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FINANCIAL MANAGEMENT

Serious Deficiencies in State's Financial Systems Require Sustained Attention

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The President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review of the State Department's accounting and financial management operations and systems. It addresses the major weaknesses in those operations, describes State's ongoing efforts to correct known problems, and identifies actions which could result in the improved usefulness and relevance of State's internal and external financial reports.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the House Committee on Government Operations, the Secretary of State, and other interested parties. Copies will be made available to others upon request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Civil Audits, who may be reached at (202) 275-9454 if you or your staff have any questions. Other major contributors to this report are listed in appendix II.

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Executive Summary

Purpose

The Department of State accounts for over $5 billion in annual appropriations using a network of financial systems worldwide. Under the Federal Managers' Financial Integrity Act, State has reported serious and long-standing problems involving these systems, which caused the Office of Management and Budget (OMB) to designate State's accounting and financial systems as highly susceptible to risk of loss. GAO examined State's financial operations and systems problems and efforts to overcome them in relation to the comprehensive financial management improvement requirements of the Chief Financial Officers (CFO) Act of 1990.

Background

State carries out foreign policy to promote the goals and security of the United States. The Department's mission is performed by thousands of employees at over 250 posts around the world and includes disbursing billions of dollars annually and managing about 10,000 properties abroad.

The Chief Financial Officers Act of 1990 requires agencies to have strong leadership, organization, and staff to develop and operate financial systems. Also, the act requires agencies to (1) develop financial systems which provide managers useful and relevant cost, performance measurement, and other financial information and (2) guide financial systems modernization efforts through comprehensive improvement plans.

Results in Brief

State's financial operations and systems are weak and have been for many years. Responsibility for financial management has been fragmented. State's financial operations continue to be hampered by inexperienced and inadequately trained financial management staff. Also, domestic and overseas financial systems are incompatible, have been allowed to deteriorate, are out of date, and are unable to meet managers' cost, performance measurement, and other financial information needs. For example, State's financial systems do not provide a general ledger to facilitate the preparation of auditable financial statements.

State's management has acknowledged the seriousness of its problems. To meet the CFO Act's requirements and conform its financial systems to federal accounting requirements, it has taken initial actions to strengthen its CFO structure, to start addressing the problem of fragmented responsibilities, and to begin developing an overall strategy for resolving its long-standing financial management weaknesses. Under State's strategy, (1) additional organizational realignment is likely, (2) staffing is to be bolstered, and (3) in the long-term, financial systems problems are to be corrected through standardized and integrated worldwide systems. Support for these actions will have to be sustained as State faces formidable challenges in reforming financial management. A financial systems improvement plan is critical to guiding State's efforts to standardize and integrate financial systems, and the financial information needs of managers and others will have to be identified and documented.

Principal Findings

Financial Management Problems Are Serious and Long-Standing

Overall, State's financial systems are not integrated or adequately documented, involve redundant operations, are inadequately controlled, and are not operated in an efficient or reliable manner. Further, State's financial systems do not meet applicable accounting requirements. Past efforts to remedy these problems have not been effective. Four years after work was started, State's primary domestic financial system is not yet fully installed, has computer hardware and software limitations, and is not reliable. Also, more than 10 years after initial development work began, State's main overseas financial system is not yet completely implemented and has already become obsolete. In addition, State's financial managers cite the lack of fully qualified and trained staff as a primary impediment to the Department's financial management operations.

As required by the CFO Act, State has recently consolidated many financial operations under the CFO. It has not, though, given the CFO direct control of all financial operations, such as those performed by overseas posts. Instead, the posts' financial management operations are to be performed under CFO-directed policies and based on a delegation of authority from the CFO to State's various bureaus which are responsible for post operations. This form of organization is not conducive to remedying State's severe overseas financial management problems. It will, therefore, be important that the CFO closely monitor how well the overseas posts perform financial operations to determine if the CFO's direct control over these operations is needed.

Financial Information Shortcomings Are Widespread

Historically, State has focused attention on developing financial systems to satisfy fund control requirements rather than to provide financial information needed to manage operations. Also, State's domestic and overseas financial systems do not provide a general ledger, which is necessary to control financial transactions and facilitate the preparation of reliable financial statements.

In addition, State's financial systems do not provide disbursement information needed by other federal agencies on whose behalf State makes disbursements nor do these systems provide cost information to property managers for use in managing State's large property holdings. Both of these operations are designated by OMB to be highly vulnerable to loss. Further, State's personnel managers do not have financial information to assess the performance of pension plans for foreign national employees or report State's liability to make separation payments to these employees.

State Has a Financial Management Improvement Strategy

To comply with the CFO Act, State has revised and strengthened its efforts to improve financial systems and operations. State's overall strategy involves (1) organizational changes, (2) staffing considerations, and (3) financial systems modernization projects. For example, State recognized that trained specialists are needed to supplement the skills and knowledge of its financial staff.

Also, State's long-range goal is to have a worldwide standardized and integrated financial management system. To reach that goal, short-term remedial efforts are necessary and are underway. These efforts include improvement of the primary domestic financial system through faster on-line response time, streamlined processing capabilities, and better system linkages. For now, State appropriately has halted further installation of its principal overseas financial system enhancements. It is clear that short-term remedial actions are necessary before major systems changes are undertaken.

Additional Actions Would Enhance Improvement Efforts

In addition to State's current strategy, other actions would help ensure that financial management improvement efforts are successful. It is important that State ensure that useful and relevant financial information is the primary objective of future financial systems modernization efforts. Also, implementing a continuous process to improve financial operations and systems that has top management's strong support and commitment would ensure that long-term efforts are sustained.

A comprehensive financial management systems improvement plan that includes milestones and establishes clear responsibility for results would provide a framework for carrying out State's overall financial management improvement strategy and help to assure continuity of effort. Giving top priority to improving State's existing financial systems' basic accountability, discipline, and accuracy would help ensure that financial reports are reliable and timely. Once a plan is established, it is important for the CFO to follow through by seeing whether financial management changes have been effective.

Recommendations

GAO is making several recommendations to the Secretary of State to help strengthen the Department's financial operations and systems through such actions as directing the CFO to (1) give top priority to resolving fundamental financial problems and emphasize short-term actions, (2) monitor long-range standardization and integration efforts, and (3) ensure that future financial systems development and enhancement projects incorporate reporting requirements to meet users' needs.

Agency Comments

Although State did not address GAO's specific recommendations, the Department's comments were generally supportive of the report's basic thrust. State discussed its short- and long-term improvement actions, such as those to develop a comprehensive plan focusing on key goals and to improve the accuracy of financial data. State said also that its worldwide standardization and integration project would include user involvement in determining financial requirements and that GAO's report would be of substantial assistance in that effort.

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Abbreviations

CFMS	Central Financial Management System
CFO	Chief Financial Officer
OFMS	Overseas Financial Management System
OMB	Office of Management and Budget

Introduction

This report discusses State's efforts to improve its long-standing financial management operations and systems problems. Because of the serious deficiencies State reported since 1983, the Office of Management and Budget (OMB) identified the Department's accounting and financial management operations and systems as a high risk area.

Background

The Department of State's mission is to (1) advise the President on the formulation and execution of foreign policy to promote the long-range goals and security of the United States, (2) represent diplomatic and national interests to countries abroad, and (3) conduct consular relations, including passport services to United States citizens. State's activities also include foreign and domestic security and counterterrorism activities, a medical program for foreign service and other civilian personnel stationed overseas, and administrative services at posts worldwide.

State's mission is carried out at over 250 foreign posts worldwide by about 22,000 American citizens and foreign nationals. State receives about $5 billion in appropriations annually, which is accounted for and controlled through a network of 52 domestic and overseas financial systems and subsystems.

State's Chief Financial Officer (CFO), who serves as the Department's comptroller, has overall responsibility for State's financial management operations and systems. These responsibilities include (1) planning, developing, and preparing the budget, (2) issuing allotments to State's organizational components, (3) conducting payroll and accounting operations, and (4) overseeing financial system design, development, implementation, and maintenance. The CFO reports to the Secretary of State on financial matters and to the Under Secretary for Management on other management matters.

The Bureau of Finance and Management Policy, headed by the CFO, directs State's domestic and overseas financial management operations. Domestic financial management operations are carried out by financial managers located in the State Department's headquarters bureaus. Overseas financial management operations are carried out by American foreign service officers and foreign service nationals at State's regional administrative management centers and its posts worldwide.

Other federal agencies depend on State's financial management systems for information on disbursements made overseas on their behalf. These agencies include the Department of Defense, the United States Information Agency, and the Agency for International Development.

The Chief Financial Officers Act of 1990 (Public Law 101-576) mandates federal financial management reform. The act requires agencies' financial systems to be developed and maintained under a strong CFO organization and calls for long-range planning. The act requires agencies' financial systems to provide managers useful and relevant financial information, including financial statements for specified activities and cost, performance measurement, and other accountability reports.

Objectives, Scope, and Methodology

The objectives of this report are to discuss State's previously recognized financial management problems and assess actions planned to resolve them in light of the CFO Act requirements. We also discuss the unmet financial information needs of State's managers and others which our work identified and which result from State's poorly designed systems.

To develop information on State's financial management problems, we relied on previous audits we and State's Inspector General conducted and evaluations the Department performed pursuant to the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b), (c)). We also reviewed State's organization and function statements and financial management policies and procedures. Further, we interviewed State's top financial managers, including the CFO and Deputy CFO, and budget officers, as well as officials from State's Inspector General office. We interviewed State Department program and financial management officials at selected domestic and overseas offices to gain perspective on the challenges State faces in managing financial activities and current financial systems and operations. In addition, we reviewed a consultant's March 1990 and August 1991 reports on State's domestic financial operations and accounts receivable functions.

To identify State's actions to improve financial systems and operations, we reviewed the Department's financial management improvement plans and other information resource systems planning documents, and we discussed major financial management systems improvement efforts with State officials. We also obtained descriptions of State's financial systems and the key subsidiary financial management systems which support them. Our review focused primarily on State's principal domestic and overseas financial systems, which we observed in operation.

In addition, we examined State's organization plan for implementing the CFO Act. Also, we discussed State's efforts to carry out the requirements of the act with the CFO and Deputy CFO.

We performed our work at State's headquarters in Washington, D.C. We also visited the United States embassies in Mexico, Canada, Honduras, Guatemala, Belize, Egypt, Kenya, Jordan, The Philippines, Bangladesh, and Sri Lanka.

We conducted our review between August 1990 and April 1992 in accordance with generally accepted government auditing standards.

The Department of State provided written comments on a draft of this report. These comments are presented and evaluated in chapters 2 and 3 and are reprinted in appendix I.

The remainder of this report is organized as follows. Chapter 2 addresses State's financial management organization, personnel, and systems. In that chapter, we point out where these areas are weak and the factors contributing to the weaknesses, describe State's strategy under the CFO Act and other initiatives for overcoming financial operation and systems weaknesses, and discuss further actions that are necessary. Chapter 3 addresses State's financial information deficiencies and actions that could result in useful and relevant financial reporting.

Financial Operations and Systems Are Weak

State acknowledges that it has serious financial management problems, including financial systems that do not meet federal accounting requirements and are outdated, labor-intensive, and incompatible. Many factors have contributed to State's financial management weaknesses.

- Financial management leadership had not been centralized with overall control of financial operations.
- Financial operations have not been adequately staffed and the skills of employees have not been maintained at a high level.
- Financial systems were incompatible and allowed to deteriorate and become antiquated.
- Efforts to correct financial system problems (1) did not have top management's attention and commitment, (2) were not guided by a comprehensive improvement plan, and (3) were not focused on designing systems that are standard, integrated, and meet applicable requirements.

In implementing the CFO Act, which was intended to improve agency financial systems and information, State has renewed efforts to resolve long-standing financial systems problems. Most financial operations are now organized under State's CFO, and financial management staffing and personnel capabilities are to be bolstered. Also, State has short- and long-term initiatives underway to address deficiencies in its financial systems, which support both domestic and overseas financial operations.

State's financial operations and systems problems will not be overcome easily or quickly, as they are deeply rooted and long-standing. However, State's efforts under the CFO Act form a foundation from which State can progress toward strengthening financial operations by implementing modern financial systems worldwide. As the CFO Act and OMB requires, State is to prepare a comprehensive financial management systems development plan, which will provide a means of guiding State's financial systems modernization effort.

State Has Reported Serious Financial Operations and Systems Problems

State has reported serious and long-standing financial systems problems under the Federal Managers' Financial Integrity Act of 1982. In December 1991, State's report concluded that, overall, the Secretary was unable to certify that the Department's financial systems comply with applicable accounting requirements. State's lack of compliance includes the following areas:

- A system of general ledger and subsidiary accounts is not maintained and the accrual basis of accounting[1] is not fully used.
- Significant elements of cost are not consistently reported.
- Reports are not generated on a timely basis.
- Payroll systems contain inadequate controls and do not meet payroll/personnel standards.
- Real property records are incomplete and unreliable.
- Financial systems are not integrated or adequately documented, involve redundant operations, are inadequately controlled, and are not operated in an efficient or reliable manner.

State has reported similar financial operation and systems problems since 1983, when the first reports under the Federal Managers' Financial Integrity Act were required. State's December 1991 report under the act stated that considerable effort was still necessary to meet the financial management and accounting needs of the Department's program and resource managers. Also, State correctly described its financial systems modernization effort as a monumental task that will require a great deal of time and effort to implement.

Responsibility for Financial Operations Has Been Fragmented

Historically, State's financial management responsibilities have been fragmented. The lack of centralized leadership and control of the Department's financial operations and systems led to duplication of effort and did not ensure that effective financial management practices were used throughout the Department.

For example, prior to 1990, the Bureau of Finance and Management Policy was responsible for the Overseas Financial Management System's (OFMS) design, development, and implementation. However, another office, the Office of Information Management, was responsible for accounting systems operated at State's three overseas regional administrative management centers.

In December 1989, State's Inspector General reported that while these systems provided similar services, they competed with each other, resulting in duplication of effort and causing an environment that was not cost-effective. The Inspector General's report said that, because financial management oversight was fragmented, the Bureau of Finance and Management Policy's control over some financial matters was limited and

[1]The accrual basis of accounting involves recognizing financial transactions during the time period in which they occur, regardless of when the related cash is paid or received.

recommended that the Bureau be given responsibility for overseeing all overseas financial operations. In May 1990, responsibility for financial operations at State's overseas regional administrative management centers was transferred to the Bureau of Finance and Management Policy. However, financial operations at State's overseas posts continued to be the responsibility of other headquarters bureaus.

More recently, State's CFO organization plan, which OMB approved on July 17, 1991, established a similar financial management organization structure wherein only personnel involved in domestic and overseas regional administrative management centers' financial operations report to the CFO. State established a special task force to review, during fiscal year 1992, the organization and operations of overseas regional administrative management centers. State anticipates that, based on the results of this study, additional changes will be made to its financial management organizational structure and the Bureau of Finance and Management Policy's role and responsibility will be further clarified.

The CFO Act requires that an agency CFO oversee all financial management activities relating to the programs and operations of the agency. The act envisions that an agency CFO's responsibility will extend to every aspect of financial management related to operating agency programs. To implement this requirement, OMB's February 1991 guidance to agencies for preparing organization plans under the act reiterates that an agency CFO is to have agencywide financial management authority and responsibility.

Presently, State does not intend to bring financial operations at overseas posts directly under the CFO. The financial management staff at these posts, which include embassies and consulates, report directly to the ambassador or senior post official. These officials receive financial direction and funding from five of the Department's bureaus, which are headed by assistant secretaries.

While performing financial operations at State's overseas posts under the CFO's direct authority would be the ideal situation, the large number of State's posts around the world may make this impractical. Thus, the CFO plans to delegate control of financial management at State's overseas posts to various Department bureaus, which are then to operate under CFO-directed policies. In this way, the CFO will assert overall responsibility and make a delegation of authority with the caveat that the CFO's policies and procedures are to be followed. At the completion of our review, the

CFO had not yet developed and issued the necessary policies and procedures to implement this arrangement.

Once issued, however, a delegation of authority in itself will not ensure that the CFO's policies are carried out. For this reason, it is important that the CFO clearly convey the message that field installations are to follow CFO guidance. The key is the CFO's active involvement through review of the posts' implementation of financial policies and practices. Thus, it will be important for the CFO to establish a process to monitor how the Department's bureaus exercise their authority and determine whether overseas posts are effectively following CFO policies. In the event that the CFO's policies are not being followed, consideration could be given to bringing the overseas post financial operations directly under the CFO's control.

Inadequate Staff Resources Impede Financial Operations

State's top financial managers cite a lack of staff resources as a major impediment to the Department's financial management operations. Recognizing the importance of adequate staff resources, the CFO Act places with agency CFOs responsibility for recruiting, selecting, and training personnel to carry out agency financial management functions. OMB's February 1991 guidance states that agency CFO's shall have authority to provide agencywide policy advice on financial management staffing matters. As with many federal agencies, State faces the challenge of attracting and retaining an adequate number of people with the necessary skills to staff financial operations.

Also, State's CFO advised us that financial management staff lack necessary skills, knowledge, and expertise. OMB's April 1992 governmentwide financial management status report[2] states that staff training needs are high throughout the Department's entire financial management organization. A shortage of adequately trained and skilled staff to effectively run financial management operations at State's posts is a long-standing problem, which was first identified in State's 1988 Federal Managers' Financial Integrity Act report. The problem is a material weakness and remains unresolved.

Also, we found that, because of budgetary constraints, post managers, such as those in Honduras, are downsizing their foreign national workforce, which forms the backbone of the financial management staffs

[2]Federal Financial Management Status Report and 5-Year Plan, OMB, April 1992, which is required by the CFO Act to be prepared and reported to the Congress annually.

at overseas locations. Such reductions can also exacerbate a post's internal control problems by causing breakdowns in the separation of financial management duties, which is a basic internal control practice to help ensure that errors and irregularities are prevented or, at least, detected. For example, a foreign service national at one post we visited handled most aspects of that post's foreign service national payroll operation. That operation included (1) processing time and attendance information, (2) preparing and submitting payroll changes, (3) receiving and distributing paychecks, and (4) receiving and distributing annual salary reports for all foreign service nationals. This clerk was also able to enter and change her own payroll information and oversaw reporting income and withholding information to the host country.

To identify ways to attract and retain financial management staff, OMB provided a professional government accounting group's study to agency CFOs on this subject in July 1992. To help identify key issues and solutions to ensure the adequacy of State's financial management of human resources, the CFO can use the study's recommendations, which include implementing college recruiting programs, using cooperative education and internship programs, and establishing placement programs.[3]

Also, professional development and training experiences can enhance staff expertise. Further, CFO support of a continuing education policy for agency financial managers is important in maintaining a well-trained and qualified financial management work force. Such a policy is recommended by the Joint Financial Management Improvement Program[4] in its December 1990 report, Continuing Professional Education: Federal GS-510 Accountants.

State officials told us that actions planned to overcome financial management staff shortages include supplementing existing staff with trained specialists. In addition, State plans to bolster the skills and knowledge of present personnel through training exercises, opportunities to gain additional experience, and increased emphasis on their supervision.

[3]A Blueprint for Attracting and Retaining Financial Management Personnel, The Association of Government Accountants, Alexandria, Virginia.

[4]The Joint Financial Management Improvement Program is a cooperative undertaking of OMB, the Department of the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout government.

Financial Systems Are Deficient

State's domestic and overseas financial operations are supported by a network of financial systems and subsystems fraught with problems. The CFO Act requires agencies to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls which (1) comply with applicable requirements, (2) provide complete, reliable, consistent, and timely information, and (3) report comparable accounting and budgeting information, as well as information on cost and performance measurement.

Primary Domestic System Is Seriously Impaired

State's primary domestic financial system is the Central Financial Management System (CFMS), which operates using off-the-shelf software[5] that is being modified to meet State's needs. The system is intended to (1) provide a full range of accounting and financial reporting functions, including a general ledger[6] to account for all types of assets and liabilities and (2) link domestic and overseas subsidiary financial systems. Implementation of this system has been underway for almost 4 years.

Currently, CFMS functions primarily as a fund control system which ties financial transactions to appropriations and budgets. The system provides State managers with on-line access to information such as that related to current-year allotments, obligations, and disbursements. As of October 1991, this initial operating component of CFMS had been installed at State's 30 domestic bureaus.

However, in documents used to brief the Under Secretary early in 1992, State reported that CFMS's hardware and software has limitations and is not yet reliable. Also, fund control information for fiscal years prior to a bureau's implementation has not been transferred to the system and information on State's assets and liabilities to support the system's general ledger are not recorded in CFMS. Further, the system is not capable of reporting on all types of appropriations, such as no-year appropriations.

In addition, CFMS data are incomplete because the software necessary to link the system with many of State's financial subsidiary systems has not yet been developed or is not operating effectively. As a result, (1) some data cannot be processed or processed promptly, causing data backlogs

[5]An off-the-shelf system is a preexisting software package which can be purchased and is intended to be implemented more quickly and at less expense than unique, specially developed software systems.

[6]A general ledger provides the highest level summary of all financial transactions which affect an agency's asset, liability, equity, revenue, and expense accounts.

and (2) a large volume of transactions cannot be accepted for entry into the system, causing rejected transactions. Also, because of hardware capacity limitations, CFMS may soon have serious problems meeting on-line response time expectations, which could limit the system's effectiveness. Previously, CFMS experienced similar problems which State overcame. However, an independent consultant's study predicts the response time will again deteriorate and become unsatisfactory when the system's workload increases, which will occur as the system begins processing additional transactions, such as those related to post travel, American salaries, and the Department's working capital fund. Subsequent to our review, State advised us that, in June 1992, it completed conversion to new automated equipment with larger capacity, which it says has improved response time.

Weaknesses such as those just described demonstrate the importance of sustained top management attention to State's serious financial systems problems, which earlier efforts have not resolved. Pending completion of long-term financial systems redesign or development, which we discuss later, it is essential that State's existing systems be improved to establish basic accountability, discipline, and accuracy in the near term. This involves giving top priority to making existing systems work better by addressing fundamental requirements, such as controlling transaction processing, to ensure financial reports are reliable and timely.

The CFO has several short-term initiatives underway to address CFMS's problems. For example, State's recent computer equipment conversion would reduce the length of time required for the system to respond to inquiries and improve the system's ability to handle voluminous amounts of data, which would help reduce data backlog problems. Initiatives expected to be completed in fiscal year 1993 include developing better interface processing, which would help overcome problems stemming from systems that are not adequately linked and have incompatible data.

Principal Overseas System Is Severely Limited

OFMS is the principal accounting system operated at State's 23 overseas financial management centers and 2 of its 3 regional administrative management centers. The system is designed to account for, control, and report on the use of appropriated funds at these sites and is intended to provide summary financial information to CFMS for departmentwide financial reporting. However, it presently accounts for only about 55 percent of State's overseas transactions. The remaining transactions are accounted for at overseas posts through multiple, nonstandard systems which OFMS was intended to replace.

State began developing OFMS over 10 years ago as an on-line system to replace several different nonstandard and outdated manual and automated accounting systems at overseas posts. Over this lengthy developmental period, as described by State financial officials, OFMS has itself become obsolete. As a result, the future direction of OFMS is uncertain.

State initially planned OFMS as a standard overseas accounting system. However, this objective was never achieved. For example, each regional administrative management center modified the system to operate in a batch mode and to meet its own needs. Thus, State's overseas regional administrative management center financial operations, in effect, operate four nonstandard systems (OFMS and a modified version at each of the three regional centers). In addition, because the centers operate a batch processing version of the system, rather than an on-line application, the systems' data is not as immediately updated as originally intended.

During our visits to overseas posts we observed other OFMS problems. For example, the system is labor-intensive, difficult to use, and time-consuming. A summary of our observations follows.

- At the financial management center in Mexico City, clerks entered payment vouchers directly to the system, which took 10 to 15 minutes for each voucher and used four individual screens. The individual screens used to input payment transactions were not designed to automatically transfer data from screen to screen. Consequently, previously entered information had to be reentered, which was inefficient and increased the chances for errors. Concerning this process, an April 1992 independent consultant's evaluation of OFMS concluded that the system was not designed to minimize the steps needed to record a transaction and that no meaningful automated support was provided for recording repetitive entries.
- At the embassy in Guatemala, financial management staff used four computer terminals—a master terminal and three satellites—to record daily accounting transactions on magnetic diskettes. The following morning, a voucher examiner gathered the satellites' diskettes and transferred their data into the master terminal. The master terminal data was then summarized and electronically forwarded to the regional administrative management center in Mexico City. The April 1992 consultant's study indicated that the serviced posts consider this practice

awkward and time-consuming and, in some instances, it can take as long as 2 hours to consolidate and transfer information.

- At the embassy in Honduras, we learned that the post was resisting the installation of OFMS. The post's Budget and Fiscal Officer told us that he was aware of the start-up problems neighboring posts were having and was concerned about the reduction in computer resources associated with the new system. According to State officials, implementation of OFMS would require this post to reduce the number of terminals to four, which is the maximum available to posts serviced by the system.
- At the regional administrative management center in Mexico, work was underway to reconcile $50 million in differences between its disbursement records and those of Treasury. A reconciliation had not been made since 1986, or for more than 5 years, and the problem was brought to top management's attention in 1990 when a newly appointed disbursing officer refused to certify the center's financial reports. The center's reconciliation difficulties are due, at least in part, to problems in the reliability of disbursement information from OFMS and another older regional accounting system which the center also uses. Because of problems such as those at the Mexico regional administrative management center, OMB considers State's worldwide disbursing operation to be highly vulnerable to loss.

Because of OFMS's problems, the CFO plans to (1) limit the number of additional overseas posts at which OFMS will be installed, (2) restrict activities to those necessary to support the system's existing users, and (3) minimize enhancements to those critical to existing operations or mandated by regulatory change. Further, State plans to review overseas financial operations to determine whether OFMS will be installed at additional overseas posts.

Worldwide Standardization and Integration Is Planned

Long-term, State plans to modify its financial systems so that its accounting data worldwide is processed uniformly and validated based on a standard criteria. Nonstandard and nonintegrated financial systems are major factors which obstruct State's ability to produce data that are consistent and reliable.

Between fiscal years 1993 and 1999, State expects to improve accounting for both domestic and overseas offices through an effort to standardize and integrate its primary and subsidiary accounting systems. State has already begun planning this effort. However, if this project is to succeed, it will be important for State's CFO to maintain an agencywide focus and centralized control. Clearly defining the financial systems' eventual hardware, software, and communication structure is also very important. Ultimately, financial information in both financial and program systems needs to be compatible and linked together where necessary so that reported information is complete and reliable.

A Detailed Systems Development Plan Is Key to Financial Management Improvement

State has defined its overall financial systems improvement strategy in broad terms, but carrying out the strategy will take a number of years, perhaps into the next century, and is likely to span the terms of several top management teams. Thus, turning State's strategy into a detailed comprehensive financial management systems development plan will be key to guide State's overall efforts to strengthen financial systems and operations, gain top management's support for these efforts, and achieve the CFO Act's vision of meaningful improvement.

In discussions with State's CFO and Deputy CFO, it was evident to us that they recognize the need to re-evaluate current operational policies. State readily acknowledges that it has had its share of systems development problems; for that reason, it is not committed to continuing efforts that have not served well in the past. Further, State expects to modify or replace unreliable systems with systems that do serve the Department's financial management improvement goals.

The CFO Act requires agency CFOs to prepare and annually revise agency plans to implement an OMB 5-year financial management plan. OMB's 5-year plan is to include (1) a description of the existing financial management structure, (2) a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems, (3) proposals to eliminate duplicate and other unnecessary systems, (4) financial management personnel needs, and (5) a plan for ensuring the annual audit of financial statements of selected executive agencies.

As a prelude to preparing its plan, State set out an overall strategy for improving financial operations and systems. We were briefed on the strategy and, based on our analysis of it, believe that, at this stage, it represents a reasonable approach for State to begin financial management systems improvement. The strategy details State's existing financial systems problems in areas involving particular domestic, overseas, and other financial and payroll systems and identifies issues affecting them all. Also, the strategy develops initial broad milestones for completing improvement initiatives, discusses ways to build financial management staff, and establishes initial approaches to consolidating financial systems.

According to OMB's guidance, agency plans should include an overall financial management strategy, supporting plans for the eight financial management functional areas[7] included in OMB's governmentwide 5-year plan, and a status report. To effectively comply with the guidance, we believe that it is important for State's plan to articulate on a broad basis State's management controls, long-term commitment, goals, approach, and focus for improving financial management. In addition, State's plan could discuss how it will (1) establish linkage between accounting and budget information, (2) integrate programmatic and financial systems, (3) measure and provide reports on costs and performance of its programs and services, (4) link deficiencies noted in its Federal Managers' Financial Integrity Act reports to the plans for improved systems, and (5) consider appropriate sharing or cross-servicing arrangements to reduce costs when appropriate. The plan could also include a detailed written description which identifies the (1) anticipated financial management structure, (2) individual system and subsystems which will support the structure, (3) financial information to be produced, and (4) proposed flow of financial information between the systems. For individual systems, the plan could (1) set out the system's goals, scope, milestones, and funding requirements; (2) identify internal and external reports to be produced; (3) identify personnel resources to complete and operate the system; and (4) assign responsibility for each development phase.

Further, in developing the plan, it is important that State consider factors which are critical for the successful development of major accounting and financial management systems. In January 1987, we outlined 14 such factors in a booklet[8] which discusses, for example, the importance of (1) having management's commitment to a systems development project, (2) establishing target dates for its completion, (3) preparing adequate documentation that shows how the system is designed, (4) providing training to those who will operate the systems, and (5) testing the system to be certain that it operates as designed.

[7]The eight financial management functional areas included in OMB's July 2, 1992, Guidance for Developing CFO Financial Management 5-Year Plans are financial management organization; financial management personnel; accounting standards; financial systems; internal control; asset management; communication with financial officers of state and local governments, private contractors and grantees; and audited financial reporting.

[8]Critical Factors in Developing Automated Accounting and Financial Management Systems, January 1987.

With a comprehensive financial management improvement plan, systems development problems can be more quickly identified and resolved. Also, such a plan could guide State's efforts to implement OMB's plan for improving financial management focusing on accountability, efficiency and effectiveness, and better decisionmaking.

Conclusions

State's financial management operations are seriously deficient. Overall, the deficiencies relate to weaknesses in State's financial management organization, personnel, and systems. State has defined its financial operation and systems problems, begun the process of identifying solutions, and prepared an overall strategy to carry them out. Given the scope of problems, State's financial improvement efforts could well stretch out until the next century.

The task at hand will be difficult and will present many challenges. To meet these challenges, it is important that State's CFO and top management team effectively use their authority under the CFO Act to give State's financial management clear direction throughout the Department and ensure that financial management operations are adequately staffed. Further, a comprehensive financial systems improvement plan is key to bringing the CFO's overall strategy for future financial systems and operations into sharper focus and guiding completion of (1) short-term financial system improvements to achieve basic requirements and (2) long-term financial systems improvement initiatives that will result in compatible systems which provide complete and reliable financial information.

Recommendations

To help ensure financial management improvement at State is a continuous process that has top management's strong support and commitment, we recommend that the Secretary of State direct the CFO to take the following actions.

- Establish a process to monitor (1) headquarters bureaus' execution of financial management authority delegated to them by the CFO and (2) implementation of CFO policies by overseas posts administered by the bureaus.
- Complete the CFO's strategy to identify and address problems in attracting and retaining financial management staff, create professional development and training experiences for financial managers, and support a continuing education policy for them.

- Give top priority to resolving fundamental financial problems, such as reconciling disbursements, and to improving existing financial systems' basic accountability, discipline, and accuracy so that financial reports are reliable and timely.
- Monitor long-range standardization and integration efforts to see that they have an agencywide focus and result in financial and program systems that contain compatible financial information.

Agency Comments and Our Evaluation

Overall, while State did not comment on this chapter's recommendations, the plans State outlined in its comments would help address several of the matters our recommendations cover. For example, State said that it planned to reorganize financial management operations to meet the CFO Act's requirements and to address the need for qualified, trained, and motivated financial management personnel.

State commented also that it had completed several short-range actions to improve the accuracy of data, such as reviewing and correcting financial transactions and reports and redesigning critical interface processing. Other near-term actions are planned, such as decreasing the number of accounting and disbursing systems and providing central oversight of disbursement operations. State reiterated the importance of its long-range effort to develop a single worldwide integrated financial management system.

State said, further, that resolving its serious financial systems deficiencies would require a substantial increase in effort and intensity and that the Department's managers at all levels are committed to improving the agency's financial management activities. We agree that such efforts are needed. A continuous improvement process and top management support are critical to correct State's long-standing financial systems and operations problems.

Financial Information Shortcomings Are Widespread

The CFO Act requires agencies to ensure that financial systems provide managers with meaningful information to make resource allocation decisions, measure and evaluate performance, and demonstrate or assess accountability. However, our work identified several areas where State's managers and others need financial information not yet available from State's financial systems.

With their emphasis on fund control, State's current financial systems do not provide useful and relevant cost, program measurement, and other financial information on billions of dollars worth of disbursements and real and personal property and on programs affecting thousands of foreign service national employees. State is not assured that financial systems improvement efforts, including those intended to meet the CFO Act's requirements, which chapter 2 outlines, will result in meaningful financial information. One of State's CFO's major challenges will be working with financial, program, and overseas managers and others to identify and document financial information requirements and implementing systems that provide it.

Lack of a General Ledger Impedes Financial Statement Preparation

As implemented, neither State's primary domestic accounting system, CFMS, nor its principal overseas accounting system, OFMS, provide a fully functional general ledger. A general ledger summarizes and categorizes financial transactions into accounts which form the cornerstone of an agency's financial control and its financial reports and statements. OMB requires agencies to maintain general ledgers composed of standard accounts.

Since financial statements are to be directly supported by a general ledger, financial systems that provide a general ledger through which accrual-based financial transactions can be maintained and controlled are integral to preparing auditable financial statements. The CFO Act requires the preparation of financial statements for State's trust and revolving funds and commercial activities. OMB has designated 12 of State's activities as falling under this requirement.[1]

State also needs a reliable, full-functioning general ledger to develop a discussion and analysis of the Department's financial operations. According to OMB, such a discussion and analysis is to be an integral part of agencies' financial statements and will focus on financial information

[1]For fiscal year 1991, OMB waived this requirement for all State's activities, except the Bureau of Administration's working capital fund.

supporting broad-scope management and oversight, long-range planning horizons, and overall stewardship responsibility.[2] As the CFO Act and OMB's guidance envisions, financial information from the discussion and analysis would provide useful and relevant information to State's managers and others to assess the delivery, management, and oversight of State's programs and to develop funding and financing strategies.

State's CFO acknowledges that the Department has not yet implemented the governmentwide standard general ledger OMB requires. Since it has historically emphasized fund control, State's financial systems and information development has concentrated on accounting for cash and controlling and reporting the status of appropriated funds. The items State acknowledges as not being under general ledger control include (1) accounts receivable, which is fundamental to knowing the value of debts owed to an agency and controlling their collection, and (2) inventory accounts, which are basic to knowing the value of agency assets and controlling their safekeeping.

Disbursement Information Needs of Other Agencies Are Not Met

State's overseas accounting system did not consistently provide disbursement information needed by other federal agencies on whose behalf State makes disbursements. For example, State disburses hundreds of millions of dollars annually on behalf of the military services for a variety of purposes, such as military service employee travel expenses, foreign vendor services (such as aircraft ground handling and refueling), and procurement of miscellaneous goods and services.

In November 1990, we reported[3] that State's overseas accounting system could not routinely provide the military services with the complete, reliable information they needed to match disbursements made overseas by State with the military services' related obligations. As of the start of fiscal year 1990, State had reported to the military services about $54 million in disbursements that the services could not match with related obligations.

This problem occurs because State's overseas accounting system does not record and report to the military services the accounting classification code information their accounting systems need to identify State's

[2]Guidance on Form and Content of Financial Statements on FY 1991 Financial Activity, OMB Bulletin 91-15, September 10, 1991.

[3]Financial Management: Problems in Accounting for DOD Disbursements, (GAO/AFMD-91-9, November 9, 1990).

disbursements with these systems' financial information. For instance, State's cross-disbursement information does not always include all the data needed to identify (1) the service component on whose behalf the disbursements were made and/or (2) the specific obligations to which the disbursements relate. Other missing or incomplete information may include appropriation data, voucher or document number, bureau control numbers, purchase order or travel order numbers, social security numbers, and aircraft identification numbers, and complete accounting station identification information.

As one way to help alleviate this problem, we recommended in our November 1990 report that the military services develop a single accounting classification code structure to facilitate processing cross-disbursements. Efforts are underway to do this.

However, for the effort to succeed, State's overseas financial systems would have to be designed to accommodate at least the minimum accounting classification coding information the military services will require. Therefore, it is important for State's CFO to work closely with the military services and other agencies for which State makes disbursements, to ensure that their information requirements are identified, and that State's financial systems enhancement initiatives result in financial information these agencies need for processing and accounting for disbursements.

Financial Information Does Not Facilitate Property Management

State's property managers do not have relevant and useful financial information on the government's investment in or the cost to maintain State's extensive inventory of buildings, real estate holdings, and personal property. Financial information of this nature is necessary to assess the value of and the manner in which the Department maintains stewardship over its assets. In addition, annual physical inventories of personal property and reconciliations with property accounts were seldom done.

The CFO Act specifically charges agency CFOs with responsibility to direct efforts related to implementing agency asset management systems, including those related to property and inventory management and control. The challenge facing State's CFO is to ensure that financial information necessary for managing property is identified and provided.

Financial Data on Buildings and Real Estate Are Poor

The federal government owns or leases about 10,000 buildings and parcels of real estate at over 250 of State's posts abroad. This property is managed by the Office of Foreign Buildings Operations, which acquires, constructs, sells, operates, and maintains the property.

Improved financial information could help State better manage its property and help alleviate the following property management problems. Because severe neglect and inadequate funding for building maintenance and repair have resulted in the disrepair of many U.S. facilities, OMB, since 1989, has considered State's buildings and real estate operations to be highly susceptible to risk. Also, since 1988, State's Federal Managers' Financial Integrity Act reports have identified rehabilitation and maintenance of real property as a material control weakness.

State's primary financial system supporting buildings and real estate management is the Real Estate Management System. In September 1991, we reported[4] that this system did not fully support State's property managers in managing foreign buildings. For example, we reported that the system did not provide State's property managers with (1) historical cost information on government-owned and leased property and (2) maintenance and repair cost information for each building operated overseas.

Consequently, State's property managers did not have financial information available with which to make decisions such as whether to purchase, lease, or renovate properties and to properly report the value of assets on hand. Also, State's property managers need such information to (1) monitor repair and rehabilitation expenditures for each building, (2) budget for future building costs, and (3) develop performance measures to assess the efficiency and effectiveness of managing State's property. Other information that would assist property managers includes changes in the value of buildings and real estate, the current service life and replacement cost of property, changes in the condition of property, backlogs of deferred maintenance, exposure to possible loss, and information on programs to safeguard assets.

State advised us that it plans to eventually integrate the Real Estate Management System with CFMS. This is intended to facilitate the transfer of data and thus, reporting the value and cost of real property.

[4] State Department: Efforts Under Way to Enhance Management of Overseas Real Property, (GAO/NSIAD-91-277, September 1991).

Personal Property Cost Reporting Is Unreliable

State procures, maintains inventories of, and distributes personal property, such as typewriters and air conditioners, for its domestic and overseas offices. It performs these functions for other federal agencies operating overseas as well. Personal property management is centralized under the Property Management Branch.

State's primary financial system supporting personal property management is the Non-Expendable Property Application system. In March 1991, State's Inspector General reported on personal property financial information problems, which include inaccurate personal property records and difficulties in reconciling physical inventories to the Non-Expendable Property Application's inventory records. In this regard, we found that the system is updated based on the results of periodic physical inventories of personal property rather than by accounting transactions that occur when property is purchased, renovated, or disposed.

As a result, State does not know the total value of its personal property and lacks proper financial control. Further, property managers do not have financial information for planning procurements and identifying property for redistribution or disposal. Potentially useful information that is not readily available includes the type and description of property, as well as its acquisition date, cost, estimated life, and accumulated repair costs. Other useful information includes quantities, locations, condition, and the turnover rate of inventories.

State has reported property and inventory management problems under the Federal Managers' Financial Integrity Act since 1983 but they remain uncorrected. Resolving these problems would include ensuring that property inventories and reconciliations are accomplished annually and that property records are accurate, which are problems that State has reported as contributing to ineffective safeguards against waste, loss, unauthorized use, and misappropriation of property.

Better Financial Data Are Needed to Manage Foreign Nationals' Benefits

State's personnel managers do not have adequate financial information to assess the performance of pension plans established for foreign service national employees or to report State's unrecognized liability to make separation payments to them. State's personnel managers are responsible for hiring, paying, and administering benefits for a foreign service national workforce consisting of about 31,000 employees and personal service contractors. These foreign service nationals are employed in various capacities by the Department and other foreign affairs agencies to work at U.S. embassies, consulates, and other posts.

Managers Lack Data to Measure Pension Plan Performance

In some instances, State administers foreign service national employees pension plans that are comparable to those of other employees in host countries. For example, the U.S. embassy in Ottawa has established a pension plan for that country's foreign service national employees which is administered under a contract with a local life insurance company. Foreign service national employees in Canada contribute 4 percent of their gross monthly salary to the plan and the Department contributes another 4 percent. As of December 1990, the plan was receiving over $27,000 in contributions monthly and had a net worth of over $3 million.

The post official responsible for authorizing monthly payments to the pension plan told us that, although foreign service national employees receive annual status reports, the post had never received reports from the insurance company showing how the plan was performing. We found that, until 1991, the U. S. embassy in Ottawa had not monitored its foreign service national pension plan, which was established in 1980. In short, for over a decade, there was no systematic measurement of performance for the plan. A consultant's review of financial information related to the plan in 1991 concluded that the plan was probably not performing at a competitive level in terms of the investment's earnings return and level of diversification.

Although a foreign service national pension plan in a particular country may be adequate when created, periodic review could detect whether, over time, it has lost value or earned below market rates of return. Performance measurement, which is an essential ingredient of the reforms called for by the CFO Act, can assist in assuring that contributions to and other assets of these pension plans are protected by requiring that personnel managers at overseas posts periodically review the performance of foreign service national employee pension plans. In this regard, personnel managers at State would benefit from such information as (1) the nature of a plan's underlying investments, (2) a record of its earnings to date from the investments, and (3) projections of its future earnings and liabilities.

Total Separation Payment Liability Is Unknown

In many countries, State is responsible for making separation payments to foreign service nationals if they terminate their employment at the

Department. These payments are due to departing foreign service national employees commensurate with the employment benefit customs of many foreign countries.

State uses current year appropriations to finance these separations. Pursuant to Public Law 102-138, State's obligations to finance its legal liability for these payments are deposited in the foreign service national separation payment trust fund so that unexpended obligations will not be canceled under 31 U.S.C. 1552. However, the full extent of separation payments that State will have to pay, as it relates to current and future foreign service national employment levels, has not been determined or accounted for. Accounting standards require that liabilities be recognized when they are probable and estimable.[5]

Under the CFO's direction and based on historical data, information on the full extent of State's separation payment liability could be developed and included in financial records. A reliable estimate of the fund's liability is essential to forecast expected future resource needs and could also be useful to assess the adequacy of State's recorded obligations for separation payments.

Documenting Users' Information Needs Is Critical to Designing Systems

The unmet user needs we identified represent significant gaps in the information provided to managers and others by State's financial systems. The financial reporting weaknesses we observed indicate that managers responsible for other aspects of State's operations also may not be getting needed financial information.

The principle of identifying and documenting users' financial information needs is a well-founded cornerstone of effectively designed financial systems. However, State's overall strategy does not yet call for assessing whether its financial systems provide financial information which meets the needs of managers and others. Requirements and guidance provided by OMB and others stress the importance of detailed definitions of functional and internal control requirements as major considerations in designing and enhancing automated systems.

OMB's Circular A-109, Major System Acquisitions, requires that major acquisitions be based on actual mission requirements and that those requirements be stated in terms of functional needs. The National Institute

[5]State uses accounting standards in GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2.

of Standards and Technology's Federal Information Processing Standards state that functional requirements provide a basis for mutual understanding between users and designers regarding system functions, performance requirements, data inputs and outputs, data characteristics, and interfaces.

Similarly, the General Services Administration's Federal System Integration and Management Center developed a conceptual methodology for planning, developing, and managing automated information systems. To help ensure that users' needs are met, the methodology recommends that system functional requirements be identified within the first stage of an automated information system's life cycle.

Further, in our 1987 booklet presenting critical factors in developing automated accounting and financial management systems, we discuss the importance of identifying a system's requirements. We describe documenting a system's requirements as a bridge between management's information needs and a system's technical design. In this process, managers, accountants, and users at all levels, who have detailed understanding of the agency's accounting processes and reporting needs, work along with systems analysts to establish systems requirements.

Thus, even though State's financial systems improvement strategy may not envision, at this time, acquiring major new automated systems to which OMB's major systems acquisition requirements directly apply, the systems development philosophy incorporated in the requirements and guidance just mentioned are pertinent to State's strategy of enhancing existing systems. As this chapter demonstrates, there are a number of areas where specific financial information improvements can be made to State's financial systems.

Conclusions

Financial information is essential in managing State's multibillion dollar operations, including those related to worldwide disbursing and property management. Yet, State's financial information shortcomings are widespread.

At present, State's financial systems primarily report data related to controlling State's appropriations and budget. These data are a necessary part of an agency's financial reporting. However, fund control information is only one aspect of an array of agency financial information envisioned by the CFO Act. The act provides that managers and others have available to them relevant and useful financial information, including financial statements, cost data, and performance measurement reports. State's managers do not yet have useful and relevant financial information with which to manage operations, as the CFO Act requires.

Recommendations

To ensure that useful and relevant financial information is made a primary objective of financial systems modernization efforts, we recommend that the Secretary of State direct the CFO to

- Work with financial, program, and overseas managers and others, such as the military services, to identify and document the financial data they need to make decisions on day-to-day operations, assess performance, and maintain accountability.
- Establish a procedure to review financial systems development and enhancement projects at key decision points to determine that the projects incorporate the information requirements identified and documented by the CFO. In particular, financial system projects should (1) provide financial reporting that supports State's mission and operations, (2) produce cost trend and analytic information useful to managers, and (3) support performance measurements and indicators. Priority attention should be given to (1) financial statements prepared from a general ledger that is maintained on an accrual basis and (2) financial information for reporting disbursements, managing property, and overseeing foreign service national employee benefits programs.

Agency Comments and Our Evaluation

State did not address this chapter's recommendations. However, State made several comments regarding the matters this chapter discusses.

State said that during fiscal year 1992, it began efforts to implement the government's standard general ledger and asset management requirements. Also, State commented that its worldwide financial systems standardization and integration effort would include user involvement in determining financial requirements. Completing these plans could significantly help address State's financial information shortcomings.

Regarding disbursement data, State said that it provided detailed accounting and disbursing information to those agencies with which it had cross-servicing agreements but that in many instances, it had been unfairly criticized for not providing complete data. While State did not elaborate on the nature of these criticisms, we believe that meeting the disbursement information needs of other agencies is a collaborative effort. Thus, we have recommended that State work with other agencies, such as the military services, to identify and document the financial data they need to maintain accountability.

Comments From the Department of State

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

United States Department of State

Deputy Chief Financial Officer

Washington, D.C. 20522-1506

September 30, 1992

Dear Mr. Chapin:

Thank you for the opportunity to comment on your draft report, "FINANCIAL MANAGEMENT: Serious Deficiencies in State's Financial Systems Requires Sustained Attention," GAO/AFMD-92-81, (Code 901525).

During fiscal year 1992, we have made significant improvements in financial management and operations. In order to maintain the momentum for further improvements, we have developed a comprehensive plan which focuses on the following key goals:

See comment 1.

- o development of a Department-wide strategic financial system planning process;
- o reorganization of the financial management and financial operations areas to meet the requirements of the CFOs Act;
- o full implementation of the U.S. Standard General Ledger;
- o development of a single worldwide integrated financial management system; and
- o centralization of overseas disbursing and other activities to improve efficiency and oversight.

More specifically, for fiscal year 1992 and 1993, we remain on schedule to accomplish the following:

- o Full conversion of all domestic bureaus, funds, and functions to the Central Financial Management System (CFMS). We will complete implementation of the Overseas Financial Management System (OFMS) in the Bangkok and Mexico regions. This will effectively

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decrease the number of accounting and disbursing systems from six to three by eliminating the need for the RAMC Bangkok Accounting and Disbursing System, the RAMC Mexico Accounting and Disbursing System and the Financial Management (FINMAN) system.

- In addition, we plan to migrate the RAMC Paris Foreign National Payroll (FNPay) System to RAMC Bangkok in fiscal year 1993, thereby decreasing the total number of payroll systems from three to two.

See comment 1.

During fiscal year 1992, we took a number of actions to improve the accuracy of financial data:

- enhancing both the Overseas Financial Management System and the RAMC Paris Accounting and Disbursing System to improve internal controls;
- improving capacity and response time by migrating the CFMS application from the IBM 3081 mainframe to the larger IBM 3090/600 mainframe;
- regularizing production schedules;
- reviewing and correcting financial transactions and reports;
- implementing an improved systems assurance process; and
- redesigning critical interface processing.

As you know, in 1991 we reported that our financial and accounting systems are not in compliance with Section 4 of the Federal Managers' Financial Integrity Act (FMFIA). We recognize our noncompliance as a serious weakness and deficiency that will require a substantial increase in effort and intensity to resolve. In an effort to begin addressing these long-standing deficiencies, we are moving forward with the Worldwide Financial Management System Standardization and Integration effort. This initiative is geared toward replacing multiple, outdated financial management systems with a modern, integrated financial system that meets the needs of our domestic bureaus and overseas posts and provides financial services to other agencies operating overseas. This initiative will include user involvement in determining financial requirements. Your report is of substantial assistance in that effort.

See comment 2.

In fiscal year 1992, we began a Roadmap planning effort which utilizes senior Department officials in setting strategic direction for the integrated financial management system and

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generating corporate commitment to the program. In 1993, we plan to complete the Information Strategy Plan (ISP), and start a number of pilot demonstration projects and business area analyses. These initial pilot demonstration projects and business area analyses will focus primarily on overseas functionality. By the end of fiscal year 1994 and through fiscal year 1996, we intend to fully integrate the overseas requirements with the assessment of needs domestically to fully develop the integrated financial management system.

See comment 1.

Also, in fiscal year 1991 we reported worldwide disbursing and cashiering as a high risk area to OMB and as a material weakness in the FMFIA Report. We are developing a number of approaches to increase the oversight and control over the disbursing function. We have created an office under the Chief Financial Officer with direct responsibility for worldwide oversight of the Department's cash management functions. We have enhanced our reconciliation process, increased training, and will continue to work with Treasury to address the accountability concerns. In fiscal year 1991 and 1992 performance enhancements were made to OFMS to support the critical initiatives of recentralization of disbursing and the migration of Foreign National Payroll.

See comment 1.

A plan has been developed to address the need for qualified, trained, and motivated financial management personnel. During 1992, we concentrated on producing an inventory of the various categories with the largest number of employees; creating a certification program based on a review of existing knowledge, skills, and abilities for employee advancement within a job series; and assuring that financial management training courses are consistent with the needs for career and professional development of financial management personnel. Once developed, the process will be institutionalized into the personnel and management functions.

Specific comments referenced by page number follow:

Now on p. 3.

- On page 3, it is stated that, "A financial systems improvement plan is critical to guiding State's efforts to standardize and integrate financial systems, and the financial information needs of managers and others will have to be identified and documented." We believe our current plans and

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See comment 3.

initiatives make it clear that we have recognized the Department's financial management weaknesses. The report should recognize that the Department has moved forward with a financial systems improvement plan that has been presented and supported by both GAO and OMB.

Now on p. 4.

See comment 2.

- On page 5, it is stated that "State's financial systems do not provide disbursement information needed by other federal agencies on whose behalf State makes disbursements nor do these systems provide cost information to property managers for use in managing State's large property holdings." We realize that we have some deficiencies in this area. However, the Department does, in fact, provide detailed accounting and disbursing information for those agencies that have cross-servicing agreements. In many instances, we are unfairly criticized for not providing complete accounting and disbursing data when State only has been asked to provide disbursing services.

Now on p. 17.

See comment 4.

- On page 25, the report states that "because of hardware capacity limitations, CFMS may soon have serious problems meeting on-line response time expectations, which could limit the system's effectiveness." The report should recognize that in June 1992, the Department improved capacity and response time by migrating the CFMS application from the IBM 3081 mainframe to the larger IBM 3090/600 mainframe.

Now on p. 17.

See comment 4.

- On page 26, the report discusses a number of initiatives that are expected to be completed in fiscal year 1993. The report should acknowledge that as a result of migrating to the IBM 3090 mainframe in June 1992 the Department has: (1) reduced the length of time required for the system to respond to inquiries and (2) improved the system's ability to handle voluminous amounts of data, which has helped reduce data backlog problems.

Now on p. 17.

- On page 26, the report states that "OFMS is the principal accounting system operated at State's 24 overseas financial management centers and 3 regional administrative management centers." The Department currently has 23 overseas financial management

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See comment 4.

centers. Also, OFMS is the principal accounting system at two regional administrative management centers (Bangkok and Mexico), not three.

Now on p. 25.

See comment 2.

- On page 39, the report discusses implementation of a governmentwide standard general ledger consistent with OMB requirements. During fiscal year 1992, we began a significant effort towards the full implementation of the standard general ledger and asset management requirements. Reviews of existing systems must take place to determine which can serve as subsidiary records for general ledger control accounts.

Now on p. 29.

See comment 5.

- On page 46, the report mentions that "the Ottawa Embassy has established a pension plan for its Foreign Service national employees, which is administered under a contract with a local life insurance company." It is worth noting that this situation is not typical, but the exception. It is not normally the U.S. Government's requirement to manage the pension fund, but in this case, is required. These funds are not in Federal accounts.

Our accomplishments in fiscal year 1992, coupled with the comprehensive plan for improvements, set the stage for launching critical financial management changes for fiscal years 1993 and beyond. I can assure you that Department managers at all levels are committed to improving our financial management activities.

Sincerely,

Larry J. Eisenhart

The following are GAO's comments on the Department of State letter dated September 30, 1992.

GAO Comments

1. State's response is discussed in the "Agency Comments and Our Evaluation" section at the end of chapter 2.

2. State's response is discussed in the "Agency Comments and Our Evaluation" section at the end of chapter 3.

3. The report recognizes throughout that State has a financial management improvement strategy involving a number of planned actions.

4. We have modified the report to reflect State's comment.

5. Even though Canada's foreign service national pension plan may not be typical and these funds are not in federal accounts, assessing the plan's performance would provide assurance that contributions to and assets of the plan have been prudently invested.

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