise."
- "Terminal log-off policy and procedures are not uniform in the user community. This circumvents many of the software controls established at the JDC-W [Justice Data Center-Washington] to restrict access and maintain accountability."
- "...many of the computer personnel, direct-hire and contractor, within the Department's user community have not satisfied ..." background investigation update requirements.
- "Currently there are no management procedures in place to implement the Department policy with regards to ADP security."

Also, the air conditioning problems at the Washington, D.C., Center (see p. 24) could result in the loss of data processing capability for its users. Further, because Justice has no contingency capability at either data center, its data processing capability would be severely limited by a prolonged interruption of service.

It should also be noted that in commenting on our report, Justice confirmed the significance of the ADP security weaknesses. Justice stated that (1) the Immigration and Naturalization Service's 1984 vulnerability assessment process indicated ADP security was a high-risk area for which an internal control review should be done, (2) the April 1985 conviction of two Service computer analysts in a fraud conspiracy validated the results of the vulnerability assessment process, and (3) the Service's Office of Professional Responsibility is reviewing significant problems associated with security of the Service's automated systems.

Second, we considered the importance of the ADP and accounting systems to Justice's operations. Virtually every Justice activity uses ADP systems or information stored and processed by such systems to carry out its operations. These operations would be adversely affected by data center failure or the alteration and destruction of information in the systems because of inadequate security controls.

For example, according to Justice, its Civil Division represents federal agencies in thousands of cases which account for a potential loss to the government of about \$100 billion annually. It also annually handles thousands of court challenges to the President's domestic and foreign

policy initiatives, the Nation's immigration laws and policies, the statutory and regulatory integrity of many other federal programs established by the Congress, and enforcement of consumer health and safety laws, including prosecutions for criminal violations. In supporting its ADP budget for fiscal 1986, the Division stated that automated systems are necessary to properly handle increasing caseloads and that its use of such systems results in higher productivity, the winning of cases for the government, and the saving of taxpayers' money.

ADP systems are of critical importance to other Justice components as well. For example, in March 1985 the Acting Administrator of the Drug Enforcement Administration testified before a congressional committee that its data bases need to be available to investigators on a 24-hour, 7-days-a-week basis. He further stated:

“There have been instances of downtime on the DOJ [Department of Justice] computer attributable to a variety of reasons such as planned maintenance and electrical or air conditioning outages. These instances result in the inability of investigators to secure the data they need in a timely manner and can adversely affect the development of cases.

At the present time, there is no assurance that the backup capability in place would be adequate because of the lack of a tested contingency plan and resources to staff the function.”

In so far as accounting systems are concerned, Justice stated in its annual report that a significant portion of its resources are accounted for by components' accounting systems which do not fully comply with the Comptroller General's requirements. These systems maintain administrative control of appropriated funds totalling almost \$4 billion.

The Financial Integrity Act requires agency heads to establish internal accounting and administrative controls that are consistent with standards prescribed by the Comptroller General and provide reasonable assurance that obligations and costs comply with applicable law; assets are safeguarded from fraud, waste, and abuse; and revenues and expenditures are properly recorded, accounted for, and reported. Given the nature of the accounting and ADP system weaknesses which Justice identified, and the degree to which such systems are relied on by Justice's components in carrying out their operations, we continue to believe that Justice's weaknesses are of such magnitude as to impair the ability of the Department's system of internal control, taken as a whole, to provide the reasonable assurance required by the act.

Justice's Concerns
Regarding Reporting of
Material Weaknesses

Justice stated our report iterates two concepts related to materiality with which it disagrees. The first is that once a material weakness is identified and reported, it remains material until all the corrective actions have been fully implemented and tested. Justice did not accurately portray our position. We believe that an identified material weakness ceases to be material when sufficient corrective actions have been taken so that the weakness is no longer material. All corrective actions need not be implemented, but enough need to be so that the weakness is no longer material.

The second concept with which Justice disagrees is the need to continually report material weaknesses until corrective actions have been fully implemented and tested. It stated its view that once a material weakness has been reported, the corrective actions developed and their implementation initiated, the material weakness need not be reported in succeeding years.

We disagree with Justice's position. The purpose of the annual report is to provide the Congress and the President an overview of the adequacy of an agency's systems of internal accounting and administrative control and to identify existing material weaknesses and plans for their correction. The report can then be used to determine the status of an agency's systems and the progress it is making toward improving them. Thus, until such time as identified material weaknesses are sufficiently corrected so that they no longer materially affect the adequacy of internal controls, they should be reported annually.

Justice Believes Sufficient
Testing Was Conducted

Justice stated that the scope of our review was limited, primarily focusing on four of its components, which prevented us from fully reflecting the extent of its testing efforts. It said we covered only the first year of a 2-year FIA cycle and that most of its testing is done during the second year. It also stated that internal inspections, audits, management reviews, and evaluations are done on a continuous basis by a significant number of professional staffs. Thus, it questions our statement that Justice did not make any in-depth tests of its internal control system in 1984.

Our review focused primarily on four of Justice's components, but those components accounted for over 70 percent of Justice's expenditures and personnel. Thus, we do not agree that our review was so limited it prevented us from evaluating the adequacy of Justice's testing efforts. These efforts, we continue to believe, were inadequate.

Justice acknowledged in its comments that a major portion of its in-depth testing is conducted exclusively in the second year of its 2-year internal control evaluation cycle, of which 1984 was the first year. Consistent with its cyclical approach to testing, and as we pointed out in this report, Justice initiated no in-depth reviews of internal controls in 1984.

Justice did make internal inspections, management reviews, and evaluations, and its auditors conducted numerous audits, which we and OMB recognize as acceptable post-vulnerability assessment approaches. However, these rarely have the scope necessary to allow managers to determine the overall status of controls. Further, the OMB guidelines, in providing management self-evaluation methodology, require that internal control reviews, which involve in-depth testing of controls in operation, be done on an ongoing basis. This is necessary for Justice to have an adequate basis for stating that its systems provide reasonable assurance that the act's objectives were met.

Justice also stated that as part of its review of accounting systems, it relied on prior audit and evaluation reports. We believe these reports also were not comprehensive and did not include appropriate testing techniques, such as performing control procedures on live transactions and comparing results, or direct testing of computer-based systems and controls by use of simulated transactions.

In our view, for Justice to know whether the systems central to its operations are adequate, crucial operating systems must be tested. We have often found in prior audits that breakdowns in internal control systems are the result of individuals not following prescribed policies and procedures which, if implemented, would provide necessary control. Because Justice initiated no in-depth tests to determine the adequacy of its key systems, it was not in a position to know if its systems, taken as a whole, complied with the act's requirements.

Justice disagreed for two reasons with our conclusion that their accounting system evaluations contained insufficient testing to know the extent to which the systems did not conform to the Comptroller General's requirements. Justice said that once a system is determined to be deficient in some area of operation, there is no sound reason to continue testing in that area and that we grossly understated the amount of testing done. Justice further said that we stated its accounting system certification was a "fair and accurate assessment." Thus, we agreed its testing efforts yielded sufficient evidence.

We agree that Justice's accounting systems do not conform to the Comptroller General's requirements and Justice's acknowledgement that they do not is a "fair and accurate assessment." However, the testing was not sufficient to determine the full extent to which the systems are not in conformance with the Comptroller General's requirements. We believe sufficient testing must be done to identify all significant existing weaknesses. Otherwise, there is little assurance that the corrective actions being taken will bring the system into compliance with the Comptroller General's requirements.

Further, we do not agree that we grossly understated the amount of testing done. Justice stated that about 200 transactions were tested by its Justice Management Division and an Immigration and Naturalization Service region and that in our draft report we acknowledged only about 20 tests. The Justice Management Division provided us documentation of tests done on 71 additional transactions, of which 6 evidenced sufficient testing. The remaining 65 either provided no indication of what was tested (in 5 cases) or dealt with payroll transaction verifications which lacked sufficient depth to determine whether transactions processed through Justice's central payroll system were accurate.

Immigration and Naturalization Service officials provided us documentation showing that over 100 transactions were reviewed and verified for accuracy to satisfy answers to the questionnaire used in evaluating the accounting system. However, the transaction reviews did not include the in-depth testing necessary to determine whether the system was accurately processing data. To do this, transactions must be tested through their full life cycle, from initial authorization through reporting in output records. In addition, Justice said its contractor tested transactions at field offices of four components. However, our review disclosed that the contractor did not make any in-depth tests of the systems in operation; rather, the contractor made quality assurance reviews of accounting system questionnaire responses at those offices.

**Justice Believes Field
Managers Were Adequately
Involved in Evaluations**

Although Justice agreed that field involvement is vital to the success of the act and noted that its guidelines stressed the importance of field involvement, Justice questioned our statement that excluding field managers from the process impinges upon the usefulness and reliability of assessment results. Justice stated that (1) while field activities are the point of origin for many financial transactions, only headquarters evaluations are able to determine whether reporting is uniform among field offices; and (2) the results of an Evaluation Staff's quality assurance

review of one assessment and an internal control review of another assessment showed that the overall perception of vulnerability when controls were evaluated by headquarters versus the field is virtually the same. Justice also stated that our report does not reflect the extent of field manager participation in the FIA evaluation process in that its larger components have a strong central management philosophy with daily field office contact and that about one-half of the 18 components with field structures involved managers to some degree.

Justice recognized that half of the components did not include field managers in the process and the remaining half included field managers to some degree (underscoring added). Three of the four largest components—Bureau of Prisons, Drug Enforcement Administration, and FBI—did not include field managers in the accounting system evaluations. These components account for about 56 percent of Justice's budget. Similarly, field managers of all four components did not conduct the vulnerability assessments of internal controls which were, instead, prepared by headquarters personnel.

The Federal Managers' Financial Integrity Act's ultimate objective is the establishment and maintenance of effective systems of internal control. The act and its accompanying evaluation process are intended to increase managers' awareness of the adequacy of internal controls over their operations and activities. Whether an organization is highly centralized or not, its delivery of services and performance of activities and functions are usually done in widely dispersed locations. It is in delivering these services and performing these activities and functions that internal control problems occur. Therefore, we believe that field managers, who each day are involved in delivering services and carrying out the agency's activities and functions, should meaningfully participate in the FIA evaluation process.

This concept is incorporated in OMB's evaluation process. Circular No. A-123, revised, which prescribes policies and standards to be followed by the executive agencies in complying with the act, states that all levels of management should be involved in assuring the adequacy of internal controls. The Circular also states the performance agreements for Senior Executive Service and Merit Pay or equivalent employees with significant management responsibility should include fulfillment of assigned internal control responsibilities.

Notwithstanding the results of Justice's reviews, we have found in numerous prior audits that field office systems often operate differently

from how headquarters managers believed them to be operating. For example, in our review of over 77,000 cases of fraud and other illegal activities in the government (AFMD-81-57, May 7, 1981), we concluded that the control weaknesses which were abused at the operating level were often caused by a lack of compliance with headquarters-issued policies and procedures.

To further emphasize the need for increased field involvement, Justice's contractor—hired in part to make quality assurance reviews of responses to several components' accounting system evaluation questionnaires—identified instances in which responses prepared by headquarters staff did not accurately reflect conditions as they existed in field offices. For example, at field offices of two of Justice's largest components, the Bureau of Prisons and the Drug Enforcement Administration, the contractor found that personnel were not aware of the requirements of the Financial Integrity Act and the Department's review process, although the headquarters-prepared questionnaire responses said otherwise. Another example is provided on page 33. Thus, we continue to believe that Justice needs to more fully involve its field office managers in the internal control evaluation process.

Justice Believes Progress Has Been Made

In summing up its comments to our report, Justice stated that it had made substantial progress in implementing the act and that it remained committed to correcting its material internal control and accounting system weaknesses.

Our report recognizes the progress Justice has made and evidences Justice's commitment to the act. Our basic disagreement is with Justice's conclusion that its system of internal control, taken as a whole, provides reasonable assurance that the act's objectives were met. Guidance was available regarding materiality and reasonable assurance to assist Justice in reaching its conclusion. These concepts were discussed and defined, and criteria were provided in first-year reports on the implementation of the act by the House Committee on Government Operations and by GAO (Report No. 98-937, August 2, 1984, pages 10 through 12; and GAO/OCG-84-3, August 24, 1984, pages 29 through 33, respectively). Both reports question whether agencies had reasonable assurance given the insufficient evaluations of their systems and the seriousness of reported material weaknesses.

We recognize that management judgement is involved in reaching a conclusion that the internal control systems, taken as a whole, provide reasonable assurance that the act's requirements have been met. In deciding whether their systems provide reasonable assurance, we believe agencies need to consider four factors collectively:

- the comprehensiveness and quality of the evaluation work performed,
- the significance of the weaknesses disclosed,
- the status of corrective actions, and
- the extent to which accounting systems conform to the Comptroller General's requirements.

In our opinion, unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until material weaknesses impairing the operation of the agency's key systems are substantially corrected, the agency head does not have an adequate basis to conclude that the agency's system of internal control provides reasonable assurance the act's objectives are met. Evaluations and corrective actions needed to address the act's objectives may take several years to complete. In other words, an agency may be making good progress toward that goal, yet not have progressed to the point where reasonable assurance can be provided.

Recommendations

We recommend the Attorney General ensure that:

- sufficient in-depth testing is done of the accounting, ADP, and internal control systems in operation; and
- field office managers are included in evaluations of the activities for which they are responsible.

Advance Comments From the Department of Justice

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. Department of Justice

Washington, D.C. 20530

OCT 9 1985

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

Dear Mr. Anderson:

This letter responds to your request to the Attorney General for the comments of the Department of Justice on your draft report entitled "Justice's Second Year Implementation of the Financial Integrity Act: Progress Made But Further Improvements Are Needed."

The draft report acknowledges the Department's commitment to the implementation of the Federal Managers' Financial Integrity Act (Act) and to improving its internal controls and accounting systems. Additionally, it cites a number of positive actions taken by the Department to bring accounting systems into conformance with the Comptroller General's requirements, correct reported material weaknesses, improve guidance to component organizations, and establish a training program on internal controls.

Chapter 3 of the draft report discusses weaknesses in the internal control process which, in the General Accounting Office's (GAO) view, impaired the Attorney General's ability to assert that the Department's internal control system, taken as a whole, provided reasonable assurance that the objectives of the Act were met. The Department disagrees with GAO's basis for this conclusion and questions whether GAO's interpretations are consistent with the intent of the Act.

In a recent letter to the Comptroller General, the Acting Director of the Office of Management and Budget (OMB) questioned GAO's basis for asserting that every one of the Cabinet agencies which provided "reasonable assurance" during the 1984 internal control process did not have sufficient basis for doing so. In terms of the Department, we concur with OMB's position. The most fundamental intent of the Act is to apply "reasonable assurance" as the primary standard for internal controls. This standard is articulated in OMB's guidance in which GAO also has concurred. The guidance does not require full, nor complete, nor absolute

See Comment 1.

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assurance, but reasonable assurance. The guidance indicates that an organization can provide reasonable assurance if it sufficiently evaluates and tests its internal control systems, incorporates the improvements and suggestions recommended by earlier GAO reports and agency audit and management reports, and corrects its known weaknesses. The Department of Justice and its organizations have met this standard for reasonable assurance. Consequently, we believe we are in compliance with the intent of the Act. GAO, it would appear, has redefined the standard to now require not reasonable assurance but absolute assurance. GAO's standard, in our view, exceeds those of the Act and OMB and "drives" the findings and conclusions of this draft report.

A principal element of auditing is a clear definition of the standard or criteria against which events or transactions are being measured. In the absence of a clear standard, determinations of adequacy or effectiveness are difficult to make and tend to become opinion. The report on page 17 asserts that the Department's accounting systems and automated data processing (ADP) and internal control weaknesses are of such magnitude as to impair the ability of the systems of internal control, taken as a whole, to provide reasonable assurance that the objectives of the Act are met. Several report comments indicate areas, in GAO's view, which should have been declared material weaknesses but were not. Neither the report nor past GAO guidance has provided clear standards or criteria to define materiality or reasonable assurance. In the absence of clear definitions, we believe that several of the draft report's assertions are an expression of opinion rather than an objective measurement of the Department's internal control performance. We believe GAO should concentrate on clearly defining and sharing with the executive branch the standards it will use to determine what constitutes a material weakness and "reasonable assurance."

The report also iterates two concepts related to materiality with which we disagree. The first concept is that once a material weakness is identified and reported, it remains material until all the corrective actions have been fully implemented and tested. This approach is unrealistic; it makes the assumption that corrective actions are ineffective until all corrective actions have been implemented and proven effective through testing.

In our view, once a material weakness has been reported, the corrective actions developed and their implementation initiated, the material weakness need not be reported in succeeding years. This approach is progressive and positive; it makes the assumption that Federal managers are capable of designing corrective actions and will conscientiously implement them. Furthermore, a material weakness may be mitigated and no longer material as the result of the implementation of several corrective actions, but not necessarily all corrective actions. We believe this positive approach

Now on p. 22.

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is preferable and in accord with the intent of the Act to identify and correct weaknesses through a reasonable system of self-assessment and self-initiative.

The second concept with which we disagree is GAO's approach to the annual assurance letter. Using the GAO concept, the assurance letter becomes a catalog of the material weaknesses identified by an agency over a period of years. The Department's accounting system illustrates the impact of such a concept. The accounting system's material weaknesses have been identified and reported, and corrective actions, including replacement of the system, have been developed and are being implemented. OMB has approved the replacement of the system. Full implementation of the corrective actions will take 5 years. Using the GAO approach, we will be required to report the accounting system as a material weakness each year until the new system is fully implemented and tested, a period of more than 5 years.

We see no benefit to continued reporting of a material weakness merely because corrective action will take more than one year to implement. In fact, we believe this approach defeats the intent of the Act, which is to provide annual reporting on the review of an agency's internal control systems. We also believe it will discourage agencies from reporting weaknesses as being material.

In reaching its opinion on reasonable assurance, GAO gives disproportionate weight to accounting and ADP systems. GAO concludes that these systems affect all of the Department's organizations. In our view, all programs are considered as significant parts of the entire internal control system of the Department. In determining a basis for reasonable assurance, those systems with material weaknesses should be considered in proportion to the total system of internal controls. Since the accounting and ADP systems represent a relatively small portion of the Department's activities, we do not believe that the noted weaknesses impair our ability to provide reasonable assurance for the whole Department of Justice.

Our position on reasonable assurance is supported in House Report 98-937 of the Committee on Government Operations (its report on the first year implementation of the Act) where it states at page 12:

"A middle ground reporting option may be necessary to permit agencies to state that they "have reasonable assurance (or are in compliance with the accounting principles) in all areas except . . ." and then list the areas in which they do not have reasonable assurance, or are not in compliance."

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The Attorney General's assurance letters for 1984 used a format similar to that suggested in the Committee Report. The Attorney General indicated that he could provide reasonable assurance; however, he acknowledged some internal control problems. We believe that this approach is fully consistent with the Committee's view. We are inclined to believe that had the Department used the word "except" instead of "however," the Attorney General's position on reasonable assurance might have been accepted. GAO's criticism is form over substance and we believe defeats the purpose of the Act.

See Comment 2.

The report identifies two specific criticisms pertaining to the Department's procedural implementation of the internal control process, i.e., testing and field manager participation. On page 34 of the report, GAO recommends the Attorney General ensure that:

Now on p. 42.

". . . [1] sufficient in-depth testing is done of the accounting, ADP, and internal control systems in operation; and [2] field office managers are included in evaluations of the activities for which they are responsible."

The report primarily focused on four of the Department's agencies. Because of this limited scope, the report does not fully reflect the extent of either the Department's testing efforts or field manager participation. In addition, the report covered the Department's activities during only the first year of a 2-year cycle. Thus, the report fails to consider much of the testing performed by the Department.

The Department's internal control evaluation process is conducted over a 2-year cycle; the first year is the vulnerability assessment phase, the second year is the post-vulnerability assessment action, or internal control review, phase. In-depth testing is one component of the internal control review phase, therefore, a major portion of the testing is conducted exclusively in the second year of the process. Both GAO and OMB were made aware of this concept prior to implementation of the 2-year cycle and commented positively after reviewing Parts I and II of the Department's internal control guide which outlines this approach. We believe these positive comments represented GAO's approval of the 2-year approach.

See Comment 3.

Furthermore, internal control reviews are not the only vehicle through which the Department conducts tests. Testing is conducted on a continuous basis by a significant number of professional staffs throughout the Department. These staffs are engaged in conducting internal inspections, audits, management reviews, and evaluations. According to the OMB Guidelines, Chapter IV, page 13, these types of reviews, along with internal control reviews, are acceptable approaches to post-vulnerability assessment action.

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Some examples of testing conducted by the Department outside of the actual conduct of an internal control review are: the recent audit by the Justice Management Division (JMD) Audit Staff on duplicate payments at the Bureau of Prisons (BOP), Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), Immigration and Naturalization Service (INS), Office of Justice Programs (OJP), and JMD; an audit of small purchases within the Offices, Boards, and Divisions; and a review of fourth quarter spending departmentwide. If GAO concurs with OMB's guidance on internal controls, as they indicate in the report, then GAO accepts the concept of alternatives to full scale internal control reviews. This means that ongoing audits, management reviews, etc., provide ongoing testing of the Department's internal control systems. For these reasons, we question GAO's statement on page 29 of the report that "Justice did not make any in-depth tests of its internal control system in 1984."

Now on p. 30.

With respect to the sufficiency of the tests made, the Department takes exception to GAO's conclusion that the Department's accounting system evaluations contained insufficient testing to know the extent to which the systems did not conform to the Comptroller General's requirements. Sufficiency of evidence, according to GAO's audit standards, is the presence of enough factual, adequate and convincing evidence to lead a prudent person to the same conclusion reached by the auditor. The GAO review team, in the closeout conference, called the Department's accounting system certification a "fair and accurate assessment." Thus, GAO agrees that there was sufficient evidence for concluding the Department's accounting systems do not conform to the Comptroller General's principles, standards, and related requirements. However, the report states that the Department's accounting system evaluations contained insufficient testing to know the extent to which the systems did not conform.

We object to GAO's conclusion for two reasons. First, once it is determined that a system is deficient in some area of operation, there is no sound reason to continue testing in that area. Second, the amount of testing performed by the Department is grossly understated by GAO.

Now on p. 30. See
Comment 4.

The report states on page 28 that JMD and one INS region each tested about ten transactions. The fact is that JMD tested nearly 100 transactions, and INS tested in excess of 100 transactions at a regional office. The workpapers describing the transaction testing that was performed were made available to the auditors. In addition, the Department's contractor tested transactions at a number of field offices of BOP, DEA, and the U.S. Marshals Service as well as INS regional offices.

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In the Department's review of accounting systems, considerable reliance was placed on the results of prior testing by the various bureau internal review groups and the Departmental Audit Staff. This approach was taken in accordance with the Office of Management and Budget Guidelines for Evaluating Finance and Accounting Systems and with GAO guidance on internal control reviews.

The Department agrees that field involvement in the internal control process is vital to the success of the Act and the importance of field involvement is stressed in the Department's guidelines for implementing the Act. The method of involvement appears to be the issue discussed in the draft report. During the 1984-1985 internal control cycle, approximately one-half of the 18 component organizations having a field structure involved field managers to some degree during the evaluation period. The larger components, primarily the bureaus, maintain a strong central management philosophy that routinely involves daily field contacts, supervisory field visits, and headquarters evaluation or monitoring staffs which perform vulnerability assessments and internal control reviews at field locations with the participation of field managers. In some instances, the field managers are involved directly in the evaluation, in other instances, field managers have an opportunity to comment on the vulnerability assessments, such as the FBI, where each assessment is sent to three different field divisions for comments and recommendations.

A major concern of the larger Justice organizations is the need for continuous oversight of their centralized accounting and reporting systems, which require uniformity and consistency in reporting. While the field activities are the point of origin for many financial transactions, only headquarters level evaluations are able to determine whether reporting is uniform among the field offices. An overview of a given program area, in conjunction with field manager participation, provides opportunities to determine that policies and procedures are being interpreted and applied correctly and uniformly at all field locations and that the system is meeting management needs and objectives.

We question GAO's statement on page 32 "that excluding field managers from the assessment process impinges upon the usefulness and reliability of assessment results." The Evaluation Staff's quality assurance review on the handling and storage of evidentiary drugs as well as BOP's internal control review on dental care for its inmates showed, for example, that the overall perception of vulnerability, when controls were evaluated by headquarters versus the field, is virtually the same. In the case of the internal control review on dental care completed by BOP, the difference was only 2.2 percent. We believe these results validate the assumption that headquarters managers can adequately assess the vulnerability of their field programs with the participation of field managers.

Now on p. 32.

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The GAO report addresses ADP security and erroneously concludes that ADP security problems identified by Office of Information Technology (OIT) reports evidence Departmentwide internal control weaknesses. The OIT examples GAO uses to describe ADP security weaknesses are unique and isolated to specific program areas. GAO is incorrect in extrapolating and generalizing from such singular weaknesses and then applying these weaknesses to all of the Department's ADP systems. Furthermore, if GAO considered the identified security problems to be of such magnitude as to be "material weaknesses," they would have so concluded in their report.

During the audit, GAO evaluators were fully apprised of long-term actions being taken by OIT to assure that appropriate internal controls exist in those areas where weaknesses reported by OIT are within its responsibility and control. We believe that OIT is in compliance with the Act, has openly disclosed its reported vulnerabilities, and is continuing to undertake corrective measures to assure that appropriate internal controls are in place.

The draft report also specifically addresses INS security. During calendar year 1984, INS implemented its internal control process in accordance with OMB Circular A-123, Internal Control Systems, and DOJ Order 2860.3, Implementation of the Federal Managers' Financial Integrity Act and the OMB Circular 123, Internal Control Systems. The INS vulnerability assessment process did indicate that the area of ADP security was a high risk area for which an internal control review should be performed. The results of the vulnerability assessment process were subsequently validated by the conviction of two INS computer analysts in April 1985 for operating a scheme to fraudulently generate alien registration identification cards at a contractor-operated data center. As a result of this, the INS Office of Professional Responsibility is currently conducting a review of significant problems associated with security of INS automated systems and, when completed, will make recommendations for enhanced security and accountability over its computerized systems.

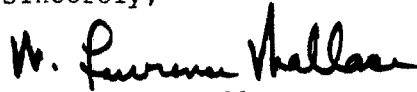
Overall, the Department believes that substantial progress has been made in the second year of implementation of the Act. Considerable effort and resources have been expended in upgrading current systems, preparing to implement new or improved systems, and conducting vulnerability assessments and internal control reviews. Moreover, we remain committed to the correcting of our material internal control and accounting system weaknesses to provide reasonable assurance that the Act's objectives are met.

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We appreciate the opportunity to provide comments on the report while in draft form. Should you have any questions concerning our comments, please feel free to contact me.

Sincerely,



W. Lawrence Wallace
Assistant Attorney General
for Administration

The following are GAO's comments on the Department of Justice's letter dated October 9, 1985.

GAO Comments

1. Our position concerning reasonable assurance is consistent with the act's requirement that agencies make their year-end statement based on whether their systems provide reasonable—and not absolute—assurance that the statutory objectives are met. This position is fully discussed in GAO's October 17, 1985, letter to the Acting Director of OMB.
2. Our disagreement with Justice's reasonable assurance statement is based primarily on the magnitude of its systems' weaknesses, not on the use of "except" or "however."
3. We did not approve the 2-year cycle approach.
4. On the basis of Justice's comments, we revised the number of transactions tested from 10 to 16 on page 30 of this report.

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