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GAO

Report to the Secretary of the Interior

October 1985

INTERIOR FMFIA

Interior's Implementation of the Federal Managers' Financial Integrity Act

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GAO

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

Resources, Community, and
Economic Development Division

B-216946

October 31, 1985

The Honorable Donald P. Hodel
The Secretary of the Interior

Dear Mr. Secretary:

This report summarizes the results of our review of the Department of the Interior's continuing efforts to implement the Federal Managers' Financial Integrity Act of 1982. Our review was part of a General Accounting Office assessment of 23 federal agencies' second-year efforts to implement the act.

The report contains recommendations to you on pages 23, 33, 37, 53, 63, and 68. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above House and Senate Committees; the House Committee on Interior and Insular Affairs; the Senate Committee on Energy and Natural Resources; and the Director, Office of Management and Budget.

Sincerely yours,

J. Dexter Peach
Director

Executive Summary

Responding to continuing reports of fraud, waste, and mismanagement in federal programs, the Congress enacted the Federal Managers' Financial Integrity Act in 1982. It requires agency heads to establish a program for evaluating, improving, and reporting on the status of their agencies' internal controls and accounting systems.

The Department of the Interior has over 400 programs and functions and 12 accounting systems which need to be evaluated. In fiscal year 1984 Interior was responsible for over $15 billion in appropriations and receipts from programs it administers.

In reviewing Interior's second-year implementation of the act, GAO examined:

- The Department's actions to correct weaknesses in internal controls and to implement a program for evaluating its internal controls.
- The status of Interior's accounting systems and evaluations made to determine whether they conform to the Comptroller General's requirements.
- The accuracy and completeness of the Secretary's annual report on internal controls and accounting systems.

Background

The act requires federal agencies to establish controls in accordance with the standards prescribed by the Comptroller General that provide reasonable assurance that obligations and costs are in compliance with applicable law; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for. (See p. 10.)

Agency heads must report annually to the President and the Congress on whether their internal control systems fully comply with the act's requirements. To the extent systems do not comply, each report must include a description of any material weaknesses in the controls, along with plans to correct such weaknesses. They must also report on whether their agencies' accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. (See p. 10.)

Results in Brief

Interior has established a sound program for evaluating its systems of internal control. However, it has not made as much progress as it expected in correcting material weaknesses in the internal controls. GAO also found that because of inconsistencies in implementing the program, the Department did not fully evaluate and test its controls. (See pp. 16 and 42.)

Interior has been taking actions to improve its accounting systems and has corrected the weaknesses reported last year in five of its systems. But corrective actions for several major longstanding deficiencies are yet to be completed. GAO also found that the Department did not properly test its accounting systems. (See pp. 56 and 60.)

The Secretary reported that the Department's systems of internal control, taken as a whole, except those of one bureau, provide reasonable assurance that the Department's funds and other assets are properly accounted for and safeguarded and that 8 of the 12 accounting systems are in conformance with requirements prescribed by the Comptroller General. GAO believes that the Department's evaluations of its internal controls and accounting systems have not reached the point where they provide a sound basis to support the Secretary's report. (See pp. 16 and 56.)

Principal Findings

Correcting Internal Control Weaknesses

Interior reported that 23 of the 61 material weaknesses identified in 1983 have been corrected. However, 24 of the weaknesses which were to have been corrected during fiscal year 1984 have not been corrected. One of these weaknesses—in the royalty management program—was initially identified by the Inspector General in 1977 but still has not been corrected. The staff responsible for the Inspector General reports estimated that the Department has lost about $125 million in revenues because of this weakness. (See pp. 17 and 18.)

Evaluating Internal Controls

Interior established a sound program for evaluating its internal controls; however, the program was not properly implemented. The internal control reviews did not provide for complete reviews of the systems of internal control, mainly because adequate testing was not performed to ensure that the controls were operating as intended—12 of the 14 reviews GAO examined did not include adequate testing. (See pp. 40 and 42.)

Two factors contributing to the incompleteness of the internal control reviews were that the individuals who performed the reviews were not trained and the bureaus had not implemented effective quality assurance procedures to ensure that the reviews were properly performed. (See p. 51.)

Evaluating Accounting Systems

Interior evaluated its 12 accounting systems. However, for the eight systems reported as being in conformance with the Comptroller General's requirements, GAO found that the bureaus did not properly test the systems in operation or evaluate the internal control and automated aspects of the systems. (See p. 60.)

The four systems reported as nonconforming account for about half of the Department's appropriations and almost all of its receipts. The Department recognizes that these four systems have long-standing deficiencies that will require a concerted effort to bring them into conformance. (See p. 57.)

Recommendations

GAO recommends that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to:

- Direct departmental and bureau management officials to carry out the Department's prescribed quality assurance techniques and, as necessary, initiate improved quality assurance over the program.
- Provide training to the individuals performing internal control reviews.
- Issue specific guidance to the bureaus on the testing to be performed on their accounting systems.

GAO makes several other recommendations for strengthening and improving the Department's evaluations of its internal controls and accounting systems. (See pp. 23, 33, 37, 53, 63, and 68.)

Agency Comments

The Department said that it concurred with the recommendations pointing toward the need to ensure improved quality assurance of the program and for bureaus to adhere to departmental established internal control procedures, including the requirement for testing internal controls. The Department disagreed with GAO's conclusion that the Secretary did not have an adequate basis for the 1984 assurance statement on internal controls and the accounting system conformance statement. The

Department said that GAO fails to recognize that the Secretary's statement is not based solely on information from the internal control review process, but that other information sources and the total organizational knowledge were considered by the Secretary. (See p. 24.)

GAO recognizes that management judgment is involved in reaching a conclusion that the internal control systems provide reasonable assurance that the act's requirements have been met. GAO believes, however, that unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until the material weaknesses which significantly impair internal controls over important agency functions are substantially corrected, the agency head does not have an adequate basis to conclude that the systems, taken as a whole, provide reasonable assurance. (See p. 24.)

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Abbreviations

ADP	automated data processing
EFT	electronic funds transfer
GAO	General Accounting Office
ICR	internal control review
OCG	Office of Comptroller General
OIG	Office of Inspector General
OMB	Office of Management and Budget
PFM	Office of Financial Management
VA	vulnerability assessment

Introduction

The Federal Managers' Financial Integrity Act of 1982 was enacted to help reduce fraud, waste, and abuse and improve management of federal operations. It requires each executive agency head to annually evaluate and report to the President and the Congress on the adequacy of the agency's internal controls and accounting systems.

The Department of the Interior is responsible for most of the U.S.-owned public lands and natural resources which involves jurisdiction of over 500 million acres of federal land. To meet its resource conservation and management responsibilities, the Department is comprised of the Secretary's office and 10 major bureaus and offices and, in fiscal year 1984, was responsible for over $15 billion. The Department identified 484 programs and functions and 12 accounting systems which are to be evaluated and reported on in accordance with the requirements of the act.

This report discusses the Department of the Interior's continuing efforts to evaluate and report on the status of its internal controls and accounting systems during fiscal year 1984.

Requirements of the Act

The act contains separate requirements for federal agency internal control systems (section 2) and accounting systems (section 4). Section 2 requires that agencies' internal control systems be evaluated to determine if they comply with the standards prescribed by the Comptroller General and provide reasonable assurance that (1) obligations and costs comply with applicable law, (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The act requires that agency heads submit annual reports to the President and the Congress on whether their agencies' internal control systems fully comply with the above requirements. To the extent the systems do not comply, each report must include a description of any material internal control weaknesses[1] identified through the evaluations, along with plans to correct such weaknesses.

[1] Material weaknesses are those matters that could impair fulfillment of an agency's mission, deprive the public of needed government services, violate statutory or regulatory requirements, or result in a conflict of interest.

To help clarify federal managers' internal control responsibilities, the act requires the Comptroller General of the United States to prescribe internal control standards and the Director of the Office of Management and Budget (OMB) to establish guidelines for evaluating, improving, and reporting on internal controls. Accordingly, the Comptroller General published, as part of the General Accounting Office's (GAO's) Accounting Series, "Standards for Internal Controls in the Federal Government" in June 1983. These standards are to be met by federal agencies in establishing and maintaining their systems of internal control. The Director of OMB issued Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government in December 1982. These guidelines are to be used by agency management to develop plans for performing evaluations of their internal control systems.

Section 4 of the act requires that, as part of each annual report, agency heads provide separate statements on whether their accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. GAO's "Policy and Procedures Manual for Guidance of Federal Agencies" contains the principles, standards, and related requirements to be observed by federal agencies in establishing and maintaining accounting systems. Title 2 prescribes the overall accounting principles and standards, while titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. Also, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements, such as the Treasury Financial Manual and OMB Circulars.

Prior GAO Report

On June 19, 1984, we issued a report[2] on Interior's first-year efforts to implement the act. We reported that the Department's internal control evaluation program included all the elements recommended by OMB and was an important building block toward a program that can assure effective internal controls for the Department. However, we found several areas where the program could be improved, including

- improving the performance of vulnerability assessments and internal control reviews,

[2]Department of the Interior's First-Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED-84-136, June 19, 1984).

- developing comprehensive guidelines for evaluating automated data processing (ADP) related internal controls and assuring that such controls are fully evaluated, and
- improving the accounting systems compliance evaluations by requiring bureaus and offices to more fully document and test their systems in operation.

In response to our report, Interior advised us that it was in substantial concurrence with the proposals we made for strengthening and improving its internal control and accounting systems evaluation program and advised us of the corrective actions it had taken or planned.

Objectives, Scope, and Methodology

As part of our monitoring of federal agencies' implementation of the act, we performed a review of the Department of the Interior's efforts during the second year under the act. The objectives of our work were as follows.

- Following up on the actions taken by Interior to improve its internal control and accounting systems compliance evaluation program.
- Assessing the quality of selected vulnerability assessments, internal control reviews, and accounting systems evaluations performed by the Department.
- Determining how Interior has benefited from the internal control evaluation program, including the actions taken or planned to correct material internal control weaknesses and accounting system deficiencies.
- Assessing the actions taken by Interior's Office of Inspector General (OIG) to carry out its role and responsibilities and reporting to management on the results of its work as it relates to the Financial Integrity Act.
- Examining Interior's annual report to the President and the Congress for accuracy and completeness.

We performed our review between August 1984 and June 1985 at the Department of the Interior's headquarters in Washington, D.C., 11 bureaus and offices (see app. I), and selected field locations in Sacramento, California; Denver, Colorado; Salt Lake City, Utah; and Billings, Montana. At the departmental level, we reviewed the overall direction and guidance given to the program, and at the bureaus and offices (hereafter referred to as bureaus), we focused on how the program was implemented. Our review of the Inspector General's role and responsibilities was conducted at the OIG headquarters office in Washington, D.C., and the Eastern, Central, and Western regional offices and focused on the work performed and the reports issued to the Secretary and the Assistant Secretaries.

To determine how the internal control and accounting systems evaluation, improvement, and reporting program was carried out, we reviewed documentation and interviewed departmental and bureau officials. We reviewed internal control guidelines, reports, correspondence, and files to ascertain: (1) how the Department and bureaus were organized to implement the act, (2) how programs and functions were segmented into assessable units, (3) what procedures were used to conduct vulnerability assessments and internal control reviews, (4) how identified internal control weaknesses were tracked, and (5) what procedures were in place to ensure the quality of the vulnerability assessments and internal control reviews.

To assess the quality of vulnerability assessments (VA) and internal control reviews (ICR), we randomly selected and reviewed 23 of 187 vulnerability assessments completed by the bureaus at the time we initiated our review and 14 of 77 internal control reviews that had not been selected for evaluation by the Inspector General. We also interviewed responsible bureau officials to determine whether Interior's guidelines were followed and whether the results of these assessments and reviews were reasonable and supported by documentary evidence.

To assess the quality of Interior's accounting systems evaluations, we (1) interviewed responsible departmental and bureau officials, (2) reviewed the Department's instructions and guidance for accounting systems evaluations, and (3) reviewed the 12 accounting systems compliance evaluations performed in fiscal year 1984. We also reviewed Inspector General reports, internal control review reports, and other financial management reports Interior relied on in making its accounting systems conformance determinations.

To determine how Interior has benefited from the evaluation program, including the actions taken or planned to correct internal control weaknesses, we selected 24 internal control reviews where weaknesses in the internal controls had been identified in 1983 and 1984 and determined whether the bureaus had entered the weaknesses into the corrective action tracking system and whether corrective action plans had been developed. In addition, we evaluated the status of the corrective actions for 5 of 61 material weaknesses included in Interior's first-year report.

To assess the work performed by Interior's Inspector General, we held discussions with appropriate officials and reviewed selected audit policies, procedures, planning documents, and workpapers applicable to the Inspector General's Financial Integrity Act audit work. We also reviewed five of the nine audit reports issued to departmental officials on the results of their work. We used the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions as criteria for assessing the Inspector General's work. These standards must be followed by federal auditors for audits of federal organizations, programs, activities, functions, and funds received by contractors, nonprofit organizations, and state and local governments. The standards relate to the scope and quality of audit effort and to the characteristics of professional and meaningful audit reports.

Because our review was limited to an assessment of Interior's internal control evaluation and accounting system compliance evaluation program, we did not independently determine the status of its internal control systems or the extent to which its accounting systems conform to the Comptroller General's principles and standards. We performed our review in accordance with generally accepted government auditing standards.

Interior's Progress in Evaluating and Improving Its Systems of Internal Control

The Secretary stated in his annual report that Interior's systems of internal accounting and administrative control in effect during the fiscal year ended September 30, 1984, taken as a whole, except for the Bureau of Indian Affairs, provide reasonable assurance that Interior's funds and other assets are properly accounted for and safeguarded. The Secretary's report was based on the Department's actions to evaluate and improve its internal controls. The Secretary reported 36 material internal control weaknesses in 24 programs. He also reported that 23 of the 61 material weaknesses identified in his 1983 report had been corrected. Twenty-four of the remaining weaknesses, which were to have been corrected in 1984, were not corrected and were included in the Secretary's report as uncorrected weaknesses.

Interior has established a sound program and has made progress in evaluating and improving its internal controls. However, we believe that the Department's evaluations have not reached the point where they provide an adequate basis for the Secretary to report, even with the exception of the Bureau of Indian Affairs, that he had reasonable assurance that the systems of internal accounting and administrative control, taken as a whole, were working properly. We found that the bureaus did not fully evaluate and test their internal controls and accounting systems. Further, Interior has not made as much progress as it expected in correcting the material internal control weaknesses reported by the Secretary in 1983.

Systems of Internal Control Were Not Fully Evaluated

Interior has established a sound program for evaluating its systems of internal control. It has institutionalized the program into its overall organizational structure and has developed and issued policies, procedures, plans, and guidelines for the program. However, as summarized below and discussed in detail in chapters 3, 4, 5, and 6, we found that the internal controls and accounting systems were not fully evaluated because:

- Some bureaus did not properly inventory or segment their programs and functions and as a result did not subject all of them to internal control evaluations. (See p. 28.)
- The bureaus did not always consider ADP as a factor in determining the vulnerability of their programs and functions to internal control weaknesses. Fourteen of the 23 vulnerability assessments we reviewed involved programs or functions that use ADP as an integral part of the program or function. However, only four of the assessments included consideration of ADP in assessing vulnerability. (See p. 36.)

- The internal control reviews we examined did not provide for complete reviews of the internal controls, mainly because they did not include tests to ascertain if the controls were operating as intended—12 of the 14 reviews did not include adequate testing. (See p. 42.)
- In performing accounting systems evaluations, the bureaus did not perform adequate testing of the accounting systems in operation for seven of the eight systems that were reported as being in conformance, or did not sufficiently evaluate the systems' internal control and automated aspects that have a direct bearing on whether they conform. (See p. 60.)

Not As Much Progress Made As Expected in Correcting Material Weaknesses

In his 1984 report to the President and the Congress, the Secretary stated that 47 of the 61 material internal control weaknesses reported in 1983 were to have been corrected during fiscal year 1984. However, the Secretary's report disclosed that 24 of the 47 weaknesses had not been corrected. Our review of five of the material weaknesses that were to have been corrected in 1984 disclosed that only one had been completed. The other four should have been included in the Secretary's report as uncorrected weaknesses, but only one was included in the report. These five weaknesses and the status of the corrective actions are discussed below.

Onshore Oil and Gas Leasing

The Bureau of Land Management administers onshore oil and gas leases on federal lands. The authorizing legislation states that all lands within a known geologic structure of a producing oil or gas field must be leased competitively. The internal control weakness reported by the Secretary in 1983 for this program was that all known geologic structures were not being properly defined and therefore lands that should be offered for lease competitively were not being properly identified. On October 12, 1983, the Assistant Secretary for Land and Water Resources deferred the issuance of leases under the program until the problem had been reviewed and corrected.

The planned corrective action for this weakness was to provide assistance to state offices in implementing revised procedures for defining known geologic structures and for dealing with the backlog of leases. In addition, before the deferral of leases could be lifted, each state director had to certify that his procedures had been reviewed and were adequate.

The corrective actions for this weakness were completed in June 1984 and leasing was resumed in August 1984.

Royalty Management

Under the royalty management program, the Minerals Management Service is responsible for the accurate determination, collection, accounting, and distribution of all royalty and mineral revenues from leases of federal, Indian, and Outer Continental Shelf lands. The internal control weakness reported by the Secretary in 1983 was a need for regulations for calculating offshore gas processing allowances that conform to the regulations for the onshore program. The corrective action called for the Minerals Management Service to issue the regulations by July 31, 1984.

This weakness was initially identified by the OIG in a 1977 audit report when the program was operated by the U.S. Geological Survey. The Geological Survey agreed with the OIG finding and recommendation and prepared a rule to correct the problem. However, incorrect procedures were used in preparing the rule and it was never properly issued. In 1983 the OIG noted that the weakness had not been corrected and issued another report. The OIG auditor responsible for these two audit reports estimated that Interior lost approximately $125 million in revenues as a result of this weakness not being corrected when it was first identified in 1977.

As of May 7, 1985, the corrective action on this material weakness had not been completed. A Minerals Management Service official told us that the plan is to issue the regulations during 1985, as an interim rule. This official told us that by issuing the regulations as an interim rule they could be implemented as of the date of publication. This internal control weakness was included in the Secretary's 1984 report as a 1983 weakness that had not been corrected.

Higher Education Grants

The Secretary's 1983 report included the following internal control weakness for this $26 million Bureau of Indian Affairs program: "Ineligible recipients are receiving benefits; students are over-funded; program records are not adequately maintained." Procedural changes were to be developed and implemented by April 1984 to correct this weakness. This date was later revised to September 30, 1984, due to the need to incorporate the Department's comments into the proposed regulations.

The bureau official responsible for taking the corrective action told us, on May 8, 1985, that this material weakness had not been corrected and that the final regulations are estimated to be published in the spring of 1986. We noted that this weakness was not included in the Assistant Secretary's or the Secretary's 1984 reports as an uncorrected internal control weakness.

In commenting on our draft report (see app. IV), the Department disagreed with our finding that the bureau had not corrected this weakness. The Department stated that the material weakness was properly reported as completed when all of the incremental corrective actions are considered as a whole. The Department stated further that our position was based on the lack of final publication of federal regulations, which was not required for completion of the corrective action.

The internal control review report for this program identified six weaknesses and three corrective actions. The weaknesses included, (1) a financial aid package was not on file before a grant was awarded, (2) over-awarding of students, and (3) students were not placed on probation/suspension for not meeting minimum academic requirements. The corrective action for these three weaknesses was that there would be onsite monitoring of student files. Another weakness identified was the lack of program regulations covering these three areas. The corrective action was that regulations would be developed. These weaknesses and the corrective action of issuing program regulations were included in the Assistant Secretary's report to the Secretary.

A November 19, 1984, tracking and followup system report provided to us showed that all corrective actions had been completed except the one covering the publication of program regulations. This report was annotated by the individual on the internal control coordinator's staff who provided the report to us that this was the last tracking report for this weakness because she made the judgment that all procedural changes were completed. The essence of that notation was verified with that individual on May 8, 1985. She said that she considers the corrective action completed because the bureau personnel had completed the monitoring phase called for in the corrective action and that the issuance of the regulations was a different matter.

As previously stated, on May 8, 1985, we also talked with the program official responsible for taking the corrective action, and she told us that the material weaknesses had not been corrected and that the regulations had not been published. On October 2, 1985, after receipt of the Department's comments, we again talked with the program official, and she told us that the regulations have not been published and that the weaknesses in the program have not been corrected. She said that although the onsite monitoring has helped improve the program, the regulations are needed to fully correct the weaknesses in the program. Therefore, we believe that the Secretary should have included this weakness in his 1984 report as an uncorrected weakness.

Construction and Rehabilitation Projects

The material weakness reported by the Secretary in 1983 for this Fish and Wildlife Service program was that there was no national policy to discourage last minute changes in regional design criteria furnished to the Office of Engineering for construction and rehabilitation projects. About $20 million was spent on this program in fiscal year 1984. A policy directive was needed because program personnel were requesting criteria changes that resulted in extensive revisions in design drawings. Changes made after design has been initiated on a project may result in considerable wasted time, effort, and use of program funds. The corrective action plan called for the evaluation of existing practices and procedures and the issuance of a policy directive to discourage this practice. The scheduled completion date was September 30, 1984.

The Office of Engineering submitted a final draft of the policy to the Chief, Contracting and General Services, and notified the bureau's internal control coordinator that corrective action had been completed as of September 30, 1984. Upon being notified, the coordinator recorded in the bureau's tracking and followup system that the corrective action had been completed. We noted, however, that the new policy was not issued until April 19, 1985. We also observed that neither the bureau Director nor the Secretary reported this weakness as an uncorrected internal control weakness in 1984.

Cash Management

In his 1983 report the Secretary included the following weakness in the National Park Service's cash management program: "Deposits over $10,000 per transaction are not processed through Treasury's Electronic Funds Transfer System." The planned corrective action was to establish electronic funds transfer (EFT) procedures that will speed the flow of collections due from concessioners for franchise fees and monies recovered from grantees. January 31, 1984, was established as the scheduled completion date. This date was subsequently revised to December 31, 1984.

According to the Chief and Deputy Chief of the Division of Finance in the National Park Service, the bureau encountered complications when it started to implement the corrective action. Although the bureau established procedures in December 1984 to require the use of EFT in concessioner contracts, it will take several years to implement this corrective action, because of the need to renegotiate and renew these long-term contracts.

The Director of the National Park Service included this weakness in his 1984 report to the Assistant Secretary for Fish and Wildlife and Parks as an uncorrected material internal control weakness. However, this weakness was not included in either the Assistant Secretary's or the Secretary's report for 1984.

In commenting on our draft report, the Department stated that the planned corrective action for this weakness was implemented to the extent possible in December 1984 with the establishment of the electronic funds transfer procedures. The Department also stated that it no longer considers this weakness material as further corrective action cannot be taken for several years due to contractual constraints and collections affected by these contracts, $7 million, are small relative to the Department's cash management program.

We believe that until such time as the corrective action has been fully implemented, this material weakness should be retained in the Department's tracking and followup system and included in the Secretary's report as an uncorrected material weakness. In this respect, OMB's guidelines state that the Secretary's annual report can and should be used to demonstrate that the planned corrective actions have been taken and that a statement should be included in the annual report on the status of actions taken on prior years' weaknesses. The Department has established an automated tracking and followup system which should make it relatively easy to retain weaknesses in the system until such time as the corrective action is completed.

Quality Assurance Needed Over the Evaluation Program

Interior needs to carry out an effective quality assurance system as part of its internal control and accounting systems evaluation program. Last year we reported that neither the Department nor its bureaus devoted the resources needed to assess the quality and consistency of the program. In June 1984 the Department revised its internal control directive to require each bureau to institute quality assurance systems as part of their programs. Further, the Secretary's 1984 annual report states that the Department's program included a variety of quality control techniques, such as the use of a multi-tiered staff review structure that provided a cross-check between administrative and program management, the required use of standard evaluation and documentation guidance by all bureaus, and the use of a review and reporting process that required involvement of all bureau heads and higher levels of management.

While the actions taken by the Department were appropriate, we continue to believe that Interior needs to further strengthen and improve its quality assurance over the internal control and accounting systems evaluations. As noted above and discussed in more detail in succeeding parts of this report, our review disclosed that the internal control evaluations were not carried out in accordance with departmental directives and guidelines. We found situations where programs and functions were omitted from internal control evaluations, vulnerability assessments and internal control reviews were not properly performed, and internal control weaknesses identified during the evaluations were not included in corrective action tracking and followup systems. We also found that the accounting systems evaluations were not complete. We believe that good quality assurance systems at the departmental and bureau levels should have detected and corrected these problems.

Inadequate Basis for Reasonable Assurance on Internal Controls

The Secretary of the Interior reported that, taken as a whole, Interior's systems of internal accounting and administrative control, except those of one bureau, were generally adequate to ensure that the Department's funds and other assets were properly accounted for and safeguarded. The Secretary made this statement on the basis that the Department's evaluations of its internal controls were performed satisfactorily and that actions were being taken to correct the weaknesses identified in the controls.

In determining whether an agency has an adequate basis for reporting that its systems of internal accounting and administrative control meet the requirements of the act, we believe the agency head should consider four factors collectively: the (1) comprehensiveness and quality of the internal control evaluations performed, (2) significance of the weaknesses disclosed, (3) status of the corrective actions, and (4) extent to which accounting systems conform to the Comptroller General's requirements. Interior made progress in improving its systems of internal control in 1984, but reported that 67 material internal control weaknesses remained to be corrected from its 1983 and 1984 internal control evaluations. Further, although Interior reported that four of its accounting systems were not in conformance with the Comptroller General's requirements, full disclosure of the overall impact of the four systems on the Department was not made. As discussed in chapter 6, these four systems, which have major longstanding weaknesses, handled about $11 billion, accounting for about half of the Department's appropriations and almost all of its receipts in fiscal year 1984.

Although corrective actions on the internal control and accounting systems weaknesses were planned or underway, we believe that the significance of the many remaining weaknesses and the problems we found with segmentation, ADP, internal control reviews, and accounting systems evaluations suggest that, even with the exception for the one bureau, the Secretary did not have an adequate basis for reporting that the systems of internal control, taken as a whole, provided reasonable assurance that Interior's funds and other assets are properly accounted for and safeguarded.

Conclusions

Interior has made progress in evaluating and improving its internal controls. However, the Department needs to include all material weaknesses that are not corrected in the Secretary's annual report. Interior also needs a more effective quality assurance system to ensure that the internal control and accounting system evaluation program is properly implemented. We believe that a good quality assurance system, at the Department and bureau levels, would have detected the problems we identified.

Because the evaluations of the systems of internal control were generally not properly performed and many material weaknesses remain to be corrected, we believe the Secretary did not have an adequate basis for reporting that Interior's systems, taken as a whole, provide reasonable assurance that the internal controls are working properly. Throughout this report we are making recommendations for correcting the problems identified. If the Secretary takes the necessary corrective actions, we believe he will have a better basis for reporting on the integrity of the Department's systems of internal control.

Recommendations

We recommend that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to take the following actions:

- Ensure that all material weaknesses that have not been corrected are reported in the Secretary's annual report to the President and the Congress.
- Direct departmental and bureau management officials to carry out the Department's prescribed quality assurance techniques and, as necessary, initiate improved quality assurance over the program.

Agency Comments

In commenting on our draft report, the Department said that it concurred with the recommendations pointing toward the need (1) to ensure improved quality assurance of the program and (2) for bureaus to adhere to departmental established internal control procedures, including the requirement for testing of the internal controls. The Department said that improvement in these areas, together with the training already provided, should go a long way toward increasing the quality of the documentation and testing of the Department's internal control reviews.

The Department disagreed with our conclusion that the Secretary did not have an adequate basis for signing the 1984 assurance statement and the accounting system conformance statement. The Department said that, in its view, we have unrealistic expectations concerning the level of effort the Department should devote to the internal control process. The Department said that the report also fails to recognize that a finding of reasonable assurance is not based solely upon information obtained through the internal control review process. Other information sources and the total organizational knowledge were also considered by the Secretary in assessing whether objectives of accounting and administrative control were met.

In this report, we are not questioning the level of effort that the Department has put forth in carrying out the requirements of the act. We do, however, have questions concerning the quality of the work performed. As indicated above, the Department agreed with our recommendations for improving the quality assurance of the program and for bureaus to adhere to departmental established internal control evaluation procedures.

With respect to the Secretary's statement, we recognize that management judgment is involved in reaching a conclusion that the internal control systems, taken as a whole, provide reasonable assurance that the act's requirements have been met. As previously stated, in deciding whether their systems provide reasonable assurance, we believe that agencies need to consider four factors collectively:

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

In our opinion, unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until the material weaknesses which significantly impair internal controls over important agency functions are substantially corrected, the agency head does not have an adequate basis to conclude that the systems, taken as a whole, provide reasonable assurance. Evaluations and corrective actions needed to address the act's requirements may take several years to complete. An agency may be making good progress toward that goal, yet not have progressed to the point where reasonable assurance can be provided.

In Interior's case, we show in chapters 3 thru 6 of this report that many systems have not been adequately evaluated. This problem is compounded by Interior having weaknesses which significantly impair internal controls over important Interior missions. Under these circumstances, we cannot agree that Interior had an adequate basis at the time of its 1984 annual statement to conclude that its internal control systems, taken as a whole, fully comply with the act's requirements.

We recognize that Interior may have reached its conclusion in accordance with guidelines disseminated by OMB. In our report on first-year implementation of the Financial Integrity Act (GAO/OCG-84-3, August 24, 1984), we recommended that OMB clarify and revise its guidance on what should be contained in the year-end reporting statement. The House Committee on Government Operations, in its August 2, 1984, report on first-year implementation of the act, also recommended that OMB revise its guidance concerning annual reporting. The Committee suggested that it would be more practical for some agencies to report that they "have reasonable assurance except. . ." and identify areas where they do not have assurance. However, OMB took no action on these recommendations. This issue will be discussed further in our overall report on second-year implementation of the act which is to be issued later this year.

Interior Has Established a Program for Conducting Internal Control Evaluations

The Department of the Interior has established a formal program for evaluating its internal controls, as required by Section 2 of the Financial Integrity Act. During its second-year implementation of the act, Interior made several improvements to its program. These improvements were based on lessons learned from its first-year efforts and evaluations by OMB, GAO, and the OIG. The improvements provided the Department with a better basis for evaluating its internal controls.

However, the Department needs to take additional actions to strengthen the framework for its evaluations and to ensure that its bureaus comply with OMB and departmental internal control directives and guidelines. We found that two bureaus had not issued their own internal control evaluation directives as required by the Department. We also found that three bureaus had not properly inventoried, or segmented, their programs and functions and as a result had not subjected all of them to internal control evaluations.

Interior's Internal Control Evaluation Program

The Department has established a sound program for carrying out the requirements of section 2 of the act. As recommended by OMB, the Department has integrated its internal control evaluation program into its overall organizational structure and has developed and issued internal control evaluation policies, procedures, and guidelines. The Department has also developed a plan for evaluating its internal controls on a systematic and continuous basis.

Assignment of Responsibilities

The Department has assigned internal control evaluation responsibility to various management levels. The Secretary has overall responsibility and has assigned primary responsibility for managing departmental compliance with the act and the OMB guidelines to the Assistant Secretary—Policy, Budget, and Administration. The Office of Financial Management (PFM) is responsible for providing oversight and guidance to the bureaus. Bureau directors are responsible for establishing and maintaining internal controls within the bureaus. At this level, responsibility for the evaluation of the systems of internal control has been generally assigned to the assistant directors and program and field office managers.

The Department has also developed a network of internal control coordinators, both at the Department and bureau levels, who are responsible for coordinating and facilitating the implementation of the program within their organizations. The coordinators are also responsible for quality control and for managing the agency's corrective action tracking and followup system.

To help ensure accountability, the Department has established internal control performance standards which are to be addressed in the performance appraisals of all senior executive staff and merit pay management officials. Four of the eight bureaus we reviewed also required others assigned internal control responsibilities, such as internal control coordinators and their assistants, to be rated on their performance in this area.

Policies and Procedures

The Department took several actions to improve its policies and procedures based on lessons learned in 1983 and evaluations by OMB, GAO, and the OIG. While these actions strengthened the Department's framework for conducting internal control evaluations, the Department needs to take additional actions to ensure that its bureaus issue their own internal control evaluation directives and comply with those issued by OMB and the Department.

During fiscal year 1984 the Department either revised or established new internal control evaluation policies and procedures in the areas of: segmentation, vulnerability assessments, ADP internal control evaluations, quality assurance, and corrective action tracking and follow up. To enable the bureaus to properly implement these new or revised policies and procedures, the Department also issued detailed guidelines or procedural instructions on all areas except quality assurance.

In our review of the Department's first-year implementation of the act, we found that only one of the eight bureaus had issued its own internal control directive. We believe, and departmental officials agree, that all bureaus need to issue internal control directives which are tailored to their own organizations and which clearly define bureau-level roles and responsibilities and provide definitive instructions on how the internal control evaluation program should be carried out.

In February 1984 the Director, PFM, sent a memorandum to all bureaus reminding them of the requirement for issuing their own internal control directive and set an issuance deadline of June 29, 1984. As of May 2, 1985, six of the bureaus we reviewed had complied with this requirement. The Department needs to ensure that the remaining two bureaus, the Bureau of Indian Affairs and Minerals Management Service, issue their directives.

Evaluation Plans

In 1984 the Department established a long-range plan for conducting internal control evaluations which, if carried out by the bureaus, should ensure that the internal controls of all organizational components are evaluated on a continuous basis as required by OMB guidelines. Our review indicated that the bureaus are adhering to the Department's plan.

Segmentation

As in 1983 some of the bureaus did not properly segment their organizations for internal control evaluation purposes. We identified 63 programs and functions that had been omitted from bureau inventories and others that had been consolidated to such an extent that they resulted in vulnerability assessments and internal control reviews which were of limited value.

The initial step in an internal control evaluation is to divide, or "segment," the entire organization into appropriate units—commonly referred to as assessable units—of manageable size for evaluation purposes, thus laying the foundation for the vulnerability assessments and internal control reviews. Unless the entire organization is accounted for, a complete evaluation of an organization's internal controls will not be accomplished.

In 1984 the bureaus revised and updated their inventories of assessable units and through this process identified 484 units. The Department reviewed and generally concurred with the bureaus' revised inventories.

Programs and Functions Omitted From Inventories

Two of the eight bureaus we reviewed, the Fish and Wildlife Service and the Bureau of Land Management, omitted 63 programs and functions from their inventories of assessable units. The Fish and Wildlife Service's 1984 inventory contained 31 assessable units. Its 1984 organization chart showed 41 divisions and offices. We compared the inventory with the organization chart and found that only 26 of the bureau's 41 divisions and offices were covered by an assessable unit. The programs of the remaining 15 divisions and offices were not included in the inventory and therefore were not subject to a vulnerability assessment or internal control review during 1984.

We discussed our analysis with Service officials in January 1985, and they agreed that the inventory did not include the programs of all divisions and offices. In February 1985, the officials told us that they intended to review and revise their inventory. At that time, PFM directed the Service to revise its inventory and conduct immediate vulnerability assessments on all components that had been previously omitted. The bureau submitted its revised inventory on June 5, 1985. We noted, however, that only 4 of the 15 previously omitted divisions and offices were included on the revised inventory. In commenting on our draft report, the Department said that the other 11 organizations were exempt from the act because they are policymaking or policy-support operations.

We agree with the position taken by OMB in its August 1984 "Questions and Answers" booklet on agencies' implementation of the internal control evaluation program, that no organizational unit is inherently exempt from the act, but rather that certain matters, such as policymaking activities, within such units may not be encompassed by the program. However, OMB recognizes, and we agree, that the act does encompass a review of whether established policies are followed and agency operations are properly conducted.

The House Committee on Government Operations expressed concern in its report (H.R. Rep. 98-937, August 2, 1984) that agencies have used the exclusion for policymaking and other functions to also exclude functions relating to controls over the safety and appropriate management of resources. By characterizing some organizational units as exempt from the Fish and Wildlife Service's inventory, the Department's comments are unclear as to whether activities within those units, which certainly are encompassed by the act, are being addressed. For example, it is not clear from the comments whether the Department includes under other categories in its inventory, controls over personnel, property, and policy implementation, among others, in the exempt units. This confusion is compounded by the Department's comment that one function within one of the exempt units is covered, without addressing seemingly covered activities within the other exempt units. Further, two of the organizations which the Department states are exempt are included in the bureau's inventory of assessable units. In view of this inconsistency, we believe that the bureau's inventory should be reviewed again to ensure that it includes all appropriate organizations and the activities encompassed by the act within each unit.

The Bureau of Land Management also omitted components from its inventory of assessable units. We identified 48 units that had been excluded during 1984. The Minerals Management Service deleted 43 assessable units when it revised its inventory for 1984 because the Secretary had ordered the transfer of these units to the Bureau of Land Management. However, the Bureau's 1984 inventory did not contain these 43 units. Upon further analysis, we also found that the Bureau had omitted five other programs or activities from its 1984 inventory.

We discussed these omissions with Bureau officials in March 1985, and they agreed that their 1984 inventory did not cover all organizational units. The officials told us that they intend to revise their inventory in 1985 and in doing so will ensure that the 48 components are included, either as separate assessable units or as parts of other units.

In commenting on our draft report, the Department said that the 43 units transferred from the Minerals Management Service are included in the Bureau of Land Management's component inventory. The Department said further that we were informed at a June 26, 1985, meeting that the 43 units were included under five existing components on the bureau's inventory.

At the June 26, 1985, meeting, the internal control coordinator and program officials told us that only 34 of the 43 components were thought to be covered by the Bureau's inventory, that 8 other components were not applicable to the bureau's programs and therefore not included in the inventory, and that one other component would be added to the inventory. Subsequent to that date, we noted and confirmed with the Bureau's internal control coordinator that one of the 34 components thought to be covered by an existing component was not covered. The coordinator said that he would add an additional component to the inventory to cover this transferred component. This information was again discussed with the Bureau's internal control coordinator on September 20, 1985, and he agreed that the above facts were correct. Therefore, it appears that 10 of the 43 components transferred to the Bureau are not included in its inventory.

Overly Large Units Hamper Effective Internal Control Evaluations

OMB's guidelines specify that the process of dividing and subdividing an organization should result in units of an appropriate size and nature for performing meaningful and efficient internal control evaluations. Should an assessable unit be too large, or contain dissimilar operations, its overall vulnerability cannot be readily assessed. The 1984 inventory of one of the eight bureaus we reviewed, the U.S. Geological Survey, contains 34 assessable units, 5 of which we believe are overly large for effective internal control evaluations.

In 1983 we found that the U.S. Geological Survey did not include all organizational units in its inventory of assessable units. The bureau revised its inventory in 1984. However, in doing this, the bureau merged and combined some programs and functions to such an extent that they are too large to be effectively and comprehensively addressed by a single vulnerability assessment and internal control review.

For example, the bureau's inventory lists the "Northeastern Region Water Resources Program" as one assessable unit. Our review of the inventory showed that the bureau formed this assessable unit through the merger of 15 previously separate programs and functions. This merger resulted in these 15 formerly separate units being covered by only one vulnerability assessment and internal control review in fiscal year 1984. The bureau took the same type of action on three other regional water resource programs. We believe that the merger of these four regional water resource programs has resulted in assessable units that are too large and contain too many dissimilar programs and functions to permit meaningful internal control evaluations. In this connection, the four regional programs cover such functions as flood hazard analysis, subsurface waste storage, environmental affairs, and coal hydrology.

The Geological Survey revised its inventory on February 20, 1985. The revised inventory includes several new assessable units that were included as part of one assessable unit on the 1984 inventory. However, the revised inventory still includes the 4 regional water resource programs as assessable units, each of which cover 15 previously separate programs and functions. We were told by bureau officials that the internal control reviews performed in 1984 on 2 of the 4 regional water resource programs did not cover these 15 programs and functions because these reviews concentrated on administrative areas. The bureau's alternate internal control coordinator told us, however, that the internal control reviews being performed in 1985 on these four assessable units will cover all of the programs and functions covered by the four assessable units.

In commenting on our draft report, the Department said that the Geological Survey disagrees with our finding that the merger of the 15 previously separate programs and functions resulted in assessable units that are too large to permit meaningful internal control evaluations. The Department said further that the 1984 internal control reviews did cover the 15 programs and functions and that we should have validated our data with the Geological Survey's internal control coordinator or other bureau officials.

Our data was validated with bureau officials. We held an exit conference at the conclusion of our field work at the Geological Survey on April 1, 1985. Present at that meeting were the internal control coordinator, alternate internal control coordinator, and various other bureau officials, one of whom was part of a team that performed the internal control reviews of the two regional water resource programs mentioned above. Our fact sheet, prepared for that meeting, indicated that the internal control reviews performed on these components did not cover any of the previously separate programs and functions. The fact sheet also indicated that the two reviews only covered items of an administrative nature. The program official who participated in these two reviews said that the above facts were correct but that they are trying to do a better job in the future. The alternate internal control coordinator said that each of the water resource division internal control reviews to be performed in 1985 would focus on the programmatic activities. The alternate internal control coordinator also said that the Geological Survey believes that with the 1985 and future reviews being focused on the merged programs, the assessable units are not overly large.

We were also provided with a copy of the report for one of the regional water resource division internal control reviews performed in 1985. While the report did contain a page that identified a number of programs as event cycles, we found that only 6 of the previously separate 15 programs and functions were included in the listing. Further, the internal control review worksheets included as part of that report did not identify these six programs as event cycles. The worksheets only identified the five event cycles listed in the Department's guidelines as common to all programs—planning, budgeting, execution, administration, and reporting.

To ensure that the proper foundation has been laid for vulnerability assessments and internal control reviews, we believe that the Department needs to review the inventories of these three bureaus to ensure that they provide complete coverage of the bureaus' organizations, programs, and functions. The Department also needs to ensure that the assessable units identified for internal control evaluation purposes are of the appropriate nature and size to permit effective vulnerability assessments and internal control reviews.

Conclusions

In fiscal year 1984, the Department continued to make progress in strengthening and improving its program for implementing the Financial Integrity Act and took several actions to correct problems identified by

GAO, OMB, and the OIG in their reviews of the Department's first-year effort.

We are encouraged by these actions as they demonstrate a continued commitment by the Department to establish a sound program for evaluating its internal controls. We found, however, that some bureaus had not issued internal control evaluation directives or segmented their organizations properly. We believe that by making improvements in these areas, the Department will increase the reliability of its internal control evaluations.

Recommendations

We recommend that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to direct

- the Minerals Management Service and the Bureau of Indian Affairs to issue internal control directives;
- the Fish and Wildlife Service and the Bureau of Land Management to include all appropriate organizations, programs, and functions in their inventories of assessable units; and
- the U.S. Geological Survey to review its inventory of assessable units to ensure that all assessable units are of an appropriate nature and size to permit meaningful and useful vulnerability assessments and internal control reviews.

Agency Comments

In its comments, the Department said that the Bureau of Indian Affairs and the Minerals Management Service had draft internal control directives which were in use in 1984. The Department also said that it concurred with our recommendation that these two bureaus should formally issue their draft directives.

Interior Needs to Continue to Strengthen Its Vulnerability Assessments

In 1984 the Department of the Interior improved its vulnerability assessment procedures by using a numerical scoring system for assessing the vulnerability of its programs and functions to fraud, waste, and abuse. However, the Department needs to continue to strengthen its assessments, particularly with respect to supporting the basis for the vulnerability ranking assigned to each program or function and the consideration that was given to ADP in making the vulnerability determination. These are areas we also identified as needing improvement last year. In 1985 the Department issued guidance for evaluating ADP controls which should help strengthen its vulnerability assessments.

Interior's Vulnerability Assessments

Vulnerability assessments are used to measure the susceptibility of an agency's programs and functions to the occurrence of waste, loss, unauthorized use, or misappropriation. Based on their results, an agency can determine the relative potential for loss among its programs and functions and identify those which should receive priority for internal control reviews.

In 1984 the Department revised its vulnerability assessment procedures in response to OMB and our suggestions to introduce more objectivity into its assessments. The new procedures include a numerical scoring system for determining the relative vulnerability of the Department's programs and functions. The revised procedures call for rating each of 14 factors with a numerical rating. If the numerical score is greater than 40, the program is highly vulnerable, a score of 32 to 40 indicates the program has medium vulnerability, and a score less than 32 indicates low vulnerability.

We believe that this new approach resulted in much improved vulnerability assessments. Although subjective judgments were still involved, the numerical scoring system added an element of objectivity to the assessments.

Further Improvements Needed in Interior's Assessments

The Department could enhance the effectiveness and usefulness of its vulnerability assessments by ensuring that they are more fully documented to support the reasonableness of the assessments and that ADP is considered during the assessments.

In 1984 the Department determined that 215 of its 484 assessable units were potentially highly vulnerable to fraud, waste, and abuse; 93 were of medium vulnerability; and 176 had low vulnerability. The 215 highly vulnerable units included 70 units in eight functional areas which the Department determined to be highly susceptible to internal control breakdowns.

We reviewed 23 randomly selected vulnerability assessments to determine the reasonableness and accuracy of the high, medium, and low rankings and to determine whether the assessments were conducted in accordance with OMB and departmental guidelines. (See app. II for a listing of the assessments we reviewed.) Our review showed that 20 of the 23 assessments did not fully explain the basis for the rating given, and 10 assessments involved units having ADP application systems which were not considered in the assessments.

Better Documentation Needed to Support Basis for Vulnerability Rating

OMB's internal control guidelines specify that federal agencies should maintain adequate documentation for all phases of their internal control evaluations. Although the Department's internal control directive reiterates this point, the Department's instructions for conducting a vulnerability assessment do not specifically require that documentation be developed and maintained to support the vulnerability assessment.

The only documentation available for 20 of the 23 assessments we reviewed were the vulnerability assessment score sheets. There were no narratives accompanying the score sheets to explain and support the reasonableness and validity of the conclusions reached on the assessments. Some bureau officials told us that they did not fully agree with the documentation requirement. In this respect, staff members assisting the National Park Service's internal control coordinator told us that they do not agree with the requirement because it would be too time consuming and would result in an overload of paperwork which no one would probably read anyway.

While we agree that documenting a vulnerability assessment takes time, we believe that this effort is important and necessary because it provides a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached. This information is useful for reviewing the validity of the assessments, evaluating the performance of the individuals involved in the assessments, and performing subsequent assessments.

For example, one of the three assessments that had supporting documentation was the Fish and Wildlife Service's assessment for its wildlife management program. The supporting documentation consisted of a narrative describing the information that was considered in arriving at the numerical ranking for each of the factors shown on the vulnerability assessment score sheet. Information and data was shown for size of budget, recent GAO and OIG audit reports, management control systems, and how the program is administered. Most of the work involved in documenting a vulnerability assessment should only occur the first time it is done. Subsequent assessments would involve updating information to account for changes that may have taken place since the previous vulnerability assessment.

ADP Needs to Be Considered in Assessing Vulnerability

OMB's internal control guidelines, but not the Department's, specified ADP systems as a factor to be considered in the vulnerability assessments. Consequently, ADP was not always considered in the assessments of some programs or functions even though they use ADP systems. The vulnerability of a program or function is dependent not only on the strengths and weaknesses of the program itself but also on the strengths and weaknesses of any ADP systems used by that program or function. The Department has over 250 ADP systems that control and produce much of the agency's financial and management information. The systems are used for payroll and personnel functions for example, as well as the administration of major programs. Therefore, when assessing the vulnerability of a program or function, ADP, if used, needs to be included in that assessment.

Fourteen of the 23 vulnerability assessments we reviewed covered programs or functions that use ADP as an integral part of the program or function. However, we found that only four of the assessments included consideration of ADP in assessing the vulnerability of the programs or functions. The individuals conducting four other assessments said that they considered ADP; however, this consideration was limited, usually consisting of a telephone call to the ADP staff to ask if they had any problems. We were told by the individuals performing the remaining six assessments that ADP was not considered. Several of the individuals told us that they did not consider ADP because the Department's instructions did not require them to do so.

In commenting on our draft report, the Department said that it has always required bureaus to consider ADP as a factor in the vulnerability assessment process. The Department said that this had been communicated verbally to bureau internal control coordinators in 1984 and is included as specific criteria in the Department's 1985 instructions for performing vulnerability assessments.

As discussed above, our review showed that ADP was not always considered by the individuals performing vulnerability assessments in 1984. We believe this occurred because the requirement was conveyed verbally, rather than made a part of the vulnerability assessment instructions. The Department's revised vulnerability assessment instructions now include criteria for ranking ADP as part of the vulnerability assessment process.

Conclusions

The vulnerability assessment procedures used by the Department in 1984 represented an improvement over the previous year. The new procedures introduced numerical ratings into the assessments and therefore provided the Department with a better basis for setting priorities for conducting internal control reviews. However, better documentation is needed to support the rationale for the vulnerability rating given to the assessable unit. Further, many assessments were incomplete in that ADP, which is an integral part of many programs and functions, was not addressed. Accordingly, accurate assessments of the vulnerability of these programs and functions were not made. The assessments should improve because the Department's instructions now include ADP as a factor to be evaluated when making vulnerability assessments.

Recommendation

We recommend that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to revise the Department's internal control directive and instructions for conducting vulnerability assessments to require the bureaus to document the basis for the conclusions and rankings reached on all vulnerability assessments.

Agency Comments

In commenting on our draft report, the Department disagreed with our recommendation that the Department revise its directive and guidelines to require documentation of vulnerability assessments. The Department said that its instructions for conducting vulnerability assessments do specify that documentation should be developed and maintained to support vulnerability assessments. The Department also said that it does not support excessive documentation and recommends that bureaus develop a narrative explanation on the back of the vulnerability assessment form.

The Department's 1984 and 1985 instructions for performing vulnerability assessments do not specify that documentation should be developed and maintained to support vulnerability assessments. The instructions only state that documentation may be developed, it is not a requirement as the Department's comment indicates. We continue to believe that the Department should revise its guidelines to require the bureaus to document the basis for the conclusions and rankings reached on all vulnerability assessments.

Improvements Needed in the Performance of Internal Control Reviews

The Department of the Interior has established policies, procedures, and guidelines for performing internal control reviews, developing plans for correcting internal control weaknesses, and tracking and following up to ensure that the weaknesses are corrected. In fiscal year 1984, the Department performed 146 internal control reviews of its programs and functions. Our examination of 14 randomly selected reviews disclosed, however, that the reviews were not performed in accordance with the Department's guidelines or did not provide for complete reviews of the systems of internal control. The major deficiency noted in the reviews was a lack of testing to determine whether the controls were operating as intended.

Our examination also disclosed that the corrective actions for some internal control weaknesses did not include scheduled completion dates while others were general and vague. We also found that all internal control weaknesses and corrective actions were not being included in the bureaus' tracking and follow-up systems.

Two factors contributing to the incompleteness of the internal control reviews were that the individuals who performed the reviews were not trained and the bureaus did not have adequate quality assurance systems.

An Internal Control Review—What It Is and How It Is Performed

An internal control review is a detailed examination of a program's or a function's systems of internal control to determine whether adequate controls exist and are working to detect and prevent fraud, waste, and abuse. OMB's internal control guidelines recommend the following six-step approach for performing internal control reviews: (1) identify the event cycles, (2) analyze the general control environment, (3) document the event cycles, (4) evaluate the internal controls within the event cycles, (5) test the internal controls, and (6) report the results.

Event cycles are simply the activities, or series of related steps, that are carried out within a program or function. The cycles provide the focal points for conducting internal control reviews. In evaluating the internal controls within the event cycles, it is necessary to identify the potential risks (things that can go wrong within the event cycle) and to identify and document the control objectives and control techniques necessary to prevent that risk from occurring. Control objectives are the desired goals for a specific event cycle. Control techniques are a series of checks and balances that provide reasonable assurance that the control objectives are met in an efficient and effective manner.

The process of evaluating an internal control system is shown in table 5.1. The table shows some of the event cycles and associated risks, control objectives, and control techniques for a program component (loans) and a functional component (cash management).

Table 5.1: Evaluating An Internal Control System

Program or functional area	Event cycle	Risk	Control objective	Control technique
Loans	Loan authorization	Uncollectible, fraudulent, or undesirable loans may be granted.	Borrowers, types of loans, and loan terms should be authorized in accordance with laws, regulations, and management's policy.	Written procedures for the authorization and establishment of the types of loans and their respective terms.
Cash management	Cash receipts	Cash may be lost, misused, or diverted.	Accountability for cash items received should be established before the cash can be misdirected.	a. Central cashier locations. b. Daily reconciliation of cash register tape totals to deposit slips

To evaluate internal controls, the reviewer must determine whether the control objectives are being achieved under current operating conditions. The internal control review is accomplished by reviewing the system design, testing its operation, forming conclusions on its adequacy, and preparing a report on the results of the review. The report should include a plan for correcting any internal control weaknesses identified during the review.

Interior's Internal Control Review Guidelines

The Department has issued guidelines on how to conduct internal control reviews in both program and functional areas. The program area guidelines were issued in March 1983 and require that event cycles, risks, control objectives, and control techniques be identified. They also require that controls be tested to determine if they are operating as intended.

The Department identified eight functional areas in 1984 as being highly vulnerable and issued specific guidelines for performing internal control reviews in these areas. The eight areas were space management, printing, safety, quarters management, cash management, debt collection, personnel management, and ADP computer service centers. The guidelines issued were in the form of questionnaires, which the bureaus were to complete as they reviewed and tested the internal controls. The four questionnaires for the ADP area were taken from our audit guide, Evaluating Internal Controls in Computer-Based Systems. The questionnaires in the seven other functional areas were developed by the Interior office that has general oversight responsibility for the functional area.

Internal Control Reviews Were Not Properly Performed

The program area internal control reviews that we examined did not always identify event cycles, risks, control objectives, and control techniques. We also found that the internal control reviews performed in the functional areas were not complete because the questionnaires that were used did not provide for a full evaluation of the internal controls. The major deficiency in the reviews was a lack of testing of the controls. We found that 12 of the 14 internal control reviews did not adequately test the internal controls. (See app. III for a listing of the 14 reviews and the deficiencies noted.)

Program Area Internal Control Reviews

Six of the 14 internal control reviews in our sample were in program areas. We found that four of the six were not properly performed because the reviewers did not identify all of the event cycles, risks, control objectives, and control techniques for the programs as required in the Department's guidelines.

For example, on two of its internal control reviews, the National Park Service identified the five common program event cycles listed in the Department's guidelines. However, the Park Service did not take the next step to identify event cycles specifically related to the programs being reviewed. For example, the air quality segment of the air and water quality program lists 12 program activities, including monitoring air quality and reviewing major emitting sources. Without identifying these important activities as event cycles and evaluating them in terms of their inherent risk and associated control objectives and control techniques, the National Park Service did not properly evaluate the internal controls for this program.

In another case, we found that the Bureau of Land Management had not identified and documented all of the event cycles and related control objectives and techniques for its onshore oil and gas leasing program. The event cycles identified for this internal control review included planning, budget, leasing, and post-lease activities. However, pre-lease activities was not identified as an event cycle. The individual who performed this internal control review agreed with us that pre-lease activities was an event cycle for this program. However, he said that pre-lease was of low risk and he concentrated on identifying the high-risk elements of the program as event cycles. He also said that there were other low-risk elements that were not identified as event cycles.

An internal control review that does not include the identification of all of a program's activities as event cycles may miss important internal control weaknesses. For example, an OIG report issued March 9, 1984, noted that the Bureau of Land Management could improve controls over geophysical explorations on bureau lands if it required a permit for such explorations. In addition to improving controls, the OIG noted that the bureau could also collect $3 million or more annually by charging permit fees. We believe that if the individual performing the above internal control review had identified pre-lease activities as an event cycle, this internal control weakness could have been identified.

The risk element is an essential part of an internal control review. The Department's internal control review guidelines require that the inherent or potential risk of a program to fraud, waste, and abuse be identified. We found that risk was not identified in the four internal control reviews because the individuals performing the reviews believed that risk had been identified as part of the vulnerability assessment process or was covered in the identification of the control objectives.

For example, the individual who performed the internal control review on the National Park Service's air and water quality program said that he did not identify or document risks when conducting this internal control review because he believed the identification had been done when the program official at the bureau's headquarters conducted the vulnerability assessment. However, the program official who conducted the vulnerability assessment told us that she also did not specifically identify or document risks when doing the assessment.

In another case, we noted that the risks had not been identified and documented as part of the internal control review on the Bureau of Land Management's onshore oil and gas leasing program. The individual who performed the review told us that he did not list the risks because he did not know it was required. He also said that the risks can be seen by inversely reading the control objectives. We developed a list of risks based on our review of the control objectives that had been identified for this program. We identified three risks for which there were no control objectives. When we brought this to the attention of the individual who had performed the review, he agreed that the three risks we identified and the related control objectives should have been included in the internal control review.

We believe that if all the risks had been identified for this program, a significant weakness in the internal controls could have been identified. The weakness we noted was that the Bureau of Land Management does not always notify the Minerals Management Service when production starts on a lease. This information is needed to ensure that the Minerals Management Service receives all the royalty payments due. The weakness was discussed in a December 1984 report of the House Committee on Interior and Insular Affairs. This report noted that because the Minerals Management Service is not always notified when production starts, it must rely on the honesty of the responsible party to make their payments. The individual who performed the internal control review agreed with our observation that he had not identified a risk or control objective to cover this area, and as a result, the review could not have identified this weakness.

We believe that the program managers did not identify risks because the departmental guidelines do not require that the risks be documented in the internal control review report. We were advised by departmental officials in February 1985 that the guidelines and internal control review worksheets will be revised to include a provision for risk identification.

In commenting on our draft report, the Department said that its guidelines do not have to be revised for risks as they already require the documentation of risks. The Department also said that the departmental manual and training manual also require risks to be documented and that a worksheet for risk identification was disseminated at the eight training sessions the Department held in 1985.

Our review of the departmental manual disclosed that it does not specify that risks be documented as part of an internal control review. The manual states that internal control reviews must be conducted and documented in accordance with the Department's internal control review guidelines. These guidelines do require that risks be identified but they do not require that they be documented. The Department's training manual does contain a worksheet for identifying risks. We believe, however, that to ensure that risks are identified and documented as part of each internal control review, the Department should revise its internal control review guidelines.

Functional Area Internal Control Reviews

As discussed on page 41, the Department issued specific guidelines, in the form of questionnaires, for performing internal control reviews in eight functional areas. Our random sample included eight internal control reviews in functional areas—four in the ADP area and four in personnel management, space management, and printing. We found that these internal control reviews were not complete because the questionnaires did not provide for a full evaluation of the systems of internal control.

The Department's guidelines for performing internal control reviews of ADP computer service centers require the completion of four questionnaires taken from our audit guide, Evaluating Internal Controls in Computer-Based Systems. These four questionnaires provide coverage of the following types of general controls: data center management controls, data center protection controls, system software controls, and hardware controls.

Our audit guide contains two additional questionnaires which the Department's ADP guidelines do not refer to, but which provide coverage of two other types of general controls: organization controls and system design, development, and modification controls. One example of a key organizational control is adequate separation of duties, a basic control technique that applies to all programs and functions. Therefore, if an internal control review of ADP does not include a review of the organizational controls, the review cannot be considered complete.

None of the four ADP-related internal control reviews that we examined included a review of either the organizational controls or system modification controls. For example, at the Bureau of Reclamation's Mid-Pacific Region data center, we identified three internal control weaknesses not picked up by the internal control review. One was a lack of separation of duties between the programmers and the computer operators. In this respect, we noted that the system's programming supervisor permitted the system programmers to operate the computer. This official did not view this as a problem even though we explained that it was a weakness in their ADP system. In February 1985, the Department issued ADP guidance which contains a section on organization controls.

In its comments, the Department expressed concern that we reported that the ADP systems operating at the Mid-Pacific Region data center were vulnerable because of a lack of separation of duties. The Department said that the Bureau is aware of the risk assumed by programmers maintaining and updating the computer operating system and have chosen to control this risk through a combination of several administrative controls: (1) by supervisory oversight; i.e., actual assignment, initiation, and review, (2) by reviewing and monitoring daily computer generated activity listings, (3) by requiring the systems programmers to physically record their on and off times and purpose of computer use on a manual operations log at the computer console or at their terminal location, and (4) by requiring all systems programmers to sign the Bureau's Statement of Responsibility, wherein they (and all Bureau employees and contract personnel that function in an ADP environment) acknowledge their responsibilities to protect government information resources against misuse, unauthorized access, etc. The Bureau believes that, given computer center staff resource limitations, the above controls are more practical than separating these duties and that the risk is acceptable given the degree of control currently exercised.

The Comptroller General's internal control standards call for a separation of key duties and responsibilities. Although the Bureau of Reclamation believes that its compensating controls at the Mid-Pacific Region data center may be effective in reducing the risk, we believe that the potential for fraud still exists because the systems programmers can inappropriately alter application programs. Moreover, Interior did not evaluate and test the effectiveness of these compensating controls during its internal control review. Until the compensating controls are evaluated and tested, the Department cannot be assured that the controls are in place, working, and reducing the risk to an acceptable level.

In its comments, the Department also said that it intentionally excluded system design, development, and modification controls from its computer center guidelines. According to the Department, these controls were excluded from the guidelines, because the majority of the centers do not have a programming function, nor is it their responsibility to have one. The Department has delegated the responsibility for developing guidance for reviewing controls in this area to the bureaus.

Our concern is that system design, development, and modification controls should be reviewed with the involvement of the computer center management. This involvement is needed because computer center management is directly involved in many phases of the system design, development, and modification process. For example, in the feasibility phase for a proposed system modification, the capability of meeting user requirements with available technology and methods of operation must be assessed. Also during a conversion to a new system or modifying an existing system, the computer center management needs to be involved in order to ensure a smooth transition. This change may involve: (1) training, (2) installing new hardware and software, (3) converting files and programs, and (4) scheduling of operations and test runs. In addition, controls must assure that unauthorized personnel, such as computer operators, are not allowed to make program changes.

With respect to the four internal control reviews in the other functional areas (personnel management, space management, and printing), we found that the questionnaires only provided coverage of the general areas that were common to all bureaus and were not adapted or supplemented to meet the conditions that existed in the bureaus. For example, the individual who completed the printing questionnaire at the National Park Service told us that he believed the results of the questionnaire did not adequately describe the status of internal controls of his bureau's printing function because the questions needed to be more explicit and specific.

For a bureau to perform an adequate internal control review in a functional area, we believe the departmental-mandated questionnaires need to be adapted or supplemented to meet the specific conditions that exist within each bureau. According to the staff person who developed the questionnaire for the personnel management area, the guidelines are broad so as to cover the general personnel requirements common to all bureaus, and that the bureaus were free to supplement the guidelines for any additional areas they would like to review or for any special circumstances that exist in the bureaus. However, this was not communicated to the bureaus in the instructions that went out relative to the performance of reviews in functional areas in 1984. The bureaus were instructed by the Department to complete the questionnaires as their internal control review. The functional internal control review guidelines issued in 1985 point out to the bureaus the need to supplement those guidelines for any unique circumstances in their bureau.

Testing of Controls

The final step in an internal control review is to test the control techniques to determine whether they are working as intended. Testing of controls is required by the Department's internal control review guidelines and has also been emphasized in various memorandums. Nevertheless, we found that adequate testing was not performed in 12 of the 14 internal control reviews that we examined.

In an April 23, 1984, memorandum to bureau heads, the Director, PFM, stressed the need to test control techniques as part of each internal control review. This memorandum states that testing is necessary to determine the reasonableness of the controls and whether they are functioning as intended. The memorandum also emphasizes the role testing plays in the annual assurance statement process and states that bureau heads should take the necessary steps to ensure that their annual assurance statements are properly supported by effective testing of internal controls.

Nine of the 14 internal control reviews we examined did not include any testing. Two others included less than adequate testing and for another review, on the Fish and Wildlife Service's personnel management internal control review, we were told by the reviewer that testing was done, but we were not provided any documentation to support that testing was actually performed.

For example, we found that the testing on the Bureau of Land Management's onshore oil and gas leasing internal control review was not adequate because it consisted only of a review of two state office manuals by headquarters personnel. Further, although the documentation supporting the internal control review states that controls at five state offices were tested, the person who did the review told us he did not visit any state offices. We noted that the state office visits referred to in the documentation were made in the 9-months before the internal control review.

Several of the individuals performing the internal control reviews told us that they did not test the controls because they did not understand what was required. For example, the individual who performed the internal control review of the National Park Service's international affairs program told us that he did not have sufficient training in the mechanics of an internal control review to be able to do any testing. The individual who performed the internal control review of the Bureau of Mines' nonferrous metals program cited a lack of understanding of the whole internal control review program as his reason for not testing.

We noted the lack of testing of internal controls in our report last year. In that report we pointed out that 20 of the 22 internal control reviews that we examined did not include testing. The Department took action on our recommendation and issued a special memorandum emphasizing the need for testing. However, as discussed above, the internal controls were not adequately tested again this year.

Some Corrective Actions Were Not Complete

The Department's guidelines state that internal control review reports should identify any internal control weaknesses and describe specific plans for correcting them, including implementation dates. Corrective actions scheduled for completion more than 6 months from the report date must be sufficiently justified. The report should also include the corrective actions already taken or initiated for any control weaknesses.

We reviewed the corrective action plans for the internal control weaknesses identified in 24 internal control review reports, 3 in each of the eight bureaus included in our review. We found that the plans for some of the weaknesses identified in five of the reports did not include scheduled completion dates for the corrective actions. In three other reports, the corrective actions were too general and vague.

One of the corrective actions that we felt was too general and vague was identified by the National Park Service in its air and water quality internal control review. The weakness was that delegated authorities for authorizing expenditures did not specify responsibility for ensuring that obligations do not exceed allocations. The corrective action was to develop a written delegation of authority.

The official responsible for taking the corrective action told us that except for special situations, such as ADP equipment purchases, he is not aware of any guidance in any agency policy manuals or position descriptions stating who has the responsibility and authority for making expenditures and requisitions. He was also not aware of any corrective action taken on this problem.

In commenting on our draft report, the Department said that the National Park Service had corrected this weakness. The Department said that the corrective action for this weakness was revised to make personnel aware of a bureau handbook that contains specific guidance for making expenditures and requisitions and requires that the Budget Division sign-off on all purchases in excess of $500. We believe that if the Park Service had been more specific in identifying this weakness and corrective action, it would not have been necessary to revise the corrective action in order to complete it.

The Department also said that we would have discovered that the weakness had been corrected if we had validated our data with other bureau officials or the internal control coordinator. We did verify our data with a program official and the alternate internal control coordinator. The program official referred us to the official responsible for taking the corrective action and, as indicated above, this official told us that he was not aware of any corrective action. The alternate internal control coordinator also told us that he was not aware of any corrective action taken on this weakness. This individual said that the corrective action was not within the scope and responsibility of his office and that he had not taken any followup action on this corrective action.

We also noted that 36 of the 104 corrective actions cited in the 24 reports we reviewed were not implemented by the scheduled completion dates. For example, the Bureau of Land Management's onshore oil and gas inspection internal control review report identified 11 weaknesses for which 25 corrective actions were scheduled for completion between October 1983 and November 1984. As of March 13, 1985, 11 of the corrective actions had not been taken.

All Internal Control Weaknesses and Corrective Actions Are Not Being Tracked

Interior requires bureaus to establish and maintain a tracking and followup system to record and monitor all internal control weaknesses, planned corrective actions, and scheduled completion dates. We found that the eight bureaus included in our review have established tracking and followup systems; however, all weaknesses are not included in those systems. Two of the bureaus, the National Park Service and the Bureau of Land Management, do not track any nonmaterial internal control weaknesses, and one other bureau, the Fish and Wildlife Service, is tracking some but not all nonmaterial weaknesses.

The internal control coordinator for the Bureau of Land Management said that he did not track nonmaterial weaknesses because of a misunderstanding as to whether such weaknesses had to be tracked. He said that after discussing the matter with a departmental official in February 1985, he will track nonmaterial weaknesses in the future.

According to the alternate internal control coordinator for the National Park Service, the Service only tracks material weaknesses. He said that the bureau relies on program and regional managers to monitor weaknesses identified in their units. The National Park Service told us on February 27, 1985, that it is considering the implementation of a corrective action tracking system at the division and regional levels.

Although the Fish and Wildlife Service was tracking some nonmaterial internal control weaknesses, it was not tracking all identified weaknesses. We found that the Service was not tracking the weaknesses identified in its land acquisition internal control review report because the internal control coordinator said that he did not know how to handle it in the tracking and followup system.

Training Is Needed for Persons Performing Internal Control Reviews

Bureau heads are responsible for developing the training required to review and report on the internal control systems within their organizations. The bureaus have provided some training to their staffs, but we believe that this training has not been properly focused on the staff that are actually performing the internal control reviews. We were told by the individuals who performed the 14 internal control reviews that we examined that they had not received training, although some had attended orientations on internal controls.

While most of these individuals said that they were qualified to perform the review and did not believe they needed training, three individuals felt they were not qualified to do the internal control reviews. One of the three, whose background was in chemistry, told us that although he was the program manager, he had very little knowledge of internal controls and was uncomfortable doing the internal control review. He told us that he had attended an internal control orientation presented by his bureau's internal control coordinator, but it was too philosophical and training would have been helpful.

We believe that the lack of training may have contributed to the problems we found in the internal control reviews we looked at. Further, we cited the need for better training last year in our report on Interior's implementation of the act, noting the same problems the bureaus had performing the internal control reviews this year. Departmental officials told us that the Department has upgraded its internal control training to include more detailed instructions on the specific procedures for each step in the internal control review.

Quality Control Needs Improvement

Various quality control methods have been established by the bureaus to ensure that the internal control reviews are properly performed. We believe that the methods used were not effective and that the problems we identified in the internal control reviews should have been detected and corrected.

The Department's internal control directive states that each bureau must institute quality assurance systems to ensure that the internal control reviews are properly performed and the results accurately reported. Four of the eight bureaus we reviewed have established quality assurance systems in their internal control directives. Although the other four bureaus have not formalized their quality assurance systems, they provide quality assurance in various ways. In two bureaus, the Minerals Management Service and the Bureau of Reclamation, the internal control coordinators review all of the internal control reviews. National Park Service officials told us that they rely on program managers to provide quality assurance. The Fish and Wildlife Service's internal control coordinator told us that he does not have the time to adequately review internal control reviews, and therefore, he relies on the component coordinators, Assistant Directors, and program managers to do a good job.

As previously discussed, the internal control reviews that we examined were not complete. We found problems in the identification of event cycles, risks, control objectives, and control techniques and with testing. We also found that the internal control reviews performed in functional areas did not provide for complete evaluations of the internal controls. We believe that these deficiencies should have been detected and corrected.

In commenting on our draft report, the Department agreed that there was a need to ensure improved quality assurance of the program. The Department said, however, that the report does not fully recognize the quality assurance programs operating at the National Park Service and Fish and Wildlife Service. We believe that our report fairly characterizes the quality assurance programs in those two bureaus. Moreover, as discussed above, the quality assurance programs established in the bureaus were not effective to ensure that the internal control reviews were properly performed.

Conclusions

Interior has established policies, procedures, and guidelines for performing internal control reviews of its many programs and functions. As discussed in this chapter, however, our examination of 14 randomly selected internal control reviews disclosed that none were as good as they should have been. In some instances, the various elements that comprise an internal control review, such as event cycles, risks, control objectives, and control techniques were not identified and evaluated. There was also an absence of testing of the controls to determine whether the controls were in place and operating as intended. Further, some bureaus do not include all identified internal control weaknesses in their tracking and followup systems and the actions planned for correcting some weaknesses were not complete and taken in a timely manner.

We believe that the reasons for the lack of complete internal control reviews were a lack of training for the individuals performing the reviews and the lack of good quality control methods to ensure that the reviews are complete. Internal control reviews are the primary method for assuring that the internal controls are adequate and operating as intended. If they are not done well, internal control problems may not be found or corrected, and the Secretary of the Interior's basis for forming an opinion on the adequacy of the Department's internal controls may not be as good as it should be.

Recommendations

We recommend that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to:

- Revise the internal control review guidelines to require that the risks associated with each event cycle be documented as part of each internal control review.
- Remind all bureaus of their need to comply with the Department's guidelines relative to (1) developing corrective action plans that are complete, (2) ensuring that corrective actions are taken in a timely manner, and (3) including all internal control weaknesses in their tracking and followup systems.
- Provide specific training to those individuals who have been assigned the responsibility for performing internal control reviews on how an internal control review is conducted, including the importance of testing controls.

Agency Comments

In commenting on our draft report, the Department said that our recommendation on the need to provide specific training to those responsible for performing internal control reviews had been addressed by the Department previously and that the recommendation should be removed from the report. The Department commented that there was not enough lead-time after our first report to implement the training recommendation in 1984, but that the Department had conducted eight 1-1/2 day training sessions and trained 300 people on how to do an internal control review. However, the Department would not provide us with a listing of the 300 people who were trained because they were trained for

1985 and they may not be the same persons who did the internal control reviews in 1984. Therefore, we could not validate that the training was given to the persons responsible for performing internal control reviews. As stated on page 51, although the bureaus provided some training in 1984, we believe that the training had not been properly focused on the staff that were actually performing the internal control reviews. None of the individuals who performed the 14 internal control reviews that we examined had received training. Consequently, we believe that our recommendation is still valid.

Interior Is Taking Action to Improve Its Accounting Systems, but Better Evaluations Are Needed

Section 4 of the Federal Managers' Financial Integrity Act requires agencies to report annually on whether their accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General of the United States. In fiscal year 1984, the Department of the Interior evaluated its 12 accounting systems and reported that 8 of the systems were in general conformance with the Comptroller General's requirements, and corrective actions were being taken or planned to bring the other 4 systems into conformance. Corrective actions on some longstanding problems, however, have been suspended pending the outcome of a Department-wide study of methods to integrate the systems and consolidate payment functions.

Overall, the program established by the Department for evaluating its accounting systems is satisfactory. The evaluations of the eight systems the Department reported as being in conformance with the Comptroller General's requirements represented a good start. However, the evaluations were not sufficient to be used as a basis for determining conformance because we found that the bureaus and offices did not perform adequate testing of the accounting systems in operation for seven of these eight systems, or, as previously mentioned, did not sufficiently evaluate the systems' internal control and automated aspects that have a direct bearing on whether they conform.

Interior's Efforts to Improve Its Accounting Systems

The Department of the Interior has 12 accounting systems, which handled approximately $6.6 billion of appropriations and $8.7 billion in receipts in fiscal year 1984. The 12 systems are comprised of a system at each of Interior's 11 major bureaus and offices and an overall departmental payroll system.

For fiscal year 1984, the Department reported that eight of its systems—for the Bureau of Mines, Geological Survey, Office of Surface Mining, Office of Youth Programs, Office of the Secretary, Bureau of Reclamation, Bureau of Land Management, and the departmental payroll system—conform to the Comptroller General's principles, standards, and related requirements, and four systems—for the National Park Service, Bureau of Indian Affairs, Fish and Wildlife Service, and Minerals Management Service which handle about $11 billion in appropriations and receipts—do not conform.

Over the past several years, Interior has been taking actions to improve its accounting systems. The weaknesses identified in fiscal year 1983 in five of its systems have been corrected. But corrective actions for several major longstanding deficiencies in four of its systems have been either suspended or are yet to be completed. The primary reason for suspending corrective actions is that the Department is studying the methods of integrating its accounting systems and consolidating its payment functions. The Department considers this study the first step to improving its overall financial management systems.

Actions Being Taken on Longstanding Problems

The Department continued to have major longstanding accounting system weaknesses at the National Park Service, the Bureau of Indian Affairs, the Fish and Wildlife Service, and the Minerals Management Service. These four systems, which were determined by the Department to be in nonconformance with the Comptroller General's principles, standards, and related requirements, handled about $11 billion, accounting for about half of the Department's appropriations and almost all of its receipts in fiscal year 1984. Following is a brief summary of each system, its deficiencies, and the actions being taken to improve the systems.

- The Minerals Management Service implemented a new royalty management accounting system in February 1983. This new system, which accounted for receipts of $7.7 billion in fiscal year 1984, was expected to solve the serious problems that we and the departmental auditors had identified since 1959 with the oil and gas royalty accounting system. These problems were also the subject of the Commission on Fiscal Accountability of the Nation's Energy Resources, which, at the request of the Secretary of the Interior, investigated allegations of irregularities in royalty payments, and in January of 1982, made recommendations for corrective action. However, many problems remain uncorrected. In January 1983 we expressed concerns with the design and recommended that the initial phase of the new system not be implemented. Nevertheless, the bureau implemented it in February 1983 as planned and has encountered major problems, such as inadequate computer processing capacity, and the continuance of weaknesses which the new system was expected to correct. These weaknesses included lack of controls to identify and charge interest due on late payments, nonpayments, or underpayments of royalties and inaccurate reports due to data base errors. The Department is proceeding with its plans to correct the system's weaknesses and reported for fiscal year 1984 that the weaknesses will be corrected by fiscal year 1987. Also, the problems and deficiencies of the royalty management system and an evaluation of the Department's efforts were recently emphasized in a December 1984 report by the House Committee on Interior and Insular Affairs.

- For the last 6 years, the National Park Service has been redesigning its accounting system, which handled $964 million in appropriations and $36 million in receipts for fiscal year 1984. Due mostly to data processing inefficiencies, the system's weaknesses included a lack of timely reporting, accruing expenditures and revenues, accounting for costs, and interfacing with the property system. The Park Service expected to implement a new system in 1986, but the redesign efforts have been suspended pending the results of a departmental study to integrate its accounting systems.
- The Bureau of Indian Affairs' system has been operating for over 17 years and is one of the oldest systems in the Department. In fiscal year 1984, the system, which has had longstanding serious problems, accounted for over $1 billion in appropriations and about $422 million in receipts. In 1976 we reported that the system needed improvements in several areas, including the recording and reporting of obligations, controlling receivables, controlling and documenting payroll, and accounting for property. In 1982 we again reported on serious design and operating problems. The bureau was in the process of determining the system's redesign requirements, which it had targeted for implementation in fiscal year 1986, when this effort was also suspended because of the Department's study to integrate its systems. In addition, in April 1983 Interior's Inspector General reported on the bureau's lack of accounting controls regarding Tribal trust funds, which at the beginning of fiscal year 1984 had a balance of $1.1 billion. The bureau is currently evaluating several recommendations for better controlling and accounting for the trust funds. The bureau plans to automate the trust fund system and bring it into conformance with the Comptroller General's principles and standards in 1985.
- The accounting system at the Fish and Wildlife Service started operating in the 1970's but was designed using 1960's technology. As such, the system, which accounted for $509 million in appropriations and $22 million in receipts in fiscal year 1984, is inefficient from both a data processing and an operations standpoint. The bureau started to redesign its system in 1982 and expects implementation in 1985. The redesign is mostly to automate manual processes to improve recording of such items as travel advances, receivables, and payables; eliminate redundant coding on input documents; and improve overall financial reporting.

Systems Integration Study Considered Part of Corrective Actions

In reviewing the Department's fiscal year 1985 budget, OMB suggested to Interior that the efficiency of its financial management systems could be increased while reducing costs by integrating and consolidating its systems. The Department agreed with this suggestion and, in August 1984, awarded a contract to study the methods of integrating its accounting systems and consolidating its payment functions. Also, as mentioned above, because of the systems integration study the Department suspended the accounting system redesign efforts for the National Park Service and the Bureau of Indian Affairs. However, the Department is continuing short-term system enhancement efforts for all systems, including these two systems. For example, the Bureau of Indian Affairs is attempting to improve its accounting procedures in such areas as accounts receivable, travel management, and prompt payment.

The accounting systems integration and consolidation study is scheduled for completion by March 1986. Its objectives include among others an assessment of whether interfaces between the accounting systems and other financial management systems, such as property management and procurement, can be improved and the impact of the integration and consolidation on current organizations and staffing levels. The Department considers this study the first step to improve its overall financial management systems. Until an overall systems improvement plan is developed, the Department should continue to take all reasonable interim corrective actions to improve its accounting systems.

Actions Being Taken on Recently Identified Weaknesses

The Department has taken action to correct the 12 weaknesses it reported for fiscal year 1983 for the accounting systems at the Bureau of Mines, Geological Survey, Office of Surface Mining, Office of Youth Programs, and the Office of the Secretary. The Department considered these weaknesses as limited in the sense that the corrective actions were scheduled to be completed by the end of fiscal year 1984. We found that 11 of these weaknesses were corrected.

The corrective actions centered around implementing new or revised procedures or controls, mostly in the areas of cash management and debt collection, and completing system documentation. The remaining uncorrected weakness—lack of written operating procedures—was corrected in June 1985 through the issuance of an accounting systems manual.

Interior Needs to Improve Its Accounting Systems Evaluations

In determining if the accounting systems conform to the Comptroller General's principles, standards, and related requirements, the Department required each bureau and office to review its systems, including testing the systems in operation.

In addition, the Department initiated a requirement that selected aspects of the systems of internal control surrounding the accounting operations be reviewed over a 3-year period. These internal control reviews assess the extent to which controls are operating to ensure the accuracy of accounting and financial data and safeguarding of departmental assets and are needed to adequately determine an accounting system's conformance with the Comptroller General's requirements.

In fiscal year 1984, the Department evaluated its 12 accounting systems and, as previously discussed, reported that 8 systems were in conformance with the Comptroller General's principles, standards, and related requirements. However, the bureaus and offices did not perform enough testing for seven of the eight systems or did not sufficiently evaluate internal control and automated aspects of the systems to have a satisfactory basis for reporting that the systems are in conformance.

More Testing of the Systems In Operation Is Needed

In conducting its accounting system reviews, the Department required its bureaus and offices to test their accounting systems in operation. However, the Department did not specify how, or to what extent, to test. As a result, only limited testing was performed on seven of the eight systems the Department reported to be in conformance this year, and the Department did not sufficiently evaluate internal control and automated aspects of the remaining system.

To determine whether a financial system conforms to the principles, standards, and related requirements prescribed by the Comptroller General, it is necessary to review and test the system in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system and may include: interviewing persons who operate the system, observing operating procedures, examining system documentation, applying procedures to live transactions and comparing results, direct testing of computer-based systems by use of simulated transactions, and reviewing error reports and evaluating error followup procedures.

Tests should be designed to disclose whether valid transactions are processed properly and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, consideration should be given to the results of any prior system testing.

This testing criteria has been adopted by OMB and is included in Appendix H of its publication, "Guidelines for Evaluating Financial Management/Accounting Systems" (May 20, 1985). In determining the tests that would be appropriate for any system, it is important to keep in mind that in most cases, using transaction testing as the key, more than one of the above techniques are needed to test all important aspects of an accounting system.

We found that for seven of the eight systems, the bureaus and offices did not include the processing of valid and invalid transactions through the accounting systems as part of their evaluations. The dominant form of testing consisted of reviewing documents for transactions that had been processed by the accounting system and verifying the accuracy of the transaction in the accounting records. One of the best examples in this regard was at the Bureau of Land Management, where samples of documents corresponding to acquired property were reviewed and the document number and acquisition cost were verified for proper recording in its accounting system. Similar verification of amounts and identification numbers were performed for property transferred on a nonreimbursable basis and for trade-ins. These are good tests, but in future reviews the bureau should also ensure that the system will not process improper data.

At three of the bureaus and offices, the testing of the accounting system was performed as part of other reviews. For example, the Geological Survey relied on tests performed during the internal control reviews it conducted on property, travel, imprest funds, and revenues and expenditures.

For the remaining system at the Office of the Secretary, we were informed that for its fiscal year 1984 accounting system evaluation, the system's edit checks and error listings were primarily relied upon to ensure that it was operating as designed. The Fiscal Services Division's Chief said that this was possible because extensive testing of the ADP aspects of the system had been performed mostly in fiscal year 1983.

These tests, which did include the processing of valid and invalid data, were conducted to determine acceptance and compliance with design of a new system which was implemented in October 1982. Future reviews of this system should include tests of the related internal controls, which were not covered except for those ADP application controls inherent in the software design.

Better Evaluations of System Internal Controls and Automated Operations Needed

The Department needs to better evaluate the internal controls relating to its accounting systems. Evaluations for conformance with the Comptroller General's requirements, including tests of a system in operation, would necessarily include evaluating and testing for internal control standards. This is necessary because internal control standards are part of the Comptroller General's requirements. Whether these internal control evaluations are part of a comprehensive accounting system evaluation or done separately under the banner of section 2 or 4 is not of primary concern, as long as they are completed.

The Department's guidance to the bureaus and offices asked them to consider the results of all related internal control reviews in reporting on their systems' conformance. However, as we discussed in chapters 4 and 5, there were significant problems in the Department's reviews of internal controls, including those relating to accounting and ADP operations. Until these problems are corrected and the controls properly evaluated, the Department's ability to determine an accounting system's conformance is impaired.

Conclusions

The Department has made progress in correcting accounting systems' problems, but its systems integration study is the key to meeting the act's objectives of establishing and maintaining sound accounting systems. Action on some of the Department's longstanding systems problems has been deferred pending the outcome of this study. It is important that the Department ensure that any new systems conform to the Comptroller General's requirements as they are developed.

The Department has established a satisfactory accounting system evaluation program, and during 1984 placed considerable effort in evaluating its systems. Adequate testing of the systems in the future and improved internal control evaluations should provide the basis needed to determine conformance with the Comptroller General's requirements. In this respect the bureaus and offices need specific guidance on how to test their accounting systems to help ensure that the necessary testing is performed. This, along with the recommendations we made in preceding chapters for improving internal control and automated system reviews, will enable the Department to better determine systems' conformance.

Recommendations

We recommend that the Secretary of the Interior direct the Assistant Secretary—Policy, Budget, and Administration to specify for the bureaus and offices the type of testing needed when performing accounting system evaluations. This testing should include determining
10 whether valid transactions are processed in accordance with the system design and whether the system reacts appropriately to invalid transactions. We also recommend that the Secretary not report the Department's accounting systems to be in conformance with the Comptroller
11 General's requirements until they have been adequately evaluated in operation.

Agency Comments

In commenting on our draft report, the Department said that it disagrees with our position that detailed testing of the system in operation is needed to provide reasonable assurance that their accounting systems do or do not conform with the Comptroller General's requirements.

In our opinion, to determine whether an accounting system conforms with the Comptroller General's requirements, and is operating as intended, it is necessary to at least test the critical aspects of the system in operation. We believe that it is difficult to specify a testing methodology that could be used on a governmentwide basis, given the significant variances among systems. Nonetheless, the tests need to be designed to determine whether valid or actual transactions are processed properly and whether the system rejects invalid transactions. In the Department's case, our review revealed that for only one system did the tests include a determination of whether the system rejects invalid transactions, those that are illegal, improper, inaccurate, or incomplete. Until such tests are conducted, we believe that the Department does not have reasonable assurance that its systems are in conformance. Once such testing is done, the Department could probably limit its testing in future years to a sample of actual transactions and general system controls for precluding unauthorized system changes. Of course the Department would need to include such tests of valid and invalid transactions whenever the system is subsequently changed. If properly constructed, the testing process would not be excessively burdensome in our view.

The Inspector General Has Been Active in the Department's FIA Program, but Improvements Are Needed

Interior's Inspector General has an important role in assisting the Department to institutionalize and carry out the requirements of the Financial Integrity Act. The Inspector General serves as the Department's independent control mechanism for reviewing and reporting to the Secretary and Assistant Secretaries on the Department's progress in implementing and complying with the act. The Inspector General has performed reviews of the implementation of the internal control evaluation program and has issued reports and made recommendations for strengthening and improving the program. However, the overall effectiveness of the Inspector General's work, and his responsiveness to management's needs, could be improved by expanding the scope of audit and including more complete and pertinent information on the results of the audit work in the reports issued to the Secretary and other Interior management officials.

Scope of Audit Should Be Expanded

The Standards For Audit of Governmental Organizations, Programs, Activities, and Functions issued by the Comptroller General must be followed by federal audit organizations. These standards relate to the scope and quality of audit work and to the characteristics of professional and meaningful audit reports. The Inspector General for the Department of the Interior has adopted the Comptroller General's standards in establishing the policies and standards that are to be applied in all audits conducted by his office.

The Comptroller General's standard for scope of audit work places on audit officials the responsibility for providing for audit work that is broad enough to fulfill the needs of all potential users of the audit findings. The Inspector General's standards provide guidelines to be followed in establishing or determining the scope for a particular audit. The standards state that, in planning an audit, the scope should be tailored to meet management's needs.

The Inspector General was requested to review the implementation of the internal control evaluation program and provide the Secretary with a report on the Department's progress in complying with the act and the adequacy of the annual assurance statements provided to him by the Department's senior management officials. Our review of the Inspector General's work plan, and discussions with the audit staffs, disclosed that the scope of work performed in 1984 did not include an assessment of whether or not the assurance statements submitted by the bureau heads and Assistant Secretaries included, as material weaknesses, problems that the Inspector General identified and reported during the year as part of its regularly scheduled audits.

The Department's internal control directive states that, in reporting material weaknesses, bureaus must consider all Inspector General audit findings issued or recommendations implemented during the current fiscal year. Through review of the Inspector General's semi-annual reports for fiscal year 1984, we identified seven reports in which the Inspector General reported problems in bureaus' programs or functions; however, the audit findings were not reported as material weaknesses by the bureaus or the Assistant Secretaries. For example, in October 1983, the Inspector General reported that the Fish and Wildlife Service had not given adequate direction, emphasis, and resources to developing a bureau-wide security program for its nine electronic data processing installations. The Inspector General staff told us this finding was significant and should have been reported as a material weakness by the bureau and the Assistant Secretary.

In March 1984 the Inspector General issued a report on a Review of Financial Operations and Selected Administrative Activities of the Bureau of Mines, Helium Field Operations, in Amarillo, Texas. The report addressed a wide range of issues, including the following: (1) Helium Field Operations had not performed physical inventories for several years and as a result the property records were unreliable, (2) Helium Field Operations controls property that is excessive to its needs, including unneeded surface rights to 12,000 acres of land, an entire plant which is shut down, 28 tank cars which are not being used, and millions of dollars of unused equipment at various locations, (3) Helium Field Operations could charge an additional $1 million per year for some of the services it provides, and (4) Helium Field Operations needs to control its procurement practices to assure full compliance with federal regulations. Inspector General staff with whom we discussed this report indicated that the findings were significant and should have been reported as material weaknesses by the bureau and the Assistant Secretary.

By expanding its audit scope to include an assessment of whether the bureaus and Assistant Secretaries are including audit findings as material weaknesses in their annual assurance statements, the Inspector General could more fully advise the Secretary on the adequacy of the Department's evaluation of its systems of internal control and the assurance statements provided to him by senior management officials.

Audit Reports Should Provide More Complete and Pertinent Information

The Comptroller General's standard applicable to the preparation and content of audit reports states that although the reports should be concise, they should also be complete. Reports should contain sufficient information about audit findings to promote an adequate understanding of the matters reported. In line with this standard, the Inspector General's audit reporting policies and procedures point out that the findings and recommendations section of the report should be designed to give the reader a complete picture of each finding. Therefore, this section must contain sufficient information and data to fully convince the reader that problems exist and that the auditors' conclusions are valid.

The audit report issued by the Inspector General to the Secretary on the Department's progress in complying with the act and the adequacy of the assurance statements provided to the Secretary by the Department's senior management officials, advised him that the bureaus, except for the Fish and Wildlife Service, did not follow all of the procedures for conducting complete internal control reviews. However, the report did not provide information or data to disclose the magnitude of the noncompliance by the bureaus.

In this respect, the report stated that the major weakness noted was a lack of testing to ensure that the internal controls were in place and operating as designed and that without adequate testing, the internal control review process is significantly weakened. The report also stated that the continued failure by bureau officials to ensure that testing is performed puts them in a precarious position when it comes time to certify to the reliability of their controls. The report did not provide any data on the number of internal control reviews examined by the Inspector General or the number of instances in which testing was not performed. Nevertheless, the Inspector General informed the Secretary that the assurance statements and reports submitted to him by senior management officials were substantially correct. We noted that the assurance statements and reports submitted to the Secretary by the Assistant Secretaries responsible for the eight bureaus included in our review all advised the Secretary that the internal control evaluations were performed in accordance with the departmental guidelines and that their systems of internal control provided reasonable assurance that the bureaus' funds and other assets are properly accounted for and safeguarded.

We requested the Inspector General to provide us with data on the number of internal control reviews examined for each of the eight bureaus along with details on the areas of noncompliance with the

Department's internal control review guidelines. As shown in table 7.1, the information provided to us disclosed that for 33 of the 40 internal control reviews examined by the Inspector General, a weakness in the area of testing of the controls was found.

Table 7.1: Weaknesses in Testing of Controls

	Number of internal control reviews	
Bureau	**Examined**	**Testing weakness**
Bureau of Indian Affairs	4	4
Bureau of Reclamation	4	4
National Park Service	7	7
Fish and Wildlife Service	5	3
Bureau of Mines	2	1
U.S. Geological Survey	3	2
Bureau of Land Management	7	6
Minerals Management Service	8	6
Total	**40**	**33**

We believe that data on the magnitude of the lack of testing should have been included in the Inspector General's report to the Secretary. By not including this data, the report did not provide the proper perspective for this area of the bureaus' noncompliance with the Department's internal control review guidelines. We also believe that if the report had included such data, the report may have demonstrated, and the Inspector General might have concluded, that the assurance statements provided to the Secretary by the Department's senior management officials did not have a substantial basis.

We also noted that a weakness in internal controls in the cash management area, identified by the Inspector General staff during their review at the Bureau of Reclamation, was not included in the audit report issued to the Assistant Secretary for Water and Science. The weakness related to a lack of safeguards over checks received in the mail at two regional offices. At one location, checks received by the mail room were not immediately recorded as required by bureau instructions, but were placed on an open shelf until after the last mail delivery in the afternoon, at which time they were processed. Mail room personnel advised the Inspector General staff that checks were sometimes left on the open shelves overnight. At another office, the mail room staff, after opening the mail and placing the checks on an open shelf, left the mail room for a coffee break.

The Inspector General staff preparing the final report to the Assistant Secretary decided that the weakness was not significant and did not include it in the report. We believe that this weakness was significant and was directly related to the cash management internal control review that the bureau performed and should have been included in the report to the Assistant Secretary. When we informed the Inspector General staff that the two regional offices reported cash receipts of about $12 million each in fiscal year 1984, they agreed that the weakness was significant and should have been included in the report.

Conclusions

Interior's Inspector General is recognized by the Department as an independent control mechanism responsible for reviewing and reporting on the implementation of the Financial Integrity Act within the Department. The Inspector General has been carrying out his responsibilities and has issued reports on the results of his work to the Secretary, Assistant Secretaries, and other top management officials. However, we believe that the scope of audit work performed by the Inspector General should be expanded to include an assessment of whether the bureaus and Assistant Secretaries are identifying and reporting significant audit findings as material weaknesses in their internal controls.

We also believe that the reports issued by the Inspector General should provide more complete and pertinent information on the results of his work and the magnitude of any noncompliance noted with respect to the bureaus' implementation of the Department's internal control review guidelines. By doing this, we believe the Inspector General's reports will better provide the Secretary with information and data that he can use to arrive at a sound conclusion on the adequacy of the Department's systems of internal control.

Recommendations

We recommend that the Inspector General (1) expand the scope of the Financial Integrity Act audit work to include a review of the assurance statements submitted by senior management officials for the purpose of ascertaining that significant audit findings are being reported as material weaknesses in the Department's systems of internal control and (2) assure that his audit reports contain information and data to provide the users with a proper perspective as to the results of the audit and the significance of the findings being reported.

Agency Comments

In commenting on our draft report, the Department said that the Inspector General concurs with our recommendations.

Listing of Interior's Bureaus and Offices Included in GAO's Review

Table I.1: Listing of Interior's Bureaus and Offices Included in GAO's Review

Bureau/Office	Section 2, internal controls	Section 4, accounting systems
Fish and Wildlife Service	X	X
National Park Service	X	X
Bureau of Land Management	X	X
Bureau of Reclamation	X	X
Bureau of Indian Affairs	X	X
U.S. Geological Survey	X	X
Bureau of Mines	X	X
Minerals Management Service	X	X
Office of the Secretary		X
Office of Surface Mining		X
Office of Youth Programs		X

Fiscal Year 1984 Vulnerability Assessments Reviewed by GAO

Table II.1: Fiscal Year 1984 Vulnerability Assessments Reviewed by GAO

Vulnerability Assessment	VA ranking	VA fully documented	ADP used	ADP considered
Fish and Wildlife Service				
1. Animal Damage Control	Medium	No	Yes	Yes
2. Safety	Medium	No	No	No
3. Wildlife Management	Low	Yes	Yes	Yes
National Park Service				
4. Payroll	Medium	No	Yes	Yes
5. Federal Recreation Fees	Low	No	No	No
6. National Register	Low	No	Yes	No
7. Youth Conservation Corps	Low	No	No	No
8. ADP Application Controls	Low	No	No	No
Bureau of Land Management				
9. Engineering Services	Medium	No	No	No
10. Mining Law Administration	Low	No	Yes	No
11. Recreation/Visual Res. Mgmt.	Low	No	Yes	No
12. Alaska Lands Program	Low	No	Yes	No
Bureau of Reclamation				
13. Gen. Admin. Expenses Program	Low	No	No	No
14. Program and Budgeting System	Low	No	Yes	Yes
Bureau of Indian Affairs				
15. Direct Revolving Loan Fund	Low	Yes	No	No
U.S. Geological Survey				
16. NE Water Resources Program	Medium	No	Yes	No
17. SE Water Resources Program	Medium	No	Yes	No
Bureau of Mines				
18. Extractive Metallurgy	Low	No	No	No
19. Nonferrous Metals	Low	No	Yes	No
20. Helium Operations	Low	Yes	Yes	No
Minerals Management Service				
21. Proprietary Data	High	No	Yes	No
22. ADP System Security	High	No	No	No
23. Payor Error Rates	High	No	Yes	No

Internal Control Reviews Examined by GAO and Deficiencies Noted

Table III.1: Internal Control Reviews Examined by GAO and Deficiencies Noted

	Areas where GAO noted deficiencies					
Internal Control Reviews	**Risks**	**Event cycles**	**Control objectives**	**Control techiques**	**Functional ICR guidelines**	**Testing**
1. Air and Water Quality - (National Park Service)	X	X	X	X		X
2. International Affairs - (National Park Service)	X	X	X	X		X
3. Bonus and Rental Accounting Support System - (Minerals Management Service)						X
4. Minerals and Mining - (Bureau of Indian Affairs)						X
5. Onshore Oil and Gas Leasing - (Bureau of Land Management)	X	X	X	X		X
6. Nonferrous Metals - (Bureau of Mines)	X	X	X	X		X
7. Printing - (National Park Service)					X	X
8. Personnel Management - (Fish and Wildlife Service)					X	X
9. ADP Data Center, Mid-Pacific Region - (Bureau of Reclamation)					X	X
10. ADP Data Center, Upper Colorado Region - (Bureau of Reclamation)					X	X
11. ADP Data Center, Upper Missouri Region - (Bureau of Reclamation)					X	X
12. Space Management - (U.S. Geological Survey)					X	
13. Personnel Management - (U.S. Geological Survey)					X	
14. General Purpose Computer Center - (Bureau of Land Management)					X	X

Advance Comments From the Department of the Interior

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

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 1 [illegible] 1985

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 August 15, 1985, for review and comments on the General Accounting Office (GAO) draft report entitled, The Department of the Interior's Second-Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED 85-146).

See comment 1.

The GAO draft report does not fairly characterize the Department's efforts in its second year's implementation of the Act, and we recommend that the report be substantially modified to reflect the reservations set forth in this response and the enclosures. We are concerned about (1) the underlying concept and nature of the review made of the Department's second year's effort, (2) the merit and substance of certain findings and conclusions, and (3) the value of some of the recommendations to the Secretary that have already been addressed. Enclosure 1 presents a summary matrix of unrecognized Interior actions in the GAO Draft Report with Enclosures 3 through 7 providing the supporting detail. Enclosure 2 provides the Department's detailed response to specific draft report findings and comments.

Concept and Nature of the Draft Report

The concept and nature of the review focuses far too much on the paper process and not enough on the results/weaknesses. As a consequence, the report does not recognize a partnership in the program by the agency, Office of Management and Budget (OMB), and GAO. The internal control program should be viewed as an evolving process for all parties to perfect over time. The underlying tone of the draft report points toward an ever widening communication gap existing between agency program managers, who look at the process as a self-evaluation technique to improve program operation and delivery, and the auditor who reviews the process after the fact for strict adherence to established procedures. In looking at the results, we are hard pressed to find where GAO disclosed any additional material weaknesses that the Secretary should have reported to the President and the Congress.

See comment 3.

See comment 4.

Merit and Substance of Findings

The merit and substance of many of the findings are without validity because they are either erroneous or based on unvalidated responses. Many of these instances were discussed with your auditors at the closeout conference on June 19, 1985. They apparently chose to ignore the discussion or did not understand what was discussed. Some of these areas are detailed in Enclosure 2. These instances cover examples where GAO asserts that (1) the Department failed to require the augmentation of functional internal control review guidelines where appropriate, (2) the Department's guidelines do not specify ADP systems as a factor to be considered in conducting vulnerability assessments, (3) the Department's guidelines do not require risks to be documented in the internal control review reports, and (4) the reasons for the lack of complete internal control reviews were due to a lack of training.

See comment 3.

There are several places where your auditors report "findings" at lower levels in the organization without validating such individual statements with bureau and/or Departmental internal control officials. This contravenes both sound interviewing techniques and the auditor standards set forth in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. All unvalidated findings, attributed to unconfirmed references such as "someone told us," should be removed from the draft report. Examples of these instances are included in Enclosure 2.

Recommendations to the Secretary

See comment 4.

We find that many of the recommendations made to the Secretary relate to process improvements which have been addressed by the Department previously. Such recommendations have little or no value and should be removed from the report. For example, GAO is fully aware of the Department's extensive internal control training conducted during 1985. Before 1985, there were no suitable internal control review training courses available anywhere in the Federal Government using a case study technique. Early in 1985, the Department developed one of the very first training courses in the Federal Government on "How to Conduct an Internal Control Review" by utilizing a case study as an integral part of the course. From this material the Department conducted eight one and one-half day training sessions and trained 300 people on how to do an internal control review. Also included at these sessions were representatives from the Office of Inspector General, GAO, and OMB.

Now on page 37.

See comment 5.

See comment 6.

We disagree with the recommendations made to the Secretary on pages 29 and 46 of the draft report dealing with the need to revise its directives and guidelines to require documentation and inclusion of ADP as a factor in the vulnerability assessment process and the need to revise the internal control review guidelines for the functional areas to permit the guidelines to be supplemented where appropriate. These recommendations have already been addressed, as shown in Enclosures 6 and 7, and they should be removed from the draft report.

See comment 7.

We have problems with the use of language stating that "....the Secretary direct...." Department officials to do something wherever the draft report contains recommendations appropriate to the Secretary. The use of the word "request" would be better.

See comment 8.

We disagree with the report's conclusion that the Secretary did not have an adequate basis for signing the 1984 assurance statement and the accounting system conformance statement. The concept of reasonable assurance recognizes that the cost of internal control should not exceed associated benefits. In our view, GAO has unrealistic expectations concerning the level of effort the Department should devote to the internal control process. The scope of reviews envisioned by GAO would approach full-scale audits rather than self evaluations and would not likely be cost effective. We understand that the Acting Director of OMB recently wrote to the Comptroller General in this regard and indicated that many of the GAO draft reports suggest that GAO is looking for a higher level of assurance than the reasonable assurance requirement provided for in the Act, and that absolute assurance would be impossible for any organization, government or business, to meet. The draft report also fails to recognize that a finding of reasonable assurance is not based solely upon information obtained through the internal control review process. Other information sources, such as audit reports from GAO and the Department's Office of the Inspector General, management reviews, and the total organizational knowledge were also considered by the Secretary in assessing whether objectives of accounting and administrative control were met.

See comment 9.

We concur with the draft report recommendations pointing toward the need (1) to ensure improved quality assurance of the program and (2) for bureaus to adhere to Departmental established internal control procedures, including the requirement for testing. Improvement in these areas, together with the training already provided, should go a long way toward increasing the quality of the documentation and testing of the Department's internal control reviews. To ensure that testing is performed in the 1986 internal control process, the Department will revise its guidance to require bureau officials to report back in writing that internal control reviews conducted are evidenced by sufficient testing to warrant the Assistant Secretaries' assurance statements to the Secretary.

See comment 10.

We also concur with the recommendation that the Minerals Management Service and the Bureau of Indian Affairs should formally issue their draft directives. However, GAO representatives also know that both agencies have draft directives, and that these are being followed. The report should be modified to recognize the use of the draft directives.

See comment 11.

The Inspector General concurs with the GAO report recommendations directed to his Office in Chapter 7 of the report.

While we appreciate the opportunity to provide GAO with our review comments on the draft report, and look forward to seeing the final report revised in accordance with our comments, we are concerned by the magnitude of error in your report and the staff time required to respond to a report with this many problems. Since our comments are so extensive (addressing 24 report findings in Enclosure 2), we would be happy to meet with your representatives concerning any questions they may have on our comments.

Sincerely,

Joseph E. Doddridge

Deputy Assistant Secretary - Policy,
Budget and Administration

Enclosures

See comment 12.

Summary Matrix of Unrecognized Interior Actions in GAO's 8/5/85 FMFIA Draft Report for 1985

Areas of Deficiency Cited by GAO as Needing Additional Guidance	Source of Interior Guidance Provided																		
	Under Secretary's Briefing - 7/18/84 (Enclosure 3)	Departmental Manual 340 (Enclosure 4)	DOI-ICR Guidelines (Enclosure 5)	Training Manual (Enclosure 6)	Memorandums (Enclosure 7)								Internal Control Coordinator Meetings						
					2/7/84	4/23/84*	5/23/84	2/1/85	2/27/85	3/1/85	3/6/85	4/10/85	2/23/84	6/5/84	6/27/84	8/10/84	1/14/85	5/3/85	7/11/85
Testing	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓			✓	✓	✓
Documentation	✓	✓	✓	✓	✓			✓		✓			✓		✓		✓	✓	✓
Risks		✓	✓	✓															
Quality Assurance	✓	✓											✓		✓		✓		✓
ADP				✓		✓	✓							✓		✓			
Internal Control Directives	✓	✓			✓									✓	✓	✓			
Augmenting Functional Guidelines									✓	✓	✓	✓	✓	✓					

*Recognized by GAO in the draft report.

DEPARTMENT OF THE INTERIOR'S RESPONSE TO
SPECIFIC GAO REPORT FINDINGS/COMMENTS
(GAO/RCED-85-146)

Now on p. 18.
See comment 13.

Reference Page 12 (Higher education grants)

We do not agree with GAO's finding that BIA did not correct the higher education weakness. The material weakness was properly reported as completed when all of the incremental corrective actions taken by the Office of Indian Education (OIEP) are considered as a whole. The corrective action was reported as completed based on the following: (1) OIEP directed its area/agency offices to ensure that Certificates of Indian Blood were in the files of each student requesting or receiving BIA higher education funds, (2) OIEP required that certain review procedures be implemented Bureauwide to assure that student grant awards and other resources were not excessive, (3) and OIEP directed all area/agency offices to review each student's transcripts to assure that students who fail to meet minimum standards are placed on academic probation and/or are suspended. GAO's position is based on the lack of final publication of Federal regulations, which was not required for completion of the corrective action. Documentation of the administrative procedures implemented by BIA will be made available to GAO upon request.

Now on page 20.
See comment 14.

Reference Page 13

The material concerning National Park Service's (NPS) cash management program should be withdrawn from the report. The planned corrective action for this weakness, to establish electronic funds transfer (EFT) procedures for collections due from concessioners for franchise fees and monies recovered from grantees, was implemented to the extent possible in December 1984. NPS established procedures to require the use of EFT in concessioner contracts, but cannot enforce this requirement until the contracts are renegotiated. NPS has requested concessioners to voluntarily remit via EFT and has met with some success. The Department no longer considers this weakness material as further corrective action can not be taken for several years due to contractual constraints and the collections affected by these contracts, approximately $7 million annually, are small relative to the Department's cash management program. The Department previously informed GAO of the above facts and GAO has failed to provide explanation of why the above weakness should be considered material or any further corrective action that could be taken.

Now on pages 26 and 27.
See comment 15.

Reference Pages 17, 19, 20

The draft report is inconsistent in that on page 19 it states that "In our review of the Department's first-year implementation of the Act, we found that only one of the eight bureaus had issued its own internal control directive." The one bureau was the Minerals Management Service (MMS) which issued its original directive on March 31, 1982. On page 20, the report states that "The Department needs to ensure that the remaining two bureaus, the Bureau of Indian Affairs and Minerals Management Service, issue their directives." During 1984, MMS substantially revised its original directive to include all the requirements contained in subsequent instructions from the Department and has implemented these requirements in conducting internal control reviews both during 1984 and 1985. The Bureau of Indian Affairs (BIA) also had a directive in draft which was operative in 1984 and 1985. The fact that they have not yet been published is of little consequence as the drafts were in use. Your auditors were informed that the drafts were operative, and we expect both will be published in 1985.

Now on p. 28.

See comment 16.

Reference Page 21

The Fish and Wildlife Service (FWS) revised component inventory includes all divisions and offices, except for policymaking or policy support operations which are exempt from the Act. Page 8 of this Enclosure demonstrates where organizational units, alleged by GAO auditors to be omitted from the inventory, are covered. The report should be revised accordingly.

Now on p. 29.

See comment 17.

Reference Pages 21, 22

The 43 units transferred from MMS to BLM which GAO claims is excluded from the component inventory are included in BLM's component inventory. On June 26, 1985, BLM informed the GAO auditor that the 43 units were included in BLM's inventory under the following five components: Coal Leasing, Non-Coal Energy & Other Solid Leasable Minerals, Solid Leasable Minerals, Onshore Oil and Gas Leasing, and Fluid Leasable Mineral Operations. The auditor stated that he was satisfied that BLM's inventory covered the 43 units. This is a case where GAO neglected to delete invalid data from the report.

Now on pages 30, 31, and 32.

See comment 18.

Reference Pages 22, 23

GS disagrees with the report finding that the merger of 15 previously separate programs and functions have resulted in assessable units for the Water Resources Division (WRD) that are too large to permit meaningful internal control evaluations. In addition, the 1984 internal control reviews did cover the 15 programs and functions, and the auditors should have validated their data with GS's internal control coordinator or other Bureau officials.

The rationale used in the selection of the five programmatic assessable units was essentially that all work related to WRD's program elements was conducted within the four Regions and the Research and Technical Coordination Program. Accordingly, comprehensive reviews of the five assessable units identified would cover all aspects of WRD's program activities.

The Department's Inspector General (IG) reviewed, in detail, all aspects of the two 1984 WRD internal control reviews. The IG's only comment relative to the programmatic groupings of the five assessable units was that, to ensure full coverage of the Division's program activities, all the assessable units should be reviewed in a single year. In response to the IG's recommendation, WRD immediately made arrangements for completing the three remaining ICR's with the result that all five assessable units were reviewed during an 8-month period.

Now on p. 35.

See comment 19.

Reference Page 27

The Department's instructions for conducting vulnerability assessments do specify that documentation should be developed and maintained to support vulnerability assessments. The Department does not support excessive documentation and recommends to bureaus that they develop a narrative explanation on the back of the vulnerability assessment format.

Now on page 36.

See comment 20.

Reference Page 28

The Department has always required bureaus to consider ADP systems as a factor in the vulnerability assessment process. This requirement was communicated to bureau internal control coordinators verbally on several occasions in 1984, and specific criteria for evaluating ADP systems were included in the vulnerability assessment guidelines for 1985. Your auditors were advised of this and were provided a copy of the 1985 vulnerability assessment guidelines in a meeting on June 19, 1985.

Now on page 41.

See comment 21.

Reference Page 33

Your auditors were informed on June 19, 1985 that the eight functional areas identified for review by the Department in 1984 were not highly vulnerable but were potentially highly vulnerable. This statement should be corrected.

Now on page 44.

See comment 22.

Reference Page 36

The Departmental guidelines ("Yellow Book" 1983) do not need to be revised for risks as they already require risks to be documented. The Departmental Manual and the training manual also require risks to be documented as shown in Enclosure 1. Additionally, a worksheet which includes a column for risk identification was disseminated in the eight training sessions held by the Department this year.

Now on pages 45 and 46.

See comment 23.

See comment 24.

Reference Page 37

GAO auditors were provided a copy of the 1985 ADP guidelines in a meeting on June 19, 1985. These guidelines include the organizational controls lacking in 1984 reviews as well as resource planning controls and controls on policies, standards, and procedures. We did not include in the FY 1985 computer service center guidelines the system design, development, and modification controls cited by GAO as missing from the 1984 reviews nor do we intend to do so in the future. These controls are excluded because the majority of computer centers do not have a programming function nor is it their responsibility to have one. Programming is performed by a variety of organizations, including bureau programming offices independent of the computer center, and contractors. Additionally, input and output document control, which is also a part of this event cycle, is normally a function of the user organization. Internal control reviews of application systems are conducted by systems owners (i.e., responsible program offices), not by the computer centers. This area of the report should be revised accordingly.

Now on page 45.

Reference Pages 37, 38

See comment 24.

The Bureau of Reclamation (BOR) is aware of the risk assumed by programmers maintaining and updating the computer operating system and have chosen to control this risk through a combination of several administrative controls: (1) by supervisory oversight; i.e., actual assignment, initiation, and review; (2) by reviewing and monitoring of daily computer generated activity listings, (3) by requiring the systems programmers to physically record their on and off times and purpose of computer use on a manual operations log at the computer console or at their terminal location, (4) and by requiring all systems programmers to sign the bureau's Statement of Responsibility, Form 7-2150, wherein they (and all bureau employees and contract personnel that function in an ADP environment) acknowledge their responsibilities to protect Government information resources against misuse, unauthorized access, etc. BOR believes that, given Data Center Staff resource limitations, the above controls are more practical than separating these duties and that the risk is acceptable given the degree of control currently exercised.

Reference Page 38

See comment 25.

GS performed a full internal control review of space management in 1983 and updated this review in 1984. The three non-material weaknesses referenced were identified in 1983, and not through the 1984 review as implied in the draft report.

Now on page 47.

Reference Page 39

See comment 26.

Bureaus are required to supplement functional review guidelines, where appropriate. This requirement was communicated to bureaus verbally in 1983 and 1984, and was included in the written functional review guidelines in 1985. In fact, in a meeting on June 19, 1985, the GS internal control coordinator told your auditors that GS was aware of this requirement and that several functional reviews were augmented in 1983 and 1984.

Now on page 49.

Reference Page 41

See comment 27.

NPS corrected the weakness identified in its air and water quality internal control review. Your auditors would have discovered this had they validated their data with other NPS officials or the NPS internal control coordinator. The corrective action fo correcting this non-material weakne was revised to make personnel aware of NPS-23, "Small Purchases Handbook," which provides specific guidance for making expenditures and requisitions and requires that the Budget Division "sign-off" on all purchases in excess of $500. The official cited had been in his position for only one month and was not yet aware of NPS-23 or of the "sign-off" requirement. This area of the draft should be revised accordingly.

Reference Page 43 (MMS non-material weaknesses)

See comment 28.

The MMS tracks all weaknesses, material and non-material, that surface as part of the internal control reviews. The MMS internal control coordinator did not inform the GAO auditor that he was not tracking non-material weakneses identified in the printing internal control review report because he did not believe the weaknesses identified in questionnaire-type internal control reviews were not as important as weaknesses identified in regular internal control reviews. He did inform the GAO auditor that in MMS internal control reviews completed to date, the weaknesses identified by printing review guidelines tended not to be as significant as weaknesses identified in regular internal control reviews. The internal control coordinator also informed the GAO auditor that the reason the five weaknesses revealed in the printing review were not being tracked was that they had already been corrected. This is another case where the auditor failed to validate his data. This area of the draft should be revised accordingly.

Now on page 51.

Reference Page 44

See comment 29.

Although GAO cited the need for better training in their report on the Department's first year implementation of the Act, there was not sufficient lead time to properly implement this recommendation for 1984 as the GAO report was not issued until the 1984 internal control reviews were well underway. For 1985, in addition to bureau training, the Department conducted eight training sessions which were attended by 300 individuals, including approximately 50 members of the Department's IG staff. This course was also attended by a representative from GAO and OMB. The OMB representative thought that training was excellent.

Now on page 51.

Reference Page 44, 45

See comment 30.

Both NPS and FWS have quality control programs. Although NPS program managers are an important source of quality control, they are not the sole source as indicated in the report. NPS's internal control coordinator also reviews internal control reviews and draft materials. GAO's findings on FWS's quality control program resulted from a question that was directed to one individual and did not consider the Service's quality assurance methodology. Each program manager is required to review the report being submitted by component coordinators of functions/programs under their responsibility. Further, the Assistant Director for Administration has established a quality review group composed of administrative program managers. This group reviews selected internal control reviews as an additional objective quality assurance measure. Several reviews were returned for clarification or expansion of scope as a result of these two levels of quality assurance. Report findings in this area are another example of GAO auditors not validating their data.

Now on pages 58 and 59.

See comment 31.

Reference Pages 51, 53

NPS's accounting redesign efforts have been suspended pending the outcome of a grand jury investigation on NPS's Financial and Cost Tracking System contract with Boeing Computer Services Company. Redesign efforts were not suspended pending the results of the Department's study to integrate its accounting systems as stated in the draft report. GAO was notified of this error in a meeting on June 19, 1985, yet neglected to correct the report.

Now on page 58.

See comment 32.

Reference 52

FWS's accounting redesign efforts are now expected to be implemented by November 30, 1985.

Now on page 59.

See comment 33.

Reference Page 54

The remaining uncorrected weakness referenced by GAO -- lack of written operating procedures -- was corrected during June 1985.

Now on page 63.

See comment 34.

Reference Page 58

We take strong exception to the recommendations presented for Section 4 reviews. While we have addressed testing of accounting systems in the training sessions, we can not provide detailed testing guidance to bureaus in the absence of any testing guidance from GAO and OMB. We also disagree with GAO's position that detailed testing of the system in operation is needed to provide reasonable assurance that the accounting systems do or do not conform with the Comptroller General's requirements.

We are concerned over GAO's insistence that bureaus perform detailed testing of the system in operation in addition to the testing of transactions which is currently performed. The scope of the reviews expected by GAO would not be cost-effective and would burden the bureaus to the point of killing the program. Additionally, since the IG is responsible for auditing accounting systems once they are put in operation and periodically thereafter as appropriate, the Department relies on the IG, not the bureau managers, to perform detailed testing of the accounting system in operation.

Now on pages 64 and 65.

See comment 35.

Reference Pages 60, 61

The IG audit findings are considered when preparing the annual assurance statement. The fact that an IG staff person considers an audit finding to be significant does not mean that the finding is a significant material weakness that should be reported to the President and the Congress. The IG's report on BOM's helium operations was considered as part of the internal control process and GAO inferences to the contrary are incorrect. The IG Helium report contained many findings and 41 recommendations in 12 different areas. Three of the recommendations required policy decisions by the Secretary, the Assistant Secretary, or Bureau Director. None of the three met the criteria for being classified as a weakness in the internal control process, although all were tracked to completion in the Bureau's internal tracking system. Of the remaining 38 recommendations, 18 recommendations did not imply any weakness, one was based on a misunderstanding which when corrected resulted in the recommendation being withdrawn, and 19 pointed out weaknesses which did not meet the criteria for materiality and therefore were not included in the assurance statement. All but one of the 19 weaknesses were corrected in advance of preparing the assurance statement. All audit findings were promptly resolved and recommendations implemented within prescribed timeframes, and the IG was sufficiently satisfied with the resolution to "close the recommendations." Therefore, there was no need to report any of these findings as material, or inc de them in the assurance statement.

Now on page 67.

See comment 36.

Reference Page 64

The Department does not believe that the IG's finding at two BOR regional offices are a significant weakness but isolated instances. BOR routinely checks on mailroom security and the process of transmitting checks as part of Financial Management Reviews and immediately corrects any deficiencies identified. Furthermore, the total cash receipts of the two regional offices should not be used as a measure of materiality as that is not the amount of receipts affected by the reported deficiency. Additionally, although unguarded checks should be locked at all times, the checks are not negotiable and are therefore not as vulnerable to theft as cash.

FWS Organizations Cited by GAO for
Omission from Component Inventory

	Organizational Unit	Exempt Units[1/]	FWS Component
	Office of Equal Opportunity	X	
	Office of International Affairs	X	
	Office of Legislative Services	X	
	Office of Maintenance Management	X	
	Division of Biological Services		#44 Biological Services
	Division of Cooperative Fish and Wildlife Research		#47 Cooperative Research Units
	Office of Scientific Authority		#48 Office of Scientific Authority
See comment 37.	Division of Wildlife Research	X	
	Office of Public Use Management	X	
See comment 37.	Division of Wildlife Management	X	
	Division of Program Analysis	X	
	Division of Program Plans	X	
	Audio Visual Staff	X	
	Current Information Staff[2/]	X	#40 Printing/Reproduction Equipment
	Radio-TV Program Staff	X	

1/ Organizations which are exempt from the Act because they are policymaking or policy support operations.

2/ Except for the printing function, this organization is exempt from the Act.

The following are GAO's comments on the Department of the Interior's letter dated September 16, 1985:

GAO Comments

1. We believe that our report does fairly characterize Interior's efforts in its second-year implementation of the act. As pointed out in chapters 2, 3, and 6, we believe that Interior has established a sound program for evaluating its internal controls and accounting systems. The major problem area that we found in Interior's second-year effort, and which we believe is fairly presented in chapters 3 thru 6, was the failure of the bureaus to properly implement the program and fully evaluate and test their internal controls and accounting systems. As discussed in chapter 5, although the Department has issued guidelines on how to conduct internal control reviews, our examination of 14 randomly selected reviews disclosed that they were not properly performed. Further, although the Department's guidelines require that the controls be tested, and this has been emphasized in various memorandums, in 12 of the 14 internal control reviews that we examined, the bureaus did not perform adequate testing of the controls. In summary, we believe that the program developed by Interior is a sound program; however, the implementation of the program needs improvement. We believe it is important to note that, in its comments, the Department said that it concurred with our recommendations pointing toward the need (1) to ensure improved quality assurance of the program and (2) for bureaus to adhere to departmental established internal control procedures, including the requirement for testing of the internal controls.

2. The concept and nature of our review is set forth in the Objectives, Scope, and Methodology section of chapter 1 of this report. We believe that this section shows that our review was directed towards an assessment of Interior's continuing efforts to establish a program and to evaluate and report on the status of its internal controls and accounting systems. In making this assessment, we focused on the design and development of the program at the departmental level and the implementation of the program at the bureau level, including the actions being taken or planned to correct weaknesses that were identified by the bureaus in their internal controls and accounting systems.

With respect to the Department's comment that we did not identify any additional material weaknesses in the internal controls, we believe it is important to point out that the act requires Interior to perform a self-evaluation of its internal controls and the Secretary to report to the President and the Congress on the status of the internal controls and accounting systems. As indicated above, our review was directed towards an assessment of the Department's efforts to comply with the requirements of the act. As stated in the Objectives, Scope, and Methodology section, because our review was limited to an overall assessment of Interior's program, we did not independently determine the status of its internal controls or accounting systems. Accordingly, we believe the concept and nature of our review of Interior's second-year effort to comply with the requirements of the act were properly focused.

3. We believe that our findings on the manner in which the Department's internal control evaluation program is being implemented by the bureaus are valid. In performing our audit work at the bureaus, we reviewed pertinent documentation and held discussions with the bureau personnel who were directly responsible for implementing the program. We specifically reviewed the documentation developed by, and talked with, the individuals who performed the vulnerability assessments and internal control reviews included in our audit sample and the individuals responsible for taking corrective actions on identified internal control weaknesses. We also talked with the bureau internal control coordinators who are responsible for coordinating and facilitating the implementation of the program within their organizations. In addition, the results of our work were discussed in exit conferences with bureau officials. We do not attribute our findings on the implementation of the program by the bureaus to unconfirmed references such as "someone told us." In those instances where we report findings based on the review of documents and interviews with individuals responsible for implementing the program at the bureau level, we disclose the source of the information on which the finding is based. For example, see pages 30, 43, 47, 48, and 49.

The four instances cited by the Department in this comment where they believe our findings are in error are addressed separately in the specific findings in the report to which they pertain. See our comments 20, 22, 26, and 29.

4. Agency comment is included on page 53.

5. In our draft report, we proposed that the Department include ADP as a factor in making its vulnerability assessments. Because the Department's revised instructions now include criteria for ranking ADP, we have deleted this proposal from our report. The agency comment is discussed on pages 36 and 37.

6. The report has been amended. See comment 26.

7. The Secretary, as head of the Department, is responsible for the Department's complying with the requirements of the act. Therefore, we believe it is appropriate for him to direct departmental officials on actions to be taken to evaluate and report on the status of the Department's internal controls and accounting systems.

8. Agency comment is discussed on page 24.

9. Agency comment is included on page 24.

10. Agency comment is discussed on page 33.

11. Agency comment is included on page 69.

12. We believe that the actions cited by the Department that were applicable to our review of the Department's 1984 internal control evaluations are appropriately recognized in the report. (See pages 26, 34, 40, and 41.) The Department advised us that there were no minutes of the internal control coordinator's meetings prepared. Further, our review of the agenda for the meetings indicated that all of the items checked by the Department were not specifically identified or listed on the agenda.

13. Agency comment is discussed on page 19.

14. Agency comment is discussed on page 21.

15. Agency comment is included on page 33.

16. Agency comment is discussed on page 29. Also, see comment 37.

17. Agency comment is discussed on page 30.

18. Agency comment is discussed on pages 31 and 32.

19. Agency comment is included on page 37.

20. Agency comment is included on pages 36 and 37. Also, see comment 5.

21. The Department's February 7, 1984, memorandum to bureaus and offices for implementing the 1984 evaluation program refers to these

eight functional areas as highly vulnerable. Bureaus were also instructed to rank them as highly vulnerable on their inventories of assessable units.

22. Agency comment is discussed on page 44.

23. The report has been modified to recognize that the ADP guidelines issued in February 1985 include ADP organization controls. See page 45.

24. Agency comment is discussed on pages 45, 46, and 47.

25. This example has been deleted.

26. The report has been amended. See page 47.

27. Agency comment is discussed on page 49.

28. Based on the Department's comments and our subsequent meeting with bureau officials, we have deleted this example from our report.

29. Agency comment is included on page 53.

30. Agency comment is discussed on page 52.

31. The Secretary's 1984 report to the president and the Congress states that the National Park Service's redesign plans were suspended at the direction of OMB, pending the completion of the Department's study to integrate its accounting systems, which we state in our report. We were aware of the contractual problems and the resulting delay in the bureau's system redesign efforts. However, because the ongoing criminal investigation prevented bureau officials from providing details to us, we chose not to discuss this matter in our report.

32. Report corrected. See page 58.

33. Report corrected. See page 59.

34. Agency comment is included on page 63.

35. We believe that the findings reported by the Inspector General were significant in that the property records were unreliable, physical inventories had not been performed for as much as 4 or 5 years, property excess to needs was being retained, and improved controls were needed

over procurement practices to assure compliance with federal regulations. Furthermore, the Inspector General stated in his report that property management was considered to be the most serious problem area in Helium Field Operations, which is responsible for about $68 million of real and personal property, and that improvements were necessary, particularly regarding physical inventories and the use and disposal of property. He further stated that even when inventories were performed the results were meaningless since they were not reconciled to accountable property records and general ledger accounts. We believe that it is also important to note that one of the internal control standards prescribed by the Comptroller General is that periodic comparison is to be made of resources with the property records to determing whether the two agree.

36. We believe that the weaknesses in controls over checks were significant to the two offices and therefore should have been included in the Inspector General's report to the Assistant Secretary. As noted in our report, bureau instructions require that checks received in the mail are to be immediately recorded. Furthermore, one of the specific internal control standards of the Comptroller General states that access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. The basic concept behind this standard is to help reduce the risk of unauthorized use or loss to the government and to help achieve the directives of management. In our opinion, the practices being followed at the two regional offices for handling checks did not meet either the Comptroller General or bureau requirements.

37. Although the Department indicates that this unit is exempt from the act, this unit is included in the bureau's inventory. See comment 16.

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