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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of The Interior

Department Of the Interior's First-Year Implementation Of The Federal Managers' Financial Integrity Act

GAO reviewed the processes used by 22 federal agencies to implement the Federal Managers' Financial Integrity Act of 1982. The act was intended to help reduce fraud, waste, and abuse across the spectrum of federal government operations by requiring agencies to assess and report annually on the adequacy of their internal controls and accounting systems.

This report highlights the progress made and problems encountered by the Department of the Interior in its first year of experience with this new act. The report focuses on the Department's evaluation of its internal controls and accounting systems, and the actions the Department is taking to improve the evaluation processes.



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

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-202205

The Honorable William P. Clark
The Secretary of the Interior

Dear Mr. Secretary:

This report presents the results of our review of the Department of the Interior's efforts to implement the Federal Managers' Financial Integrity Act of 1982. Our review was part of a General Accounting Office assessment of 22 federal agencies' efforts to implement the act during the first year.

The act establishes a government-wide framework for monitoring and improving the effectiveness of financial management in federal agencies. Section 2 of the act requires executive agencies to evaluate their systems of internal accounting and administrative control and to submit an annual statement to the President and the Congress on whether the systems fully comply with the internal control objectives set forth in the act and with the internal control standards prescribed by the Comptroller General. Section 2 also requires that the statement be based on an evaluation conducted in accordance with guidelines issued by the Office of Management and Budget (OMB). Section 4 of the act requires agency heads to include in their annual statement a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

OMB's guidelines outline a phased approach for agencies to evaluate, improve, and report on their internal controls. The phases are: (1) organizing the process, including the assignment of responsibilities for planning, directing, and controlling the process, (2) segmenting the agency to identify assessable units--organizational components, programs, and functions--to be assessed, (3) assessing the vulnerability of each assessable unit to fraud, waste, and abuse, (4) developing plans for performing internal control reviews, (5) performing internal control reviews, (6) determining, scheduling, and taking corrective actions, and (7) preparing the annual statement to the President and the Congress.

We reviewed the Department's efforts to implement the act in accordance with the OMB guidelines. We focused on the activities of eight major bureaus and offices that accounted for \$5.9 billion of the \$6.4 billion appropriated to the Department for fiscal year 1984. We coordinated our work closely with a related review being conducted by the Department's Inspector General.

Your Department made progress in carrying out its responsibilities under the act. In this respect, you delegated overall responsibility for implementing the requirements of the act to the Assistant Secretary, Policy, Budget, and Administration, who in turn assigned the responsibility to the Office of Financial Management. The Office ensured that the Department's 1983 internal control evaluation process included all the elements OMB recommended. Some of the specific actions taken to implement the process included (1) establishing an internal control work group, (2) developing a directive establishing the policies, responsibilities, standards, guidelines, and reporting systems for bureaus and offices to use, (3) developing specific guidelines for conducting vulnerability assessments and internal control reviews, and (4) consolidating the information necessary to prepare your annual statement to the President and the Congress. In addition, 276 internal control reviews were reported as having been completed this first year, mostly in areas identified as being highly vulnerable to fraud, waste, and abuse.

In your first annual statement to the President and the Congress dated December 30, 1983, you reported that the Department's systems of internal accounting and administrative control, taken as a whole, provide reasonable assurance that there is effective control over, and accountability for, all funds, property, and other assets for which the Department is responsible. The statement disclosed numerous material internal control weaknesses and also contained the Department's plans and schedules for correcting them. For example, the Bureau of Indian Affairs did not have policies and procedures to help control and regulate its procurement activities. The Bureau plans to correct this weakness by developing and publishing specific policies and procedures by June 30, 1984.

With respect to the Department's accounting systems, you reported that 9 of the 13 systems did not totally conform to the Comptroller General's principles and standards. Five systems were reported as having limited weaknesses which the Department plans to correct by September 30, 1984. For example, for many years the Bureau of Mines had not reconciled cash balances in its accounting records with the Department of the Treasury's balances. According to your statement, the Bureau corrected this weakness by developing procedures for preparing the required standard forms and cash reconciliations. The remaining

four systems will require corrective actions extending beyond fiscal year 1984.

The progress made this first year should be an important building block toward a process that, when fully developed and implemented, can assure effective internal controls for the Department. However, we found several areas where the internal control evaluation process could be improved. For example, three of the eight bureaus we reviewed did not include all programs and functions in the inventories of assessable units submitted to the Department. Therefore, not all programs and functions were subjected to the internal control evaluation process. We also found that bureaus and offices did not always develop and maintain documentation to support the results of vulnerability assessments and internal control reviews nor did they test internal control techniques to ascertain whether they were functioning as intended. In addition, we found that individuals in five of the eight bureaus we reviewed had not received training on how to conduct internal control reviews.

We also found that vulnerability assessments and internal control reviews were not closely monitored to assure their compliance with OMB and departmental guidelines. Although the Department required its bureaus and offices to issue their own internal control directives for implementing the internal control evaluation process, only one of the eight bureaus and offices we reviewed did this. We also found that the guidelines developed for evaluating automatic data processing (ADP) systems did not address all of the various types of controls associated with an ADP system, such as data center management and system software and hardware.

Accordingly, in a draft of this report, we proposed that the Department

- require bureaus and offices to include all assessable units in their inventories submitted to the Department,
- survey managers to determine whether they know how to perform internal control reviews and train them accordingly,
- develop and implement a system to monitor the completeness and quality of the work performed in the internal control evaluation process, and
- revise the Department's ADP internal control review guidelines to include procedures for evaluating general and application controls.

With respect to the accounting systems compliance evaluations, we found that the bureaus and offices did not fully document and test the systems in operation. Our draft report proposed that the Department require bureaus and offices to fully document their accounting systems by developing complete narrative descriptions and flowcharts on the systems in operation. We also proposed that bureaus and offices be required to test their accounting systems to determine whether they are operating as designed and documented.

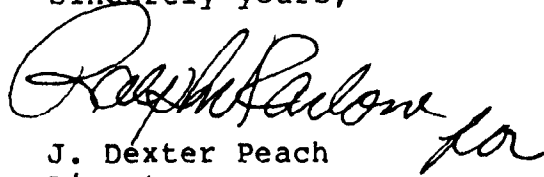
In commenting on our draft report, the Department stated that, on balance, the report fairly characterized the Department's efforts in its first-year's implementation of the act. The Department also stated that it was in substantial concurrence with the proposals we made for strengthening and improving its internal control and accounting systems evaluation processes and advised us of the numerous corrective actions it has taken or planned. Accordingly, we are not making any recommendations at this time. However, we plan to monitor the Department's progress in improving its internal control and accounting systems evaluation processes as part of our continuing reviews of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

The above matters are discussed in detail in appendix I. As your Department makes further progress to strengthen and improve its evaluation processes and correct known weaknesses, we believe the Department will have a more meaningful basis for concluding whether its internal control and accounting systems meet the requirements of the act.

We appreciate the courtesy and cooperation extended to our staff during our work and look forward to carrying on the same spirit of cooperation in our follow-on review efforts.

We are sending copies of this report to the Chairmen of the House Committee on Government Operations; Senate Committee on Governmental Affairs; House and Senate Committees on Appropriations; and House Committee on Interior and Insular Affairs; and the Director, Office of Management and Budget.

Sincerely yours,


J. Dexter Peach
Director

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ABBREVIATIONS

ADP Automatic Data Processing
GAO General Accounting Office
IG Inspector General
OMB Office of Management and Budget
PFM Office of Financial Management

DEPARTMENT OF THE INTERIOR'S FIRST-YEAR
IMPLEMENTATION OF THE FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse across a wide spectrum of government operations, which were largely attributable to serious weaknesses in agencies' internal controls, the Congress enacted the Federal Managers' Financial Integrity Act, 31 U.S.C. 3512 (b) and (c) in 1982. The act strengthens the existing requirement of the Accounting and Auditing Act of 1950 that executive agencies establish and maintain systems of accounting and internal control designed to provide effective control over, and accountability for, all funds, property, and other assets for which the agency is responsible (31 U.S.C. 3512 (a)(3)).

We believe that full implementation of the Financial Integrity Act will enable federal department and agency heads to identify their major internal control and accounting problems and improve controls essential to the development of an effective management control system and a sound financial management structure for their agency. To achieve these ends, the act requires:

- Each agency to establish and maintain its internal accounting and administrative controls in accordance with the standards prescribed by the Comptroller General,¹ to reasonably assure that: (1) obligations and costs comply with applicable law, (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are recorded and properly accounted for.
- Each agency to evaluate and submit a statement annually on whether the agency's systems of internal control comply with the objectives of internal controls set forth in the act and with the standards prescribed by the Comptroller General. The act also provides for agency statements to identify the material weaknesses involved and describe the plans for corrective action.
- Each agency to prepare a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

¹The Comptroller General issued Standards for Internal Control in the Federal Government in June 1983.

--The Office of Management and Budget (OMB) to issue guidelines for federal departments and agencies to use in evaluating their internal accounting and administrative control systems. These guidelines were issued in December 1982.

OMB INTERNAL CONTROL GUIDELINES

OMB's internal control guidelines outline a phased approach for agencies to evaluate, improve, and report on their internal controls. The phases are:

1. Organizing the process, including the assignment of responsibilities for planning, directing, and controlling the process and the development of an information system to monitor and track the status of the evaluations and corrective actions.
2. Segmenting the agency to identify assessable units--i.e., organizational components, programs, and functions--to be assessed.
3. Assessing the vulnerability of each assessable unit to fraud, waste, and abuse. This is done by identifying the factors that create an inherent risk in the assessable unit; considering the operating environment in the unit; and preliminarily evaluating whether safeguards exist to prevent waste, fraud, and abuse from occurring.
4. Developing plans for performing internal control reviews and other actions, on the basis of the vulnerability assessments' results.
5. Performing internal control reviews to determine whether adequate control objectives have been established and control techniques exist and are functioning as intended, and then developing recommendations to correct weaknesses in either the design or functioning of the internal control system.
6. Determining, scheduling, and taking the necessary corrective actions for improving internal controls on a timely basis.
7. Preparing the annual statement to the President and the Congress on the status of the agency's systems of internal control.

This report on the Department of the Interior is 1 of 22 reports on the processes used by federal departments and agencies to implement the act.

BACKGROUND ON INTERIOR AND ITS
INTERNAL CONTROL AND ACCOUNTING SYSTEMS
COMPLIANCE EVALUATION PROCESSES

The Department of the Interior was established over 100 years ago to meet the growing responsibility of managing our government's domestic affairs. As the nation's principal conservation agency, the Department has the responsibility for most of our nationally owned public lands and natural resources. This includes fostering the wisest use of our land and water resources, protecting our fish and wildlife, and preserving the environmental and cultural values of our national parks and historical places. The Department's jurisdiction involves the administration of over 500 million acres of federal lands. To meet these responsibilities, the Department is comprised of the Secretary's office and 10 major bureaus and offices. In fiscal year 1983, the Department had 73,451 full-time employees and spent about \$4.9 billion.

Internal control evaluation process

Organizing

The Department's internal control evaluation process evolved over the past 2 years in response to (1) OMB Circular A-123, Internal Control Systems, dated October 28, 1981, (2) the enactment of the Federal Managers' Financial Integrity Act of 1982, (3) OMB's Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, dated December 1982, (4) the Comptroller General's Standards for Internal Control in the Federal Government, dated June 1, 1983, and (5) OMB's revised Circular A-123, dated August 16, 1983.

Overall responsibility for implementing the requirements of the circular, the guidelines, and the act was delegated to the Assistant Secretary, Policy, Budget, and Administration. The Assistant Secretary, in turn, assigned the responsibility to the Office of Financial Management (PFM). The Office of Inspector General (IG) assisted PFM in establishing departmental implementation policy and direction as well as preparing departmental guidelines for use by the bureaus and offices.

The Assistant Secretary also established a Departmental Work Group under the direction of PFM to initiate and oversee the development of policies and guidelines to implement the act and circular. In addition, internal control coordinators were appointed in the bureaus and offices, and for each program Assistant Secretary, to facilitate implementation of the internal control evaluation process within his/her organization.

The Department issued an internal control directive on March 29, 1982, prescribing the policies and procedures to be followed in establishing and maintaining internal controls in bureau and office programs and administrative activities. The directive generally followed OMB's guidelines and set forth the

process to be used for identifying assessable units, conducting vulnerability assessments, and accomplishing internal control reviews. In addition, the Department issued specific guidelines to assist the bureaus and offices in conducting vulnerability assessments and internal control reviews.

Segmenting

A listing of the Department's programs and functions subject to audit had previously been compiled by the IG. Bureaus and offices used this listing as a starting point to prepare an inventory of assessable units. Internal control coordinators worked with program managers to identify bureaus' and offices' assessable units. Through this process, bureaus and offices identified about 1,200 assessable units.

Vulnerability assessments

A preliminary assessment of vulnerability (high, medium, or low) to waste, fraud, and abuse was made for each assessable unit based on program managers' personal knowledge. The reasonableness of these determinations was reviewed by the respective internal control coordinator, the Departmental Work Group, the IG, and the appropriate budget analyst in the Office of Budget. The preliminary vulnerability assessments made by bureaus and offices indicated that 323 assessable units were potentially highly vulnerable, 698 were considered of medium vulnerability, and 185 were considered to have low vulnerability. The 323 potentially highly vulnerable assessable units included 160 components in 16 functional areas identified by the Departmental Work Group as being potentially highly vulnerable and requiring internal control reviews without further assessment of vulnerability. The 16 areas covered such functions as procurement management, property management, cash management, debt collection, automatic data processing (ADP) management, and personnel management.

Bureaus and offices were then required to follow the Department's guidelines in performing more detailed vulnerability assessments on 147 of the assessable units initially determined to be potentially highly vulnerable. According to the Secretary's annual statement, the detailed assessments showed that 75 assessable units had high vulnerability, 37 had medium vulnerability, and 35 had low vulnerability.

Internal control reviews

The Department's internal control review plan for 1983 provided for (1) reviews of all components determined to be highly vulnerable and (2) the review of a few components determined to have a medium vulnerability. According to the Secretary's statement, 276 internal control reviews were completed. The 276 included 160 internal control reviews in the 16 department-wide functional areas that the Departmental Work Group identified as being potentially highly vulnerable. Bureaus and offices were required to conduct internal control reviews of

these 160 units using guidelines developed by the departmental office responsible for policy direction and oversight in the functional area.

Tracking and monitoring

The Department used various techniques to track and monitor the internal control evaluation process. The Office of Financial Management prepared a monthly report showing the status of the vulnerability assessments and internal control reviews due from the bureaus and offices. In addition, on May 25, 1983, the Secretary sent a memorandum to senior departmental officials outlining his reporting responsibilities under the act and setting forth the reporting process by which bureaus and offices would advise the Secretary on the status of their internal control systems.

In May 1983, the Secretary also asked the IG to review the Department's internal control review process. In December, the IG issued reports to the Secretary and Assistant Secretaries on the degree to which bureaus and offices complied with the applicable departmental policies and procedures. The IG reported that a few problems were noted with some of the individual internal control reviews; however, nothing material came to his attention that would indicate that the Department did not comply with the act and the objectives of the OMB guidelines. To enhance the review process, the IG recommended that Department managers

- require staff who perform internal control reviews to identify the potential risks and levels of acceptable risk and to test the operations of the internal control systems,
- identify the internal control reviews to be performed in 1984 and assign them to the staff as soon as possible so that they will have adequate time to complete the process,
- conduct department-wide training on OMB's and the Department's guidelines, and
- dedicate more trained staff to assist the preparers and review the quality of the work performed until all the procedures have been firmly established and managers are familiar with the internal control review requirements.

Reporting

On December 30, 1983, the Secretary reported in his first annual statement to the President and the Congress that the Department's systems of internal accounting and administrative control, taken as a whole, complied with the act's requirement to provide reasonable assurance that the objectives of the systems were achieved, subject to certain limitations described

in the statement. The statement disclosed numerous material internal control weaknesses and also contained the Department's plans and schedules for correcting them. The majority of the reported weaknesses involved areas relating to the development and implementation of program regulations and procedures, property management, and ADP operations. For example, the Bureau of Indian Affairs did not have procedures to help control and regulate its procurement activities. The Bureau plans to correct this weakness by developing and publishing specific procedures by June 30, 1984. Another bureau, the National Park Service, did not have a procedure to involve program managers in the collection of delinquent accounts receivable. The Service planned to develop guidelines to increase coordination and the timely flow of data and to clarify responsibilities by March 1, 1984. The material weaknesses in the Department's systems of internal control are summarized in appendix II.

Accounting systems compliance evaluation process

The organizational structure established by the Department for carrying out its internal control evaluation process was also responsible for the Department's efforts to evaluate and report on whether its accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. The Department inventoried its accounting systems and, as discussed below, performed evaluations of its 11 bureau and office accounting systems and the 2 department-wide payroll systems.

Title 2 of the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies contains the principles and standards for accounting to be observed by federal agencies. To facilitate preparation of the annual reports required by the Federal Managers' Financial Integrity Act, the Comptroller General, in April 1983, issued a statement which specified the accounting principles and standards that agencies must use to meet the conformity requirement of the act.

In order to evaluate whether their accounting systems complied with the Comptroller General's principles and standards, PFM provided the principles and standards in a checklist format to the bureaus' and offices' financial representatives responsible for performing the evaluations. The representatives were also advised to use the Department's internal control review guidelines for evaluating their accounting systems' internal controls. In addition, PFM provided the representatives with standard formats for reporting on the status of their accounting systems, including schedules for disclosing any material accounting system weaknesses and planned corrective actions.

In his annual statement to the President and the Congress, the Secretary stated that an evaluation was conducted of the Department's 11 accounting and 2 payroll systems in effect

during the fiscal year ended September 30, 1983. He reported that 4 of the 13 systems conformed to the Comptroller General's principles and standards. He also reported that nine systems did not totally conform. Five of these systems were reported as having limited weaknesses which the Department plans to correct by September 30, 1984. For example, for many years, the Bureau of Mines had not reconciled cash balances in its accounting records with the Department of the Treasury's balances. According to the Secretary's statement, the Bureau corrected this weakness by developing procedures for preparing the required standard forms and cash reconciliations. The remaining four systems will require corrective actions extending beyond fiscal year 1984. The material weaknesses in the Department's accounting systems disclosed in the Secretary's annual statement are summarized in appendix III.

Interior's future plans

On February 7, 1984, PFM issued a memorandum to all bureaus and offices containing the Department's internal control review plans for 1984. The memorandum contained a schedule of actions to be completed during the year, including (1) implementing an internal control improvement tracking system, (2) issuing additional guidance for conducting internal control reviews, and (3) having bureaus issue internal control directives.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to assess the Department's process for evaluating its internal control and accounting systems. Because our first-year review was an assessment of the Department's process, we did not independently determine the status of its internal control systems or the extent to which its accounting systems conform with the Comptroller General's principles and standards.

We performed the review at the Department of the Interior's headquarters, eight bureaus (see app. IV), and selected field locations in Seattle, Washington; Sacramento, California; Denver, Colorado; and Albuquerque, New Mexico. The bureaus and offices included in our review accounted for \$5.9 billion of the \$6.4 billion appropriated to the Department for fiscal year 1984. At the departmental level, we reviewed the overall direction and guidance given to the process, and at the bureaus and offices, focused on how the process was implemented.

We reviewed documentation and held discussions with agency officials relative to how the Department and the bureaus and offices carried out the internal control evaluation, improvement, and reporting process. In this connection, we examined (1) OMB's guidelines, (2) OMB's files on its review of the Department's process, (3) the Department's and bureaus' and offices' directives, guidelines, and memoranda for implementing

the process, (4) documentation supporting inventories of assessable units and 77 vulnerability assessments that were judgmentally selected, (5) training material for vulnerability assessments and internal control reviews, and (6) prior GAO and IG reports on the Department's activities.

As part of a cooperative effort between GAO and the Department's IG, we also selected and reviewed internal control reviews completed by the Department and shared the results of this work. Overall, of the 276 internal control reviews the Department completed, 41 were selected for review. The IG reviewed 19, and we reviewed 22. We also examined how the Department evaluated ADP-related internal controls and its accounting systems.

We performed our review in accordance with generally accepted government auditing standards.

AREAS WHERE THE INTERNAL CONTROL
EVALUATION PROCESS COULD BE IMPROVED

The Department's 1983 internal control evaluation process included all the elements OMB recommended and was an important building block toward a process that can assure effective internal controls for the Department. However, we found several areas where the process could be improved, including

- ensuring that all programs and functions are identified and included in the inventories of assessable units,
- improving the performance of vulnerability assessments and internal control reviews,
- more closely monitoring the internal control evaluation process,
- requiring bureaus and offices to issue directives for implementing the process within their respective organizations, and
- developing comprehensive guidelines for evaluating ADP-related internal controls and assuring that such controls are fully evaluated.

Details on the above items and the comments and actions taken or planned by the Department to improve its internal control evaluation process are presented below.

All programs and functions should be included
in the inventories of assessable units

The inventories of assessable units prepared by three of the eight bureaus and offices we reviewed did not include all programs and functions. Therefore, the Department did not subject all of its programs and functions to the internal control evaluation process.

An effective way to systematically perform an evaluation of an agency's systems of internal control is to segment the agency into organizational or other components and then into the programs and administrative functions within each component. OMB's guidelines state that the basic goal of segmenting the agency is to develop an inventory of assessable units, each of which can be the subject of a vulnerability assessment. The guidelines also state that this inventory should provide complete coverage of all programs and administrative functions.

The Department's internal control directive defines an assessable unit as a major organization, program, or functional subdivision requiring one or more separate systems of internal control to: (1) safeguard resources, (2) assure the accuracy and reliability of timely reports and information, (3) assure adherence to applicable laws, regulations, and policies, and (4) promote operational economy and efficiency. In line with this definition, each bureau was required to develop an inventory of assessable units. Each bureau's internal control coordinator worked with program managers to develop the inventories by using a listing of programs, functions, and activities the IG had identified as being subject to audit.

The inventories for five of the eight bureaus we reviewed generally included all of their organizational components, programs, and functions. However, the other three bureaus--the Fish and Wildlife Service, the National Park Service, and the U.S. Geological Survey--excluded many components from their inventories of assessable units submitted to PFM. Bureau officials told us the components were excluded because they concentrated on identifying highly vulnerable components the first year. For example, the Fish and Wildlife Service included only 22 of 42 divisions and offices shown on its organization chart. In addition, the Service's inventory of assessable units included land acquisition as an assessable unit but excluded related functions such as realty management and disposal of property. As another example, the National Park Service excluded 9 of its 35 divisions, most of its smaller and medium-sized parks and concessionary operations, and many functional areas identified on the IG listing.

A draft of this report was provided to the Department for review and comment. In the report, we proposed that the Department require bureaus and offices to include all assessable units in their inventories submitted to the Department. In the Department's comments, dated April 27, 1984 (see app. V), the Department stated that recent reviews by PFM and the IG indicate that bureaus and offices have included all assessable units in their inventories. Departmental officials subsequently told us that the above comment was based on their review of the revised preliminary inventories submitted by the bureaus and offices for the 1984-85 internal control evaluation process. In this connection, by memorandum dated February 7, 1984, the bureaus and offices were instructed to update their inventories of components and submit them to PFM and the IG for review. The

instructions given to the bureaus and offices stated that inventoring the components is intended to ensure that all the bureau/office programs, organizations, and functions are considered in the internal control evaluation process in a logical and manageable fashion. The instructions explained how bureaus and offices could add new components as well as delete or modify components on the initial inventory that was prepared in 1982.

Our review of the revised preliminary inventories of assessable units for the three bureaus cited above indicates that all of the assessable units excluded from the initial inventories may be included in the revised inventories. However, as discussed below, the acceptability of the revised inventories will not be known until they have been finalized by the bureaus and offices and reviewed and accepted by PFM.

The revised preliminary inventory for the National Park Service identifies a number of new assessable units which appear to cover the organizational and program components previously excluded. On the other hand, the U.S. Geological Survey's revised preliminary inventory appears to have evolved from a series of actions to merge and combine assessable units to such an extent that it is difficult to ascertain if all of the U.S. Geological Survey's programs and functions are included in the inventory. For example, 19 assessable units from the initial inventory have been merged into 6 new assessable units in the revised inventory, and it appears that the 6 new units cover 21 of the 25 programs and functions previously excluded from the inventory.

We believe that before the inventory is finalized, the Department should satisfy itself that the internal controls for one assessable unit identified as "geologic research, data collection, and analysis controls" adequately cover such programs and functions as world energy resources, climate change, oil shale investigations, offshore geologic surveys, and land resource surveys. In addition, we believe the Department should ensure that all of the programs and functions of the bureaus and offices are adequately covered and sufficiently recognizable in the inventories of assessable units so as to facilitate the evaluation of their systems of internal control.

Improvements are needed in
performing vulnerability assessments
and internal control reviews

To ensure quality and consistency in the internal control evaluation process, the bureaus and offices should develop and maintain documentation to support the results of vulnerability assessments and internal control reviews, and perform testing to ascertain that internal controls are in place and operating as planned. In addition, the Department needs to assure itself that the individuals performing the reviews have a thorough understanding of the purpose and intent of the internal control evaluation process.

Better documentation needed

OMB's internal control guidelines state that adequate written documentation should be maintained for vulnerability assessments, internal control reviews, and follow-up actions to provide a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached. The guidelines further state that this information will be useful for reviewing the validity of conclusions reached, evaluating the performance of individuals involved in the assessments and reviews, and performing subsequent assessments and reviews.

The vulnerability assessments and internal control reviews we reviewed were not always documented to support the results of the assessments and reviews. In this connection, our review of 77 vulnerability assessments disclosed that Interior's assessments generally did not document the basis for the vulnerability ranking. While there was a standard form, called a profile sheet, for each assessment, many were incomplete, and narrative statements did not support the conclusions. For example, our review of 41 vulnerability assessments at the National Park Service disclosed that less than half of the assessments had supporting documentation. Also, nearly a third of the profile sheets were incomplete, and questions in over half of the assessments we reviewed lacked narrative support. Without narrative support, an independent reviewer could not determine the basis for the conclusions contained in the vulnerability assessment. At the Bureau of Land Management, five of the seven vulnerability assessment profile sheets were not completely filled out, and none of the assessments contained all required narrative statements.

Bureaus and offices also did not always perform or document all elements of an internal control review. The Department's guidelines state that three elements--event cycles,² control objectives,³ and control techniques⁴--should be documented and provide a suggested format for this purpose. The guidelines further state that an assessable unit's inherent or potential risk to fraud, waste, and abuse should also be identified; however, no format is provided for documenting this element. Of the 22 internal control reviews we reviewed, 7 did not identify and document event cycles, 13 did not identify and document inherent risk, 6 did not identify and document control objectives, and 6 did not identify and document control techniques.

²Event cycles are the grouping of similar activities.

³Control objectives are desired goals or conditions for a specific event cycle.

⁴Control techniques are the processes or documents that enable the control objectives to be achieved.

In commenting on our draft report, the Department stated that it agreed on the need for better documentation for some vulnerability assessments and internal control reviews. The Department said that the lack of full documentation may have been a result of its policy to minimize the amount of paperwork during the first year. The Department stated that limited additional documentation is now being required.

Testing needed

The Department's bureaus did not always test control techniques when conducting internal control reviews. OMB's guidelines state that the final step in an internal control review is to test the necessary control techniques to determine whether such controls are functioning as intended. The Department's guidelines also clearly state that testing of the system's operation is a part of the internal control review process. Nevertheless, of the 22 internal control reviews we examined, 20 did not include testing of controls. Nine of the 19 that the IG examined did not include testing. In reports to the Assistant Secretaries, the IG recommended that the bureaus and offices require their staffs to test controls.

In his February 7, 1984, memorandum to heads of bureaus and offices, the Director, PFM, emphasized that bureaus and offices needed to comply with the testing requirements outlined in the Department's internal control review guidelines. Bureaus and offices were also advised that their internal control review plans should provide sufficient time for testing internal controls.

Training needed

OMB's guidelines state that the individuals performing internal control reviews need to have a good understanding of the process so that they can make appropriate judgments. The guidelines further state that orientation and/or training sessions should be provided to explain the objectives and procedures for conducting vulnerability assessments and internal control reviews.

The Department's training on conducting internal control reviews consisted of a 1-day course provided by the Office of Personnel Management. The course was designed to introduce participants to the concept of internal control and to develop a framework for conducting internal control reviews. Individuals attending the training course included various departmental officials and staff involved in the internal control evaluation process, but did not include all individuals who were to perform internal control reviews.

Personnel who performed internal control reviews in five bureaus advised us that they had not received training on how to do them. Most of the individuals indicated that training was not essential because they were familiar with the program they were assessing. However, as we discussed previously, many of

the reviews we looked at did not identify and document event cycles, inherent risk, and control objectives and techniques, or include sufficient testing of the control techniques.

The IG also found that bureau and office personnel did not adequately perform internal control reviews and were not provided training. For example, the IG noted that the internal control review completed on the Bureau of Land Management's onshore oil and gas inspections program did not identify the potential risk and the levels of acceptable risk, and the staff did not test controls to assure they were in use and operating as planned. The IG recommended to the Assistant Secretaries that the bureaus and offices train their staffs to conduct and document internal control reviews.

Our draft report proposed that the Department survey its managers to determine whether they know how to perform internal control reviews and train them accordingly. The Department stated that it agreed in principle with our proposal and that it is working with bureaus and offices to provide the additional training necessary to perform internal control reviews. The Department also stated that bureaus and offices are also taking independent actions on their own to train managers on how to conduct the reviews. In this connection, we were advised by departmental officials that four bureaus have developed or are in the process of developing their own training sessions on conducting internal control reviews. The Department is also monitoring the development of a training program for the Department of Defense to see if it can also be used by Interior.

Better monitoring needed of the evaluation process

The quality and consistency of the Department's internal control evaluation process can be enhanced by more closely monitoring the work performed. OMB's internal control guidelines state that agencies should develop a monitoring system to assure that vulnerability assessments and internal control reviews are performed adequately and commit a sufficient level of staff resources to the internal control evaluation process.

We found that although the bureaus and offices reviewed vulnerability assessments and internal control reviews for completeness of the required forms, monitoring was not done to determine whether the assessments and reviews were completed in accordance with the OMB and departmental guidelines. We believe that a system for monitoring the work performed would have shown that the vulnerability assessments and internal control reviews were not always documented and that internal controls were not always tested.

We observed that the Department and the bureaus did not devote the resources needed to assess the quality and consistency of their internal control evaluation, improvement, and reporting processes. At the departmental level, PFM used about 2-1/2 staff years for oversight and guidance activities. PFM,

with some assistance from the Departmental Work Group, reviews documents submitted by the various bureaus for compliance with departmental guidelines. However, because PFM has so few people, it cannot test the reliability of the data submitted by the bureaus or assess how well the bureaus are carrying out the process.

Seven of the eight bureaus we reviewed used about 1 staff year each to coordinate and facilitate internal control activities. Internal control coordinators at two of the seven bureaus indicated they needed additional staff to monitor and assess the results of vulnerability assessments and internal control reviews. The eighth bureau, the Bureau of Indian Affairs, established a task force and detailed headquarters and field staff to assist the internal control coordinator in implementing and monitoring the process.

The IG also reported that the bureaus needed to dedicate more staff resources to the internal control process. In his reports to the Assistant Secretaries, the IG recommended that the bureaus dedicate more trained staff to review the quality of the work performed until all procedures have been firmly established and managers are familiar with the internal control review requirements.

Our draft report proposed that the Department develop and implement a system to monitor the completeness and quality of the work performed in the internal control evaluation process. In commenting on our proposal, the Department said it thought this was being done in that it has implemented a quality assurance program that relies on bureau and office quality assurance systems. The Department stated that the quality assurance program is reinforced by oversight review by PFM, the Internal Control Work Group, and the IG. As an integral part of this assurance process, the IG plans to conduct evaluations of internal control reviews performed and to review internal control systems during planned audits.

The Department also stated in its comments that, to institutionalize the quality assurance process, it was in the process of revising the Departmental Manual and was requiring bureaus and offices to similarly revise their directives. The Department's draft revision of its internal control directive states that each bureau and office must institute a built-in quality assurance process to ensure that internal control systems are properly defined, and that internal control reviews are properly performed and the results thereof accurately reported. PFM officials told us that the Department would not approve bureau and office directives unless they included quality assurance procedures.

Bureaus need to issue their own internal control directives

As indicated above, the Department's internal control directive contains a requirement for bureaus and offices to

issue their own directives for implementing the internal control evaluation process within their organizations. We found, however, that this requirement was not being met. Of the eight bureaus we reviewed, only one issued its own internal control directive.

The Department's internal control directive provides the broad structure and framework for the evaluation process but does not give definitive instructions on how the process should be carried out. The directive requires that bureau and office heads develop detailed standards, procedures, and reporting requirements necessary to review, establish, and maintain effective internal control systems within their organizations. According to PFM officials, bureau directives should be tailored to deal with the particular organization, mission, and responsibilities of each bureau and should clearly define the roles of all managers in the internal control evaluation process.

Despite the requirement that each major bureau and office issue an internal control directive, only the Minerals Management Service issued its own directive. The other seven bureaus and offices used various types of informal memoranda to implement the internal control evaluation process. For example, in the Bureau of Reclamation, the Assistant Commissioner in charge of the internal control review process said that he used internal memoranda to outline the steps the Bureau would take to comply with OMB's and the Department's directives. However, the Bureau's internal control coordinator told us that his role was not adequately defined and that although the Bureau adopted the Department's vulnerability assessment and internal control review guidelines, it did not issue any implementing instructions. He added that he used informal methods to notify individuals of their responsibilities and to coordinate the overall review process.

In another case, the Commissioner of the Bureau of Reclamation requested regional offices to assign a person to act as a liaison between the internal control coordinator and the regions for completing vulnerability assessments and internal control reviews. However, the liaison person in the Lower Missouri Regional Office said he was unsure of his role in the process. For example, he did not know if he was to simply track the flow of internal control review questionnaires through the region or if he should also check the quality of the regional responses.

The need for bureaus to issue their own directives was also cited by the IG. In his reports to the Assistant Secretaries, he noted that bureau personnel did not have adequate and definitive instructions on how to perform internal control reviews. The IG recommended that the bureaus develop detailed guidance for conducting such reviews.

On February 7, 1984, the Director of PFM sent a memorandum to bureau and office heads advising them of the Department's plans for carrying out the internal control evaluation process

in 1984. The memorandum established June 29, 1984, as the date by which bureaus and offices are to issue their internal control directives.

ADP internal controls
should be fully evaluated

The Department has many ADP systems that control and produce much of the agency's financial and management information data. The Department identified ADP as one of its highly vulnerable functional areas in which internal control reviews were to be performed. However, because the Department's guidelines did not fully address the ADP general and application control areas, various controls in these areas were not evaluated during the internal control review process.

The Department uses its ADP systems for such functions as payroll and personnel, and also to help administer major programs. Typically, evaluations of ADP systems include a review of the systems' general and application controls. General controls cover organization; system design, development, and modification; data center management and protection; and system software and hardware. These controls should be reviewed to determine that they have been designed according to management direction and legal requirements, and that the controls are operating effectively to provide reliability of and security over the data being processed. Application controls are primarily concerned with the tasks or functions the computer is to perform and cover such things as data input, processing, and output. Application controls should be reviewed to assess their reliability in processing data in a timely, accurate, and complete manner.

To provide guidance, the Office of Information Resources Management⁵ developed a questionnaire for conducting ADP internal control reviews. The questionnaire addressed information systems development controls but omitted other important general and application controls such as data center management and system software and hardware. Furthermore, the questionnaire focused primarily on whether policies and procedures existed, and did not provide for testing to determine whether controls prescribed by these policies and procedures were functioning properly. OMB's guidance on internal control reviews states that the final step in an internal control review is to test control techniques to determine whether they are functioning as intended.

Office of Information Resources Management officials agreed with us that better ADP internal control review guidelines are needed. They are planning to develop a narrative guideline that will cover the ADP general and application control areas.

⁵This office provides department-wide oversight for the information-processing activities that support the mission requirements of the bureaus and offices.

Our draft report proposed that the Department revise its ADP internal control review guidelines to include procedures for evaluating general and application controls. In commenting on our proposal, the Department stated that it concurred and had revised the previously issued guidelines. The Department said it will use our audit guide, Evaluating Internal Controls in Computer-Based Systems, as the basic guideline for ADP management reviews. Departmental officials advised us that a copy of the audit guide was sent to bureau and office internal control coordinators on May 1, 1984. The Department added that bureau and office ADP staff will be responsible for applying the guidelines to cover the general controls for the general purpose computer centers and the data centers that primarily support single, major mission programs. Also, bureau program staff will be responsible for applying the appropriate guidelines to cover the application controls of ADP systems when conducting internal control reviews.

Conclusions, agency comments, and our evaluation

The Department has made progress this first year in establishing a process for evaluating its systems of internal control. The process included all the elements recommended by OMB and should be an important building block toward a process that, when fully developed and implemented, can assure effective internal controls.

In commenting on our draft report, the Department stated that, on balance, the report fairly characterized the Department's efforts in its first-year's implementation of the act. The Department also stated that it was in substantial concurrence with the proposals we made for strengthening and improving its internal control evaluation process and, as indicated in the previous sections of this report, advised us of the numerous corrective actions it has taken.

As the Department progresses to strengthen and improve its internal control evaluation process and to correct known internal control weaknesses, and as it implements the corrective actions it has outlined, it should have a more meaningful basis for concluding whether its systems of internal controls meet the objectives of the act. Accordingly, we are not making any recommendations on the internal control evaluation process at this time. However, we plan to monitor the Department's progress in improving its internal control evaluation process as part of our continuing reviews of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

ACCOUNTING SYSTEM COMPLIANCE EVALUATIONS NEED IMPROVEMENT

As part of the annual statement on the adequacy of the systems of internal control, the act requires agency heads to include a separate report on whether the agency's accounting system conforms to the principles, standards, and related

requirements prescribed by the Comptroller General. The Department evaluated its accounting systems and reported that four systems conform to the Comptroller General's principles and standards and nine systems do not conform. However, the bureaus and offices we reviewed did not always document and test the systems in operation; therefore, complete accounting systems evaluations were not made.

The Department's 13 major accounting systems account for billions of dollars in appropriations that support a wide variety of programs and activities. The Department does not have a centralized accounting system, rather it relies on individual bureau and office systems for its accounting and financial information.

In July 1983, PFM issued a memorandum to all bureaus and offices transmitting the Department's policies and procedures for evaluating their accounting systems for conformance with the Comptroller General's principles and standards. Attached to the memorandum were sample reports and schedules for bureaus to use when reporting on the results of their evaluations. In addition, the bureaus and offices were provided with a checklist of the Comptroller General's principles and standards.

We reviewed the accounting systems evaluations performed by seven bureaus. (See app. IV.) Bureau accounting systems personnel performed the evaluations by applying their personal knowledge, experience, and observations of the systems to the principles and standards shown on the checklist, but did not update or develop current narrative descriptions and flowcharts on the design and operation of the systems.

Our experience has consistently shown the need to establish a clear description of a system's design, operating procedures, and special features and the need to test the system to determine whether it is operating as documented. The system documentation is intended to provide a clear and comprehensive description of a system's design, methods of operation, procedures, equipment, control features, and end products, such as financial statements. The documentation itself consists of narrative descriptions and flowcharts sufficiently detailed and logically organized to provide a ready understanding of a system's design and operation.

This information is also needed to develop the testing procedures necessary to determine if a system is operating properly. Generally, specific testing methods should be developed on the basis of a system's design and should focus on the system's internal controls and special features.

With respect to testing, the Department required six of the bureaus to conduct internal control reviews of their accounting systems. The bureaus were to use the Department's internal control guidelines which state that, to evaluate internal controls,

the operation of the system must be tested. We found that three of the bureaus--Bureau of Indian Affairs, National Park Service, and Fish and Wildlife Service--did not test their systems.

Conclusions, agency comments,
and our evaluation

We believe the Department made a good faith effort to evaluate its accounting systems during the first year under the act. However, to assure that the accounting systems conform to the Comptroller General's principles and standards, we believe that, for future evaluations, the Department needs to update its accounting systems' documentation and test the systems.

Our draft report proposed that the Department require bureaus and offices to fully document their accounting systems by developing complete narrative descriptions and flowcharts on the systems in operation. We also proposed that bureaus and offices be required to test their accounting systems to determine whether they are operating as designed and documented. The Department stated in its comments that it partially concurred with this proposal. Agency officials subsequently explained that while all of the accounting systems are documented, the documentation may not have been updated to reflect changes made to the systems. The Department commented that bureaus and offices will be required to update their accounting systems' documentation for new enhancements and other changes, as appropriate. We were also advised that the Department concurred with our proposal for testing the accounting systems and that the Department's revised guidelines will require that testing be performed.

In view of the actions that the Department plans to take, we are not making any recommendations at this time. We plan, however, to monitor the Department's progress in improving its accounting systems compliance evaluation process as part of our continuing reviews of federal agencies implementation of the act.

DEPARTMENT OF THE INTERIOR
SUMMARY OF INTERNAL CONTROL REVIEW
MATERIAL WEAKNESSES

<u>Categories of Internal control weaknesses</u>	<u>Bureaus and Offices</u>							<u>Totals</u>
	<u>Minerals Management Service</u>	<u>Office of Surface Mining</u>	<u>National Park Service</u>	<u>Fish & Wildlife Service</u>	<u>Bureau of Land Management</u>	<u>Office of Territorial and International Affairs</u>	<u>Bureau of Indian Affairs</u>	
Deposits	1	-	1	-	-	-	-	2
Program regulations	1	-	-	-	-	-	4	5
Audit operations/investigations	2	1	1	-	-	-	1	5
Policies/procedures/manuals	1	1	3	2	-	-	12	19
Billings/receivables	-	1	1	-	-	-	-	2
Security	-	1	2	-	-	-	-	3
General program administration	-	2	-	-	1	-	3	6
Property management	-	-	4	1	-	-	-	5
Travel advances	-	-	1	-	-	-	-	1
Payroll	-	-	-	1	-	-	-	1
Contract/grant administration	-	-	-	-	-	1	3	4
Automatic data processing	-	-	-	-	-	-	6	6
Trust fund administration	-	-	-	-	-	-	2	2
Totals	5	6	13	4	1	1	31	61
	===	===	===	===	===	===	===	===

Source: Compiled by GAO from the Secretary of the Interior's annual statement and report to the President and the Congress, 1983.

DEPARTMENT OF THE INTERIOR
SUMMARY OF ACCOUNTING SYSTEMS REVIEW
MATERIAL WEAKNESSES

Categories of accounting system weaknesses	Bureaus and Offices									Totals
	Minerals Management Service	Office of Surface Mining	National Park Service	Fish & Wildlife Service	Bureau of Indian Affairs	Bureau of Mines	U.S. Geological Survey	Office of Youth Programs	Office of the Secretary	
Reconciliation of balances	-	-	-	-	1	1	-	-	-	2
Financial reports	-	-	1	1	2	1	-	-	-	5
Systems not in compliance	1	-	-	1	1	1	-	1	-	5
System documentation	1	-	-	-	-	1	-	-	1	3
Policies/procedures/manuals	-	-	-	-	2	3	-	-	-	5
Accrual accounting	-	1	1	1	2	-	1	-	-	6
Property accounting	-	-	1	-	1	-	4	-	-	6
Payroll	-	-	1	1	-	-	-	-	-	2
Cost accounting	-	-	1	-	-	-	-	-	-	1
Disbursements	-	-	1	1	1	-	-	-	-	3
Billings/receivables	-	-	-	1	1	-	-	-	-	2
Collections/deposits	-	-	-	-	1	-	-	1	-	2
Procurement	-	-	-	-	1	-	-	-	-	1
Contracts/grants	-	-	-	-	2	-	-	-	-	2
Travel advances	-	-	-	-	1	-	-	-	-	1
Imprest funds	-	-	-	-	1	-	-	-	-	1
Totals	2	1	6	6	17	7	5	2	1	47
	===	===	===	===	===	===	===	===	==	===

Source: Compiled by GAO from the Secretary of the Interior's annual statement and report to the President and the Congress, 1983.

LISTING OF INTERIOR'S BUREAUS AND
OFFICES INCLUDED IN GAO'S REVIEW OF INTERIOR'S
IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT

<u>Bureau/Office</u>	<u>Section 2, internal controls</u>	<u>Section 4, accounting systems</u>	<u>ADP</u>
Fish and Wildlife Service	X	X	-
National Park Service	X	X	-
Bureau of Land Management	X	X	X
Bureau of Reclamation	X	X	-
Bureau of Indian Affairs	X	X	-
U.S. Geological Survey	X	X	X
Bureau of Mines	X	X	-
Minerals Management Service	X	-	X

Source: GAO.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

APR 27 1984

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

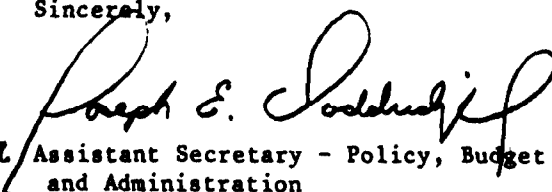
Dear Mr. Peach:

This letter responds to your request of April 17, 1984 for review and comment on the General Accounting Office (GAO) draft report entitled, Department of the Interior's First Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED-84-136).

On balance, the report fairly characterizes the Department's efforts in its first year's implementation of the Act. The report sets forth recommendations to the Secretary for strengthening the Department's internal control review process. We are in substantial concurrence with the recommendations outlined by GAO, except where noted in the Enclosure. In fact, we have already taken actions on most of the recommendations offered to the Secretary. The cooperation between your office and the Department's Office of Financial Management has assisted us in strengthening the internal control process. Nevertheless, we wish to take this opportunity to correct any errors, statements of fact, or misrepresentations which we feel the draft could convey to readers without further explanation or amplification. Please refer to the Enclosure for the Department's response to the recommendations offered and detailed comments on the report's content.

We appreciate having the opportunity to review and comment on the draft report and look forward to receiving the final report.

Sincerely,


Deputy Assistant Secretary - Policy, Budget
and Administration

Enclosure

GAO note: The page numbers in this appendix have been changed to correspond with the page numbers in this final report.

ENCLOSURE

DEPARTMENT OF THE INTERIOR'S FIRST YEAR IMPLEMENTATION
OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT
(GAO/RCED 84-136)

RECOMMENDATION:

GAO recommends that the Secretary of the Interior direct the Assistant Secretary - Policy, Budget and Administration to require bureaus and offices to include all assessable units in their inventories submitted to the Department.

RESPONSE:

Recent reviews by the Office of Financial Management (PFM) and the Office of Inspector General (OIG) indicate that bureaus and offices have included all assessable units, even though we may not have done it in the way GAO proposed.

The major programs and functions under the technical supervision of the small headquarter organizational components in the Fish and Wildlife Service (FWS) and the National Park Service (NPS) were included in other internal control components. For example, the Office of the Associate Director - Wildlife Resources was not identified as an assessable component, but the programs under his technical supervision, i.e., the National Wildlife Refuge, law enforcement, animal damage control, migratory bird and mammals, and non-migratory bird programs (all multi-million dollar programs administered through the FWS regional offices) were included as assessable units. Similar explanations could be provided for most other FWS and NPS organizational units which were excluded from the inventories. Also, each bureau's functional components, i.e., property management, procurement management, cash management, accounting, debt collection, travel, and personnel management were intended to cover these areas bureauwide, which would have appropriately covered the administrative portions of the small headquarters organizations and parks.

FWS's procurement of rights-of-way was included under the land acquisition program, and the disposal of property was included under FWS's property management function. Also, NPS did identify Concessions Management as a program in its listing of assessable units. In 1984, NPS has identified each regional office as a component, recognizing its responsibility for managing all of the parks in the region.

The Geological Survey's (GS) process to adequately assess the vulnerability of its program and other functional components began with a preliminary assessment of all its program elements that were listed in the Budget Justifications for FY 1983. Following this initial assessment, the list of assessable units was decreased to a more workable number that would provide complete coverage and also allow for effective followup considering the organizational structure of the GS and the available resources. GS has provided a cross reference between those GS program elements which GAO has determined to be omitted and the GS's list of assessable units submitted to the Department during the 1982-83 review cycle. Based on this cross reference document, we find no omitted assessable units for GS. This document will be made available upon request.

RECOMMENDATION:

GAO recommends that the Secretary of Interior direct the Assistant Secretary - Policy, Budget and Administration to survey managers to determine whether they know how to perform internal control reviews and train them accordingly.

RESPONSE:

We agree in principle with this recommendation. The Department is working with bureaus and offices to provide additional training necessary to perform internal control reviews. Bureaus and offices are also taking independent actions on their own to train managers on how to conduct internal control reviews.

On page 12 of the draft report, GAO states that "not everyone received formal (classroom) training." We do not believe that giving everyone "formal classroom training" is necessarily the most effective and economical way for each Federal agency to go. In this regard, we have suggested to OMB staff that they develop, in concert with the Office of Personnel Management (OPM), a Government-wide training package for Federal agencies. To fill this void for the 1982-1983 process, the Department developed and issued a Guideline for Conducting Internal Control Reviews for Departmentwide use. We consider this Guideline to be a self-study training document. In addition to providing the Department's managers with the Guideline, the Department provided its internal control coordinators with onsite classroom training conducted by the Office of Personnel Management.

GAO note: This section of the report has been revised to reflect the training initially provided by the Department and its plans for future training.

RECOMMENDATION:

GAO recommends that the Secretary of the Interior direct the Assistant Secretary - Policy, Budget and Administration to develop and implement a system to monitor the completeness and the quality of the work performed in the internal control review process.

RESPONSE:

We think this is being done. The Department has implemented a quality assurance program that relies on bureau and office quality assurance systems. It is reinforced by oversight review by PFM, the Internal Control Work Group, and the OIG. As an integral part of this assurance process, the OIG plans to conduct evaluations of internal control reviews performed and to review internal control systems during planned audits. To institutionalize this process, the Department is in the process of revising the Departmental Manual and is requiring bureaus and offices to similarly revise their directives. Thus, we rely heavily on independent review by the OIG as one primary quality assurance device.

RECOMMENDATION:

GAO recommends that the Secretary of the Interior direct the Assistant Secretary - Policy, Budget and Administration to revise the Department's ADP internal control review guidelines to include procedures for evaluating general and application controls.

RESPONSE:

We concur with this recommendation and have revised the previously issued ADP internal control review guidelines opting to use the GAO audit guide, *Evaluating Internal Controls in Computer Based Systems*, as the basic guideline for ADP management reviews. The appropriate bureaus and offices will receive a copy of this document to assist them in conducting ADP internal control reviews covering both general and application controls. In the current cycle, bureau and office ADP staff will be responsible for applying those guidelines to cover the general controls for the general purpose computer centers and the data centers that primarily support single major mission programs. Also, bureau program staffs will be responsible for applying the appropriate guidelines to cover the application controls of ADP systems when conducting internal control reviews.

RECOMMENDATION:

GAO recommends that the Secretary of the Interior direct the Assistant Secretary - Policy, Budget and Administration to require bureaus and offices to fully document their accounting systems by developing complete narrative descriptions and flowcharts on the systems in operation. Bureaus and offices should also be required to test their accounting systems in operation to determine whether they are operating as designed and documented.

RESPONSE:

We partially concur with this recommendation. Full compliance with GAO Principles and Standards and related requirements requires properly documented accounting systems. The Department reported in its 1983 FMFIA report that 9 of its eleven accounting systems do not fully comply with the GAO Principles and Standards and related requirements.* The bureaus and offices will be required to update their accounting systems documentation for new enhancements and other changes, as appropriate. Also, the OMB FY 1985 budget passback to the Department emphasized the consolidation and integration of both administrative payment centers and financial systems. With OMB approval, the Department has developed an approach to implementing these management initiatives which involves securing the assistance of a contractor to perform a 3-phase consulting study. The purpose of the study is: (1) to refine Interior's methodology and system for capturing and reporting the OMB interim financial/administrative management information system data elements; (2) to determine the level of consolidation of administrative payment centers within Interior; and (3) to determine the number and types of financial systems needed to process bureau/office financial transactions. We expect to award a contract for this effort during the last quarter of FY 1984.

OTHER REPORT COMMENTS:

1. On page 4 of the GAO report letter and page 17 of the draft report (Appendix 1), GAO states that, ". . . the Department has not yet completed a full evaluation of its internal control and therefore, has not necessarily identified all material control weaknesses." "Consequently, Interior's overall assessment that its systems . . . should be viewed as a tentative opinion to

*GAO note: The Department's report reflects that evaluations were made for 13 systems--11 accounting systems and 2 payroll systems.

be verified when the evaluations are complete." There is nothing in the Act that requires a "full evaluation" of an agency's internal control systems before an agency head can provide an assurance statement of compliance. In fact, Interior's internal control review process is specifically designed to provide for all components to be fully evaluated and documented over a period of 4 internal control review cycles, which we plan to have completed by the end of FY 1989. The Act provides for "reasonable assurance" rather than "absolute assurance" in the statements required by the agency head. Hence, the GAO references made to "full evaluation" and "tentative opinion" should be deleted. GAO note: The letter and appendix have been revised to delete the language referring to an incomplete evaluation and tentative opinion. The revised language points out what Interior needs to do to improve the process in order to have a more meaningful basis for concluding whether it is meeting the act's objectives.

2. Vulnerability assessments (Appendix 1, page 4) - In the first paragraph, fourth sentence, insert "potentially" following 323 and as being; in the second paragraph of the first sentence before highly vulnerable; and in the third sentence of the third paragraph before highly vulnerable.

3. OBJECTIVE, SCOPE, AND METHODOLOGY (Appendix 1, page 7) - In the third paragraph, second sentence, item no. (5) is omitted.

4. Better documentation needed (Appendix 1, page 11). We agree with GAO that better documentation was needed for some vulnerability assessments and internal control reviews. However, the Department in its first year's implementation of the FMFIA established an overall policy to minimize the amount of paperwork and eliminate unnecessary workload on bureaus and offices in order to focus on results, not paper. This policy may have contributed in part to some of the bureaus and offices not fully documenting their vulnerability assessments and internal control reviews. Limited additional documentation is being required for the current review cycle.

5. Department of the Interior Summary of Internal Control Review Material Weaknesses (Appendix 2, page 20) - As previously discussed with your staff, the figures in the National Park Service column are in error and should be changed.

GAO note: These figures have been revised.

6. Department of the Interior Summary of Accounting Systems Review Material Weaknesses (Appendix 3, page 21) - As previously discussed with your staff, the figures in the columns for the Bureau of Mines and the U.S. Geological Survey are in error and should be changed.

GAO note: These figures have been revised.

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