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# Implementing the Federal Managers' Financial Integrity Act

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Do you like challenges? Would you like a position with exciting growth potential and an opportunity to work with new state-of-the-art methods and procedures? How about an opportunity to have your planning, managerial, and interpersonal skills tested to their fullest extent by a large, complex, dynamic assignment involving hundreds of people all over the world?

Sound like a personnel ad placed by a Silicon Valley computer firm or AT&T? Actually, it is what the ad would have looked like, had one been posted, for a position as manager of GAO's first-year review of the Federal Managers' Financial Integrity Act of 1982.

GAO's first review of the act's implementation has been characterized as a "learning experience." Many new, innovative approaches were required



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not only in conducting the required work but also in managing GAO's review. This article seeks to summarize that experience and identify the lessons learned, along with their impact on ongoing and future work in this important area.

## **Job Planning and Organization**

The Financial Integrity Act (P.L. 97-255) provides, for the first time,

the needed discipline on a government-wide basis to identify and remedy long-standing internal control and accounting system problems that hamper effectiveness and accountability, cost the taxpayer potentially billions of dollars, and erode the public's confidence in its government. The act, whose passage was strongly supported by the Comptroller General, further develops the concept first embodied in the Accounting and Auditing Act of 1950 that primary responsibility for adequate systems of internal control and accounting rests with management.

At the Comptroller General's direction, GAO undertook a comprehensive review of efforts to implement the act at 22 federal departments and agencies, which accounted for 95 percent of all federal expenditures. Specific review objectives were to

- assess agencies' processes for evaluating and improving systems of internal control (section 2 of the act);
- review agencies' progress toward assessing their accounting systems for compliance with the Comptroller General's principles, standards, and related requirements (section 4 of the act); and
- analyze agencies' annual reports required by the act.

The review planning began in October 1982, only a month after the Congress signed the act into law. We made two important decisions at that point: first, each division in GAO would have a role, and second, a multidivisional group would help decide our objectives, approaches, and staffing.

Early in 1983, under Accounting and Financial Management Division (AFMD) direction, GAO formed a Financial Integrity Act Implementation Working Group on which each program and technical division was represented. This group, primarily through the work of several subgroups, produced several position papers outlining short- and long-term strategies for reviewing the act's implementation. We realized the magnitude of the task at hand through this group's deliberations. The group pointed out that

- all GAO staff should be familiar

with, and consider the adequacy of, in the initial stages of our audits and

- all GAO audit work, particularly GAO's agency management reviews, needs to be carefully coordinated with GAO's review of the act's implementation.

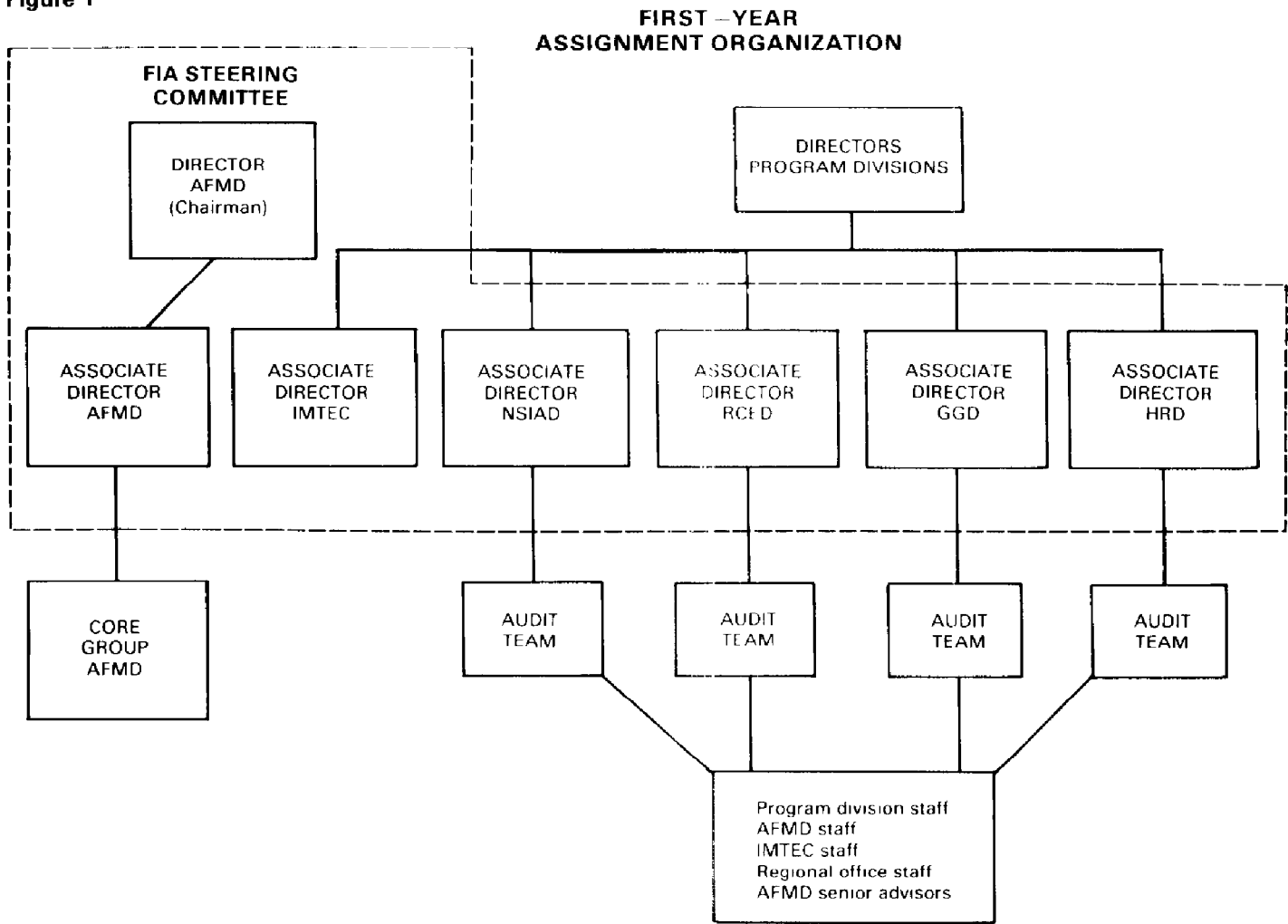
As GAO staff began understanding the subject in depth, we realized that successfully implementing these concepts would be a challenge.

A steering committee, chaired by the AFMD's director and comprised of associate directors from each of the

program divisions, AFMD, and the Information and Management Technology Division (IMTEC), was responsible for policy direction of the job and for preparation of the overall first-year report. A core group of three AFMD staff to assist the steering committee and four AFMD senior advisers consulted with audit teams throughout the review. In addition, AFMD prepared the first-year work program for the 22 audit teams. Because the concepts addressed in the act were new, AFMD also provided a series of necessary training sessions on internal controls and accounting

systems. Held in Washington, D.C., and in six regional offices, these training sessions ensured a uniform knowledge base. While the steering committee had overall responsibility for the assignment, the cognizant program divisions managed the day-to-day jobs and reported to each of the agencies. To assist in the areas of ADP and accounting systems, IMTEC and AFMD technical specialists were assigned to each of the 22 teams. The teams could also call on the core group as well as the four AFMD senior advisers for technical assistance (see figure 1).

Figure 1



## Scope and Resource Requirements

In May 1983, the steering committee met with Comptroller General Bowsher, who approved the proposed assignment structure. At that time, the Comptroller General stressed the need to assess independently agencies' reporting on the status of the federal government's internal control and accounting systems. He approved the first-year work program and also set the review

scope as all the cabinet-level agencies as well as the following four major independent agencies: the National Aeronautics and Space Administration (NASA), the General Services Administration (GSA), the Veterans Administration (VA), and the Small Business Administration (SBA).

The Comptroller General made this work a top priority in GAO. In a meeting with all division directors and regional managers, he outlined our plans and reemphasized the act's importance

and our need to take a leadership role to help ensure successful implementation.

It became readily apparent that the first-year review would require a substantial investment of GAO resources. We originally estimated 25,000 staff days, approximately 19,000 in headquarters and about 6,000 in the regions. Actually, our estimate was not far off from the 29,000 staff days GAO ultimately expended.

Many difficult trade-offs had to be

made. The steering committee immediately began to address (1) staff needs (grade levels, abilities, and program knowledge), (2) staffing time frames, and (3) the impact of this work on ongoing assignments.

## **The Kick-Off Conference**

On June 23 and 24, 1983, the kick-off conference for the review was held in the GAO auditorium. During the 2-day period, AFMD provided over 100 key staff with an overview of the act, along with a detailed work program for the review. Representatives from the Office of Management and Budget (OMB) and the Department of Housing and Urban Development also briefed the GAO staff on their efforts to date. Finally, case-study applications of the act's requirements were presented and discussed.

The Comptroller General emphasized the importance of the review. He hoped that GAO's review "might provide the impetus for the executive branch to establish modern, centralized accounting systems." He identified the coordinated, cooperative audit effort as a key to successfully achieving these ambitious objectives with the need to assign highly qualified staff as quickly as possible.

The Comptroller General also initiated a review of GAO's own internal control and accounting systems. Although, as part of the legislative branch, GAO is not legally required to comply with the act's requirements, the Comptroller General stressed the need for GAO's divisions and offices to assess and report to him on the adequacy of our own internal control and accounting systems.

## **Coordination with OMB and Agency Inspectors General**

OMB has taken a leadership role in ensuring implementation of the act, and we have recognized the importance of coordinating with the agency. OMB established a Financial Integrity Act Task Force to provide technical assistance and to oversee agency implementation efforts. In addition, agency inspectors general reviewed the evaluation process at their agencies and provided technical assistance. Close coordination, therefore, was essential to avoid wasteful duplication of effort and to minimize agency disruption.

A high degree of cooperation between GAO, OMB, and the inspectors

general benefited the common goal of strengthening internal control and accounting systems. Sharing our audit program with them, we reviewed the results of OMB's efforts<sup>1</sup> prior to beginning our work. We worked closely with the inspectors general, exchanging audit results and coordinating efforts to broaden the audit scope. For example, at one agency the inspector general staff became members of our review team, and, in another case, GAO and an inspector general conducted a joint review.

To provide the framework for the act's implementation, as prescribed by the law, the Comptroller General issued agency standards for internal control systems. The standards, issued in July 1983, apply to program management as well as traditional financial management areas and encompass all operations and administrative functions. The act also requested that OMB, in consultation with GAO, establish guidelines for agencies to use in evaluating, improving, and reporting on their internal control systems. GAO and OMB worked closely to finalize the standards and guidelines and to explain these requirements to the agencies.

The core group coordinated with OMB, whereas each audit team developed relationships with the agency inspectors general on a case-by-case basis. For the most part, we worked out these relationships informally, and they continued to evolve with changes in staff and status of agency implementation efforts.

## **Conducting the Review**

This review was the first of its kind in terms of its magnitude and the program's newness. The GAO evaluation staff had to learn the required process and the OMB guidelines, while concurrently evaluating the adequacy of implementation efforts. As the 22 audit teams did the review, the Financial Integrity Act Steering Committee faced a series of difficult decisions. Each team faced staffing shortages, which were acute in the ADP area. IMTEC was a new division and, while many slots had been allocated to the Financial Integrity Act effort, few ADP specialists were initially on board. GAO program divisions and AFMD also experienced resource problems. The critical question of which work to reduce, delay, or cancel to accommodate the demands of this large assignment proved to be even more complex than anticipated. However, necessary staffing was made available, and all parties fully sup-

ported the assignment.

An area requiring mid-course reevaluation was the audit work program. Several months into the review, a number of working groups, composed of selected evaluators-in-charge from the 22 audit teams, met to discuss the work program and exchange ideas on how to conduct the review. The steering committee approved a number of adjustments as a result of these meetings.

Ensuring that each of the 22 teams was aware of and understood information and decisions as the job progressed proved to be a greater challenge than anticipated. However, the core group served the steering committee's needs through a difficult period. The core group analyzed draft agency reports to ensure consistency and ensured that the teams received copies of steering committee minutes and other job information. It also prepared policy papers, briefing packages, and speeches and was the focal point for information on the overall status of the job.

Team leaders for the agency segments played a substantial role in managing the assignment and directing teams of up to 20 GAO staff members. Team leaders supported GAO field staff and agency personnel. In many cases, team leaders also consulted agency Financial Integrity Act staffs and became an important source of information to the agencies. In addition, they helped maintain a positive working environment, since some agencies initially expressed concern that GAO staff could impede progress by evaluating the program as it was being implemented.

Throughout the job, the Comptroller General demonstrated his commitment to successfully implementing the act. The steering committee members met periodically with Mr. Bowsher and GAO top management on job progress, issues for resolution, and the thrust of our agency and government-wide reports. The committee also briefed the Comptroller General's consultant panel on the progress of our work. The Comptroller General met with OMB and top agency management to support the assignment and to outline his expectations for implementing the act.

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<sup>1</sup>For additional background, see the winter 1984 GAO Review article, entitled "Assessing Implementation of the Financial Integrity Act: GAO Assists OMB."

## Winding Up the Assignment: Congressional Hearings and Reporting

The Comptroller General has emphasized the importance of annual hearings on the state of the government's internal control and accounting systems and believes that such hearings will provide the impetus needed to ensure successful implementation of the act. The first hearing was held on May 22, 1984, before the House Committee on Government Operations. We worked closely with the committee in developing the hearing and consulted in the preparation of the committee's report,<sup>2</sup> which directed agencies to intensify their efforts to ensure a sustained, long-term commitment to improved internal controls and accounting.

Around the time of the hearings, the teams began issuing their individual agency reports, and work progressed on the government-wide report. The steering committee met often to finalize reporting issues and policies. Meetings were long and, at times, trying. With so many inputs, ensuring consistency and quality for 22 reports and agreeing on the focus of the government-wide report was a difficult but essential task. The committee did not always immediately agree in certain areas.

The Offices of Quality Assurance (OQA) and General Counsel (OGC) greatly assisted the reporting process. Early in the job, representatives of these offices regularly attended steering committee meetings. They participated in our report conferences and received report outlines and preliminary drafts. Both responded to tight review time frames to enable teams to meet report milestones. Making OQA and OGC part of the team enabled us to issue 22 agency reports as well as the government-wide report within 14 months of the kick-off conference. Both offices contributed to the effectiveness and quality of the final products through constructive suggestions during the assignment.

## Overall Report Issued

We issued the last of the 22 individual reports on July 20, 1984, and the Comptroller General signed the overall report, prepared by an AFMD working group for the steering committee, on August 24, 1984 (GAO/OCG-84-3). Since this report represented a truly GAO-wide product, the Office of the Com-

troller General issued it rather than a GAO division.

In the report, GAO concluded that the agencies satisfactorily began their assessments, that they demonstrated a strong management commitment to implementing the act, but that each agency needed to improve the quality of its self-assessments. In their first annual statements, agencies disclosed internal control and accounting system material weaknesses that needed prompt attention. The reported weaknesses covered the spectrum of government functions and programs. GAO called on agencies to begin developing and implementing comprehensive plans to correct these weaknesses and thus realize the potential for saving billions of taxpayer dollars. Correction of the problems is the "bottom line" of the act and will require a sustained high-priority commitment.

## First-Year Lessons Learned: Establishment of the Interdivisional Task Force

Ensuring consistency and preparing a government-wide, first-year report were difficult tasks. For the second year, we looked to new ways of gaining the insights and details the teams were developing and wanted to do more to compare and contrast agency progress.

Recognizing the need to capitalize on lessons learned in the first year, the steering committee established the Interdivisional Financial Integrity Act

Task Force to address these problems and to assist the individual teams in the second-year review. The task force, headed by an executive director, and reporting directly to the steering committee, consists of full-time representatives from each program division, AFMD, and IMTEC. All task force members participated in the review (see figure 2).

The task force, which replaces the AFMD core group and the senior advisors, will support the steering committee in providing overall coordination and direction and in writing and processing the government-wide, second-year report. Task force members work with the audit teams in their respective divisions to oversee, collect, analyze, and consolidate findings and to resolve any problems in understanding and completing the work steps in the audit program. Also, they will address issues that affect all teams, requiring each task force member to be familiar with the progress and findings at all agencies.

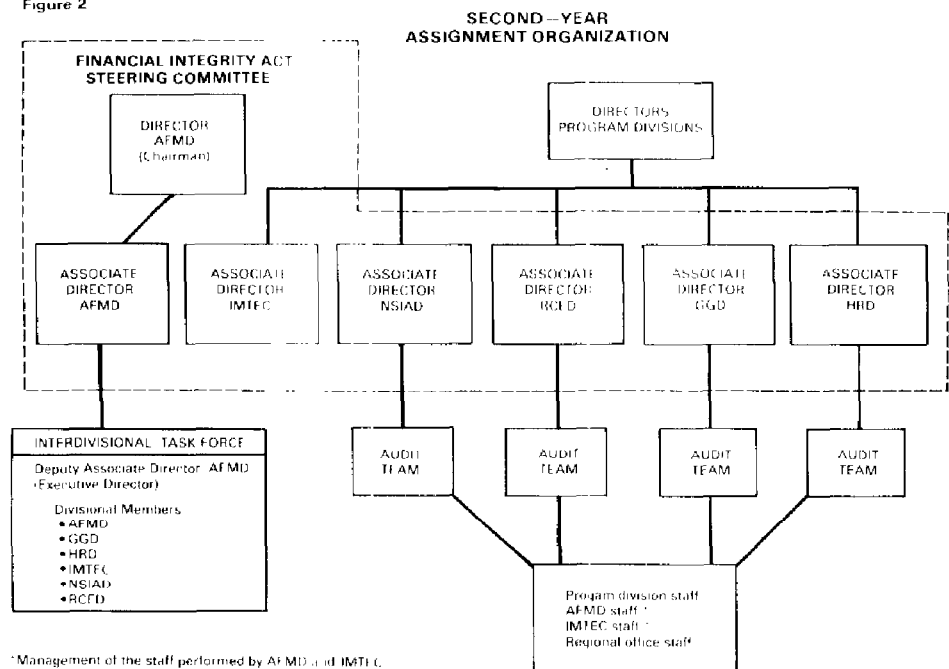
The task force's major duties can be summarized as follows:

- Ensure the consistency, focus, and quality of work performed by the various teams.

<sup>2</sup>"First-Year Implementation of the Federal Managers' Financial Integrity Act," House Committee on Government Operations, August 2, 1984.

See *Integrity*, pg. 30

Figure 2



\*Management of the staff performed by AFMD and IMTEC.