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The Honorable Bruce Babbitt
The Secretary of the Interior

Dear Mr. Secretary:

As part of our responsibility to audit the federal government's financial statements, we conducted a preliminary review of the status of the Department of the Interior's implementation of the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act (GMRA) of 1994. Our efforts focused on identifying challenges faced by the Department in meeting its statutory requirements under these laws. We anticipate working closely with Interior's CFO and Office of Inspector General (OIG) to identify ways to ensure successful implementation of these laws.

Our preliminary review addressed the (1) structure, responsibilities, staff qualifications, and training programs of the CFO organization, (2) capability of financial management systems to produce reliable financial data, and (3) the capacity of the OIG to perform CFO Act financial statement audits and review Interior financial management systems.

We conducted our work at the Interior Department and its component agencies.[1] We interviewed key financial managers,

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[1]Interior component agencies are the Bureau of Indian Affairs; Bureau of Land Management; Bureau of Mines; Bureau of Reclamation; Minerals Management Service; National Biological Service; National Park Service; Office of the Secretary (including the Office of Solicitor and the Office of Inspector General); Office of Surface Mining, Reclamation, and Enforcement; Office of Territorial and International Affairs; U.S. Fish and Wildlife Service; and U.S. Geological Survey.

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obtained and reviewed personnel files and training records, analyzed organizational charts and structures, and examined strategic plans and ongoing initiatives in Washington, D.C., and at various field locations. In addition, we reviewed and analyzed the OIG's organizational structure, planned and completed audits, resource capabilities, and staff qualifications. We also interviewed OIG officials. We conducted our work in accordance with generally accepted government auditing standards. We obtained oral comments from Interior CFO and Inspector General officials on a draft of this letter. Their comments are discussed in the agency comments section of this letter.

We found that the Department has made significant progress in implementing reforms required by the CFO Act and other financial management improvements. For example, the Department has established a departmentwide CFO organization; implemented a standardized accounting system, which handles over 90 percent of Interior's accounting transactions; and prepared and audited financial statements covering each component agency's entire operation. However, Interior still faces significant financial management challenges that will require focused CFO attention in some important areas, including strengthening component agency CFO organizations, completing the implementation of the Department's standard accounting system at all component agencies, and ensuring adequate audit resources to meet CFO Act requirements. Interior's financial management accomplishments and challenges are described below.

FINANCIAL MANAGEMENT ACCOMPLISHMENTS

Interior has put in place a framework for financial management improvement by appointing a CFO who is responsible for all of the Department's financial management functions and policies. As the Assistant Secretary for Policy, Management and Budget, the Interior CFO has authority to influence and direct decisions throughout the Department that affect financial management. As envisioned by the CFO Act, the CFO and Deputy CFO are well-qualified and are responsible for comprehensive financial management functions--including accounting, budgeting, financial systems, and financial management personnel. Parallel with the Department's CFO structure, most Interior component agencies have designated CFOs with responsibilities and organizations similar to those of the Department's CFO.

To pursue financial management improvements, Interior established a departmentwide CFO Council and a Finance Officers Partnership. Interior's CFO provides guidance to the component agencies through the Department's CFO Council, which is composed of all the component agencies CFOs and Interior's OIG. Under the leadership of the CFO, Interior and its component agencies have taken a proactive approach in identifying financial management policies and processes that could be standardized, eliminated, or improved. The Finance Officers Partnership, which consists of representatives from all 12 component agencies and the Department, has designated 15 project action teams to carry out "Best Practices Project" recommendations aimed at improving delivery of service, financial operations, and the integrity of accounting processes.

In 1987, the Department initiated implementation of a standardized accounting system. This system is now used at 8 of Interior's 12 component agencies and handles over 90 percent of Interior's accounting transaction volume. To date, Interior has reduced the number of primary accounting systems in use departmentwide from 10 to 2 and has replaced old systems which had major control problems.

In addition, the Department and the OIG have cooperated in intensive efforts to prepare and audit consolidated financial statements for each component agency's entire operation. As a result, Interior and the OIG have identified financial management problems and are working together to correct them. Further, the Department has prepared prototype consolidated financial statements for fiscal year 1994--2 years before its required audit of fiscal year 1996 Department financial statements under GMRA.

Since passage of the CFO Act, the OIG has performed all Interior agency financial audits, except for the Bureau of Indian Affairs' (BIA) trust funds.[2] For fiscal year 1994, for example, the OIG audited or attempted to audit financial

[2]On September 1, 1995, BIA awarded a contract for an audit of its fiscal year 1993 through 1995 trust fund financial statements.

statements for each of the 12 Interior component agencies. The OIG produced reports on audits at all 12 component agencies before March 1, 1995.[3]

The OIG is continuing to audit the component agencies' financial statements for fiscal year 1995, and this effort is expected to facilitate the audit of the Department's consolidated statements, beginning with fiscal year 1996, as required by GMRA. According to the OIG, preliminary audit work for the fiscal year 1995 financial audits indicates that significant progress has been made to correct problems at three agencies whose fiscal year 1994 financial statements received disclaimed opinions. The OIG is working closely with those agencies to help put them in an auditable position.

In addition, the OIG is reviewing efforts to modernize and upgrade the Department's financial management systems. For example, the OIG is currently reviewing the development of a new combined personnel and payroll system for use throughout the Department. Also, since 1991, the OIG has reviewed the implementation of Interior's standardized accounting system at seven component agencies and has identified problems needing corrective action to make those systems more reliable.

CHALLENGES FOR IMPROVING FINANCIAL MANAGEMENT

Although much has been accomplished, the Department still faces complex financial management challenges in the areas of CFO organization, financial systems, and audit capability. The Department's most serious challenges will be

-- strengthening component agency CFO organizations and providing focused attention and financial management training to correct serious financial management weaknesses;

-- completing the implementation of the Department's standard accounting system at all component agencies and making other needed financial systems improvements (system

[3]Office of Management and Budget (OMB) Bulletin 93-18, Audited Financial Statements accelerated the CFO Act's March 31 deadline to March 1 for submitting audited financial statements for the prior year.

weaknesses resulted in disclaimed or unaudited fiscal year 1993 and 1994 financial statements at three agencies, which account for 46 percent of Interior's budget authority); and

-- ensuring adequate OIG resources to meet financial audit requirements of the CFO Act and GMRA.

CFO Organization Must Be Strengthened

In recent testimony on the implementation of the CFO Act,[4] we noted the need to ensure that CFOs are not overburdened with ancillary duties that can detract from their primary financial management functions. We found that at 14 of the 24 CFO Act agencies, including Interior, the CFOs are responsible for operational functions in addition to those directly related to financial management. At Interior, the CFO does double-duty as the Department's Assistant Secretary for Policy, Management and Budget and is responsible for many ancillary functions, including:

-- human resource management, personnel services, educational partnerships, equal employment opportunity, drug programs, and ethics;

-- operations, administrative services, security, construction management, occupational safety and health, and aircraft services; and

-- departmental policy, environmental affairs, and hearings and appeals.

While these responsibilities provide for integration of different functional areas, they also have the potential to distract the CFO from concentrating on financial management issues. The CFO told us that extraneous duties are not a problem. Also, CFO Officials told us that they are using a team approach with the CFO, Deputy CFO, and Director of Fiscal Resources to provide increased focus on financial management.

While the team approach may augment CFO resources, it does not allow the CFO to focus on financial management issues as

[4]Financial Management: Momentum Must Be Sustained To Achieve the Reform Goals of the Chief Financial Officers Act (GAO/T-AIMD-95-204, July 25, 1995).

envisioned by the CFO Act. We believe that effective and prompt resolution of serious financial management weaknesses at Interior will require continued, focused attention from the CFO. These weaknesses resulted in three agencies receiving disclaimed audit opinions on their fiscal years 1993 and 1994 financial statements. These agencies accounted for 46 percent of Interior's fiscal year 1995 budget authority.

Component Agencies

We have three concerns about Interior's component agency CFO organizations. First, we found that one component agency CFO is not responsible for the full range of financial management functions envisioned for agency CFOs under the CFO Act.[5] Second, all component agencies' CFOs have broad management and operations responsibilities similar to those of the Department's CFO, which limit their focus on financial management. Third, at one component agency, the Deputy CFO position has been vacant for most of the past several years. These concerns are discussed below.

First, we are concerned that one component agency's CFO is not responsible for the full range of financial management functions. The CFO at the U.S. Fish and Wildlife Service (FWS) is not responsible for the agency's budget function, and BIA is planning a reorganization that would remove responsibility for budget from its CFO. Our May 17, 1995, letter to Interior's Deputy CFO expressed our concerns about the FWS Director's reassignment of the budget function outside the CFO organization. The CFO Act places responsibility for monitoring the budget execution function with agency CFOs. Because the budget execution process provides information on actual expenditures for programs and activities, which is critical to the budget formulation process, we believe it is important that the CFO also be involved in the budget formulation process.

Second, we are also concerned that two Interior agencies with serious financial management weaknesses, which resulted in disclaimed opinions on their fiscal year 1994 financial

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[5]The CFO Act does not address whether or how a CFO organization is to be implemented by component agencies that comprise larger departments. However, Interior's CFO has developed guidelines which specify CFO functions to be performed by its component agencies.

statements, have CFOs who have been unable to focus their full attention on financial management. Specifically, at the U.S. Geological Survey (USGS) and BIA, the CFOs have substantial and time-consuming management and operational responsibilities in addition to financial management.

The USGS CFO, who has worked primarily in science-related positions and holds degrees in geology, geography, and civil engineering, has broad responsibility as the agency's Associate Director for Operations. In addition to financial management functions, the incumbent is responsible for personnel management, information resources management, and administrative services. We believe these broad responsibilities limit the USGS CFO's ability to focus attention on correcting financial management weaknesses. Without greater attention and effort by the CFO, the OIG may continue to disclaim an opinion on USGS's financial statements.

The recently appointed Acting CFO at BIA functions in the combined position of CFO and Director of the Office of Management and Administration and also serves as Project Officer for BIA's new Central Office organization. Due to significant fiscal year 1996 budget cuts, BIA's CFO has had to focus his attention on the agency's downsizing and reorganization effort, thereby minimizing his attention to serious financial management weaknesses that contributed to the OIG's inability to express an opinion on the agency's fiscal year 1993 and 1994 financial statements.

We believe that sustained attention by the USGS and BIA CFOs is needed to resolve serious financial management weaknesses in order to put these agencies in auditable positions. According to the OIG, over the past year, focused CFO attention has helped the National Park Service (NPS) make significant progress in correcting its long-standing financial reporting and systems weaknesses. For example, in 1994, NPS developed a 2-year corrective action plan. In implementing the plan, NPS has enlisted the help of the Department CFO and OIG to address its most critical weaknesses and to meet its goal of having auditable fiscal year 1995 financial statements. Further, on May 31, 1995, the Secretary approved an NPS reorganization plan that elevated the CFO position to a level reporting directly to the Park Service Director. BIA and USGS could also benefit from this type of focused attention.

Third, the Deputy CFO position at BIA has been vacant for most of the past several years. As stated above, BIA's CFO has been focusing on BIA's downsizing and reorganization effort. Coupled with BIA's long-standing Deputy CFO vacancy, it is unclear how much attention is being placed on correcting BIA's financial management problems. We believe that filling BIA's Deputy CFO position could help provide focus on correcting financial management weaknesses.

Financial Management Training

Five years have elapsed since the CFO Act required that CFOs oversee training of personnel who carry out financial management functions. However, Interior has not yet implemented a departmentwide financial management training program.

Interior has recognized the need for financial management training and is formulating a Financial Management Training and Development Plan. The plan, which is targeted for implementation in fiscal year 1996, sets standards for the type and amount of training that financial management staff should take and establishes a mechanism to monitor the training that is completed.

However, according to Interior officials, budget constraints are a major obstacle to implementing the plan. If Interior is unable to implement its training plan, including a mechanism for monitoring compliance, the Department will have no assurance that the type and amount of training taken by its financial management staff are adequate to ensure their ongoing professional proficiency.

We believe Interior needs to invest in financial management training, particularly as agency downsizing demands greater efficiencies. In its report accompanying the 1990 CFO Act, the former House Committee on Government Operations stated that investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. To place priority on training efforts, we suggest that financial management personnel be required to participate in a minimum amount of continuing professional education. For example, government auditors are required to attain 80 hours of continuing professional education (CPE) every 2 years, and this requirement has helped ensure audit quality and professionalism. Interior's plan calls for 40, 60, or 80 hours of CPE every 2 years, depending on the level of the employee.

Financial Management Systems Improvements Are Needed

We have a number of concerns about Interior's financial management systems. While Interior has implemented a standard, agencywide accounting system, not all subsidiary systems are electronically linked to the accounting system. Further, three of Interior's component agencies' accounting systems do not produce reliable data, which contributed to disclaimed opinions on their fiscal year 1993 and 1994 financial statements. In addition, at the time of our review, Interior lacked a comprehensive inventory of financial and mixed program and financial systems that support financial reporting. Finally, Interior component agencies' decentralized approach to systems development has resulted in redundant systems with potentially inconsistent data.

Unreliable Data

As discussed earlier, although Interior has taken steps to improve its financial management systems, these systems do not yet produce reliable financial data on a departmentwide basis. For example, CFO financial statement audits performed by the OIG for fiscal year 1994 indicate that one-half of Interior's component agencies could not adequately support all of the account balances produced by their systems. Serious deficiencies in systems, such as incomplete subsidiary systems and inadequate audit trails,[6] must be resolved before Interior will be able to produce auditable consolidated Department financial statements.

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[6]A key requirement of sound financial management systems is that they provide audit trails to trace transactions to and from source documents through successive levels of summarization to the financial statements.

Nonintegrated Systems

The Department's property, procurement, and accounting systems are not electronically integrated.[7] Interior's new procurement system was not designed so that data reflecting the acquisition of an asset would automatically update both the property system and the accounting system. Interior recognizes this problem, and its September 8, 1995, Financial Management Status Report and Strategic Plan lays out a strategy for integrating these systems. In addition, the Finance Officers Partnership has formed a team to address electronically linking the procurement system with the property and accounting systems.

Systems Inventory

Achieving the goal of integrating financial management systems is dependent upon a reliable and comprehensive inventory of the Department's financial, accounting, and related, or mixed, systems. However, separate inventories prepared by the CFO and Interior's Office of Information Resource Management (OIRM) contained conflicting information. For example, the CFO inventory listed 66 financial and mixed systems that support both financial and nonfinancial functions. However, the OIRM inventory included at least 48 additional financial and/or mixed systems that were not on the CFO inventory. In addition, 21 systems on the CFO list were not on the OIRM list. One mixed system--BIA's Land Records Information System (LRIS)--was not on the CFO's inventory. LRIS contains official Indian ownership records and is to link to BIA's planned subsidiary trust fund accounting system to ensure accurate distribution of trust fund revenues.

Interior officials told us that the mismatch between the CFO and OIRM inventories is due to different OMB definitions and reporting requirements for CFO and OIRM system inventories. They said that the Department has initiated a study to resolve the differences in systems inventories. We believe this effort is critical to achieving an effective, integrated

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[7]An integrated system is one in which subsystems are planned for and managed together, operated in an integrated fashion, and linked together electronically. In an integrated system, the software, hardware, personnel, processes, procedures, and controls work together to provide the information necessary to carry out financial management and reporting functions.

financial management system. Unless all financial, accounting, and related systems are included in system integration plans, Interior will continue to have inaccurate financial reports, additional computer operating costs, and other inefficiencies, such as maintaining redundant systems and inconsistent information.

Decentralized Systems Development

According to Department OIRM officials, Interior's decentralized approach to systems management is consistent with the independent nature and diverse needs of its component agencies. For example, Interior's OIRM does not strictly prescribe which systems are to be used by component agencies. Instead, Interior's OIRM acts in an advisory capacity, providing assistance where it believes appropriate. Thus, the agencies have considerable discretion in developing and implementing systems.

One effect of a decentralized approach to systems development and implementation is that systems tend to proliferate across the agency. These systems can be redundant and they can contain inconsistent data. For example, our September 1994 report[8] identified potential system redundancies and data inconsistency at three Interior agencies relating to oil and gas production and royalty information. The systems at these agencies have not evolved as part of an overall information resources management strategy or a concerted effort to integrate systems.

OIG Resource Constraints

Interior's OIG has demonstrated audit leadership that has exceeded CFO Act requirements. The Inspector General attributes the OIG's audit success to the Interior CFO's strong commitment to preparing financial statements for each component agency's entire operation. As stated earlier, the OIG has audited the component agency financial statements for several years, in advance of the GMRA requirement. As a result, the OIG has identified problems that need to be corrected in order to have reliable, auditable financial

[8] Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds (GAO/AIMD-94-185, September 22, 1994).

information. However, fiscal year 1996 budget decisions could impair the OIG's ability to perform financial audits in the future.

OIG officials told us that it has been difficult to perform all legislatively mandated audits with existing budgetary resources. CFO Act financial statement audits included in these mandates provide important information on the results of agency operations for agency and program managers as well as congressional decisionmakers. The OIG used 30 staff years, or about 18 percent of its 166 auditors, to audit the Department's fiscal year 1994 financial statements.

According to OIG officials, fiscal year 1996 funding will be limited to the fiscal year 1995 level. As a result, the OIG will need to absorb unfunded fiscal year 1996 cost increases, including mandated pay increases for investigators. To avoid reductions in audit staff, the OIG has planned a number of significant cost-cutting initiatives. However, if these initiatives are not successful, the OIG's capacity to perform CFO audits and advise component agencies on effective implementation of financial management improvements could be impaired.

CONCLUSIONS

Strong CFO leadership with a commitment to improving financial management is essential to meeting the goals and objectives of the CFO Act. Effective financial management provides decisionmakers with the necessary tools to better carry out their missions. It also provides stakeholders with information on which to evaluate the effectiveness of programs. The OIG plays a crucial role in this process by working with management to help identify and resolve financial management and systems weaknesses. The audits performed by the OIG ensure the accuracy and reliability of the financial information used by these decisionmakers and stakeholders. Therefore, it is important that Interior continue to address the challenges we have outlined in this letter.

AGENCY COMMENTS

We discussed the results of our work, including findings and conclusions regarding financial management accomplishments and challenges, with Interior CFO and OIG officials and have incorporated their comments where appropriate. Except for our concerns about the CFO's ancillary responsibilities, these officials generally agreed with our findings and conclusions. We believe, however, that the broad management responsibilities currently assigned to the CFO do not allow the focus on financial management envisioned by the CFO Act.

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Please contact me at (202) 512-9542 or Lowell Hegg at (303) 572-7328 if you have any questions concerning this letter.

Sincerely yours,

Lisa G Jacobson

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Director, Civil Audits

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