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Continuing Efforts Needed To Improve Internal Control and Accounting Systems

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

The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)) requires federal department and agency managers to evaluate whether internal control and accounting systems have weaknesses that can lead to fraud, waste, and abuse in government operations. The act requires federal managers to report annually to the President and the Congress on their systems and plans to correct identified weaknesses.

This report, GAO's third governmentwide report on the Federal Managers' Financial Integrity Act, provides an overall perspective on the progress agencies have made since the act's passage, the internal control and accounting systems problems remaining, and some efforts underway to correct these problems.

We are sending copies of this report to the Director of the Office of Management and Budget. Because the report discusses information that should be useful to all agencies, we are also sending copies to the heads of federal agencies and are calling on them to continue to make a concerted effort to strengthen their internal control and accounting systems.

Charles A. Bowsher

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Comptroller General
of the United States

Executive Summary

Purpose

Recent economic events involving the securities market and the trade imbalance have focused greater attention on the federal budget deficit. Although no easy solutions exist, federal operations must be as effective and efficient as possible. The government must be sure that tax dollars are spent wisely and are fully accounted for.

In an effort to strengthen federal internal control and accounting systems, the Congress passed the Federal Managers' Financial Integrity Act in 1982. Improving government management remains one of the General Accounting Office's (GAO) top priorities. Thus, since the act's passage, GAO has been reviewing agency implementation efforts at 23 agencies which account for over 95 percent of federal expenditures. This is GAO's third overall report summarizing the progress agencies have made under the act, the internal control and accounting systems problems remaining and the efforts underway to correct these problems.

Background

The Financial Integrity Act places the primary responsibility for maintaining adequate internal control and accounting systems on federal agency managers. The act requires that agency heads annually report to the President and the Congress whether these systems comply with the Comptroller General's standards and holds managers responsible for correcting identified deficiencies.

The annual report is to be based on an agency's evaluation of its internal control systems in accordance with Office of Management and Budget (OMB) guidelines. It must describe any identified material internal control weaknesses and plans for correction. The annual report must also state whether the agency's accounting system conforms to the Comptroller General's accounting requirements.

Results in Brief

Agencies' annual reports under the act, inspectors general audits, and GAO reviews continue to reveal serious internal control weaknesses. A number of tough and long-standing problems remain which require the sustained attention of agency management. These problems result in wasteful spending, poor management, and losses totaling billions of dollars. In some cases, the government's ability to carry out crucial programs has been hampered. (See chapter 2.)

At the same time, agencies reported that they have corrected many of the internal control weaknesses identified since the act's passage. However, they must also ensure that these actions are effective and that all audit findings are promptly resolved as the act requires. (See chapter 3.)

There is also an urgent need to reform the government's accounting and financial management systems. GAO is encouraged that there is a general recognition today that the problems are serious and that a number of governmentwide improvement initiatives are underway. But the solutions will not be easy and will require a sustained commitment which must continue beyond the term of the current administration. (See chapter 4.)

Principal Findings

Internal Control Weaknesses Affect Program Management and Accountability

Strengthening internal controls in the federal government will require a continuous emphasis by agency managers and a sustained commitment from the administration and the Congress. While GAO has seen progress since passage of the Financial Integrity Act, serious internal control problems remain. Solutions are often complex and may require an investment in funds which can be difficult in times of federal budget deficits.

Internal control weaknesses reported by agencies under the act cover a broad range of government programs and operations such as accounting and financial management, procurement, debt collection, and property management. More than a third of the remaining weaknesses were first reported by agencies in 1983 or 1984, and a number of them were well known years before the act's passage. Reported internal control problems have serious consequences. Some examples follow.

- The Department of Defense cannot account for over $600 million in advances made by foreign customers for weapons systems purchases.
- Medicaid recipients and providers of Medicaid services abusing the system may have cost the federal government at least $54 million, and possibly as much as $400 million in 1985, although internal control weaknesses were identified in 1978.
- Weaknesses in agencies' collection systems remain and delinquencies in nontax debt owed the federal government have grown by 55 percent in 3 years to $24 billion.

- Agencies paid almost 25 percent of their bills late, thereby incurring millions of dollars annually in interest penalties. They also paid close to a quarter of their bills too soon, thus costing the government at least $350 million annually in lost interest.
- The Social Security Administration, which has long-standing accounting system problems, credits workers with $58.5 billion less in earnings than does the Internal Revenue Service, a difference which may result in underpayments to an estimated 9 million beneficiaries.
- The basic lack of internal controls over its $160 billion inventory, which Defense cites as the most serious departmentwide problem, has, among other things, reportedly allowed explosives to fall into the hands of extremist organizations.

Agency self-evaluations of internal control systems have resulted in identifying 229 new weaknesses in 1986. Identifying weaknesses is an important aspect of the act and is an important step toward achieving the act's objectives. It shows that agencies and the administration are committed to implementing the act by recognizing that federal managers must continuously focus on identifying and correcting internal control problems. (See chapters 2 and 4.)

Actions To Strengthen Internal Controls Continue

Agencies continue to correct their internal control problems and reported in 1986 that they had corrected more than two-thirds of their material weaknesses reported since 1983. Following are some examples.

- The Navy reported that it had strengthened internal controls to ensure the security of classified material and physical security at several commands and activities.
- The Army said it had corrected internal control weaknesses which had caused flying hour funding requirements to be overstated by $130 million.
- The Department of the Treasury reported that it installed a system which improved the reliability and efficiency of accounting operations for billions of dollars in U.S. savings bonds.

Verifying that control weaknesses are promptly and effectively corrected is an essential task in this process. GAO found instances where (1) corrective measures taken had not completely corrected the identified weaknesses and (2) actions to resolve audit findings, which could potentially save millions of dollars, had been delayed, in some cases for years. (See chapter 3.)

Commitment To Improve Accounting Systems Is High

Compounding the internal control weaknesses is the poor condition of the government's accounting and financial management systems. The systems do not produce the complete, consistent, reliable, and timely data needed for deciding policy or managing day-to-day operations. All but 1 of the 23 agencies GAO reviewed stated that their accounting systems had material weaknesses. Attempts to remedy some of these problems have often been costly and plagued with long delays.

The need for comprehensive change has been recognized. Governmentwide initiatives to bring about needed reform are underway which include the increased standardization of agency financial systems and information and involvement of senior federal managers in this effort.

Continuity across successive administrations is crucial if urgently needed reform is to succeed. To help achieve that reform, the Congress is considering legislation which would provide both a financial leadership structure to help assure comprehensive reform as well as the legislative mandate needed to help assure its continuity. (See chapter 4.)

Recommendations

The primary purpose of this report is to provide periodic status information to the Congress on agencies' efforts under the act. Recommendations to agencies on specific problems discussed in this report were contained in individual reports to those agencies. Those individual reports are cited in this report, and we are making no additional recommendations on those matters at this time.

However, GAO believes that the leadership of the executive branch should continually emphasize the importance of Financial Integrity Act reporting and the need to correct the numerous internal control and accounting system problems that continue to exist. GAO is sending copies of this report to each agency head to further highlight the need for their continued action to correct these problems.

Agency Comments

GAO did not obtain official comments on the report from either OMB or the agencies because the report summarizes previously reported problems and actions.

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Abbreviations

ADP	automated data processing
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FDA	Food and Drug Administration
GAO	General Accounting Office
GSA	General Services Administration
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
SBA	Small Business Administration
SSA	Social Security Administration
UMTA	Urban Mass Transportation Administration
VA	Veterans Administration

Introduction

Recent economic events involving the securities market, trade imbalance, and federal deficit again underscore the importance of bringing the federal government's annual deficit spending under control. There are no easy solutions. Nonetheless, with an accumulated deficit of over $2 trillion and growing each year, it is imperative that federal agencies properly control and fully account for their resources.

Since its enactment in 1982, the Federal Managers' Financial Integrity Act (31 U.S.C. 3512(b) and (c)) has provided a significant impetus for agencies to improve their management controls and accountability. (See appendix I.) The goal of this legislation is to reduce fraud, waste, and abuse, and improve management of federal operations by strengthening internal control and accounting systems. The act was passed in response to continuing disclosures of widespread and severe problems in these areas.

This, our third overall report on this subject, illustrates internal control and accounting systems problems facing the federal government since passage of the act and offers an overview of improvement efforts.

Chapter 2 highlights specific examples of internal control weaknesses reported by the agencies, together with the General Accounting Office's (GAO) perspectives on these problems. Chapter 3 discusses agency corrective actions to strengthen internal controls and addresses the importance of follow-up to ensure these actions are effective. Chapter 4 provides our view on the need to modernize the government's accounting and financial systems to provide the information required for effective management and decision-making and the need for commitment, continuity, and leadership in this effort.

Requirements of the Act

The Financial Integrity Act places the primary responsibility for maintaining adequate systems of internal control and accounting on agency management. The act requires agency heads to report annually to the President and the Congress on the status of these systems and holds managers responsible for correcting identified deficiencies.

Section 2 of the act requires that agency systems of internal control be evaluated in accordance with guidelines established by the Office of Management and Budget (OMB)[1] in consultation with GAO. The act also

[1] Guidelines for Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, OMB, December 1982.

requires agency heads to report to the President and the Congress annually whether their systems comply with internal control standards prescribed by the Comptroller General[2] and provide reasonable assurance that

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss and unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over the assets.

For agencies whose systems do not fully comply with these requirements, the act stipulates that agency heads identify and report material weaknesses and related plans for corrective actions. The Comptroller General's internal control standards, which were called for by the act, apply to program management, as well as financial management areas, and encompass all operations and administrative functions. In short, under the act, internal controls are viewed as being synonymous with management controls—the whole network of policies, procedures, practices, and systems used by managers.

Section 4 of the act further requires that agency heads include in their annual statements a separate report on whether their agencies' accounting systems conform to the Comptroller General's accounting principles, standards, and related requirements.[3]

Our Previous Reports and Testimony

We have monitored agency compliance with the Financial Integrity Act since its initial implementation in 1983. Our first overall report,[4] issued in August 1984, characterized agencies' efforts to assess and report on

[2]The GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 2, appendix II, "Standards for Internal Controls in the Federal Government." The standards were also published in a booklet in June 1983.

[3]The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, appendix I of title 2 of the manual prescribes the accounting principles and standards. Titles 4, 5, 6, and 7 of the manual specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. Also, agency accounting systems must comply with the Comptroller General's internal control standards, as prescribed in appendix II of title 2 of the manual, as well as requirements set forth in the Treasury Financial Manual and OMB circulars.

[4]Implementation of the Federal Managers' Financial Integrity Act: First Year (GAO/OGC-84-3, August 24, 1984).

the status of their internal control systems as a learning experience. We recommended that OMB provide improved guidance to agencies on evaluating and reporting on their systems in order to more effectively identify and correct weaknesses and more accurately describe system status.

In our second governmentwide report,[5] issued in December 1985, we summarized the known serious internal control and accounting problems that faced our government and reiterated our recommendations regarding the need for improved guidance to agencies on evaluating and reporting their systems' status.

In June 1986 testimony before the House Committee on Government Operations, the Comptroller General reemphasized the seriousness of the control weaknesses facing our government and the importance of correcting problems in a more timely manner.[6] Specifically, he cited a need for

- managers to focus on risks when identifying systems in need of improvement rather than waiting for a major breakdown to occur before taking action,
- strong central leadership and coordination of financial management improvements,
- a commitment of resources for such improvements, and
- continued congressional support.

We have continued to monitor efforts to implement the Financial Integrity Act at 23 agencies (see appendix II), which together account for over 95 percent of all government expenditures. With the exception of the Defense Mapping Agency, which we replaced with the Defense Security Assistance Agency, these are the same 23 agencies that we have tracked since 1983.

Objective, Scope, and Methodology

The objective of this report is to update the information available to the Congress on the condition of internal control and accounting systems in the government and on agencies' efforts to implement the Financial Integrity Act. It offers an overview of problems and corrective actions

[5]Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems (GAO/AFMD-86-14, December 23, 1985).

[6]"The Government Faces Serious Internal Control and Accounting Systems Problems," Statement of Charles A. Bowsher, Comptroller General of the United States, before the House Government Operations Committee, delivered on June 4, 1986.

provided in agencies' most recent Financial Integrity Act reports, as well as in recent GAO and inspectors general reports on internal control and accounting systems problems.

The 23 agencies included in our review issued 18 annual Financial Integrity Act reports to the President and the Congress at the end of 1986, the most recent year available at the time of our review. (The Secretary of Defense issued a single report which consolidated information for six Defense components included in our review—Office of the Secretary of Defense, Army, Navy, Air Force, the Defense Logistics Agency, and the Defense Security Assistance Agency.)

Because of the importance we place on successful implementation of the act, we continue to monitor agencies' efforts in this area and to emphasize internal controls and accounting systems in our work. The act has created a keen awareness of the importance of improved internal controls and accounting systems. We consider periodic reports to the Congress essential to maintaining awareness of agency efforts in this area.

In preparing this report, we did not independently evaluate the adequacy of agency internal control and accounting systems and agency reported corrective actions. Instead, we analyzed the agencies' reports under the act and considered recent GAO and inspectors general reports which addressed serious internal control problems and agency corrective actions. Since this is a compilation of previously reported problems, we did not obtain official comments from either OMB or the agencies on this report.

Serious Internal Control Weaknesses Remain

In our 1984 and 1985 reports to the Congress on implementation of the Financial Integrity Act, we discussed the progress and problems facing federal agencies in strengthening internal controls and the serious effect that control weaknesses have on federal operations. While we find that agencies continue to work toward attaining the goals set by the Congress when it legislated that internal controls be strengthened, in many instances, federal agencies are a long way from having the systems needed to adequately safeguard government assets and effectively manage their operations.

Agencies acknowledge in their Financial Integrity Act reports many previously and newly identified internal control weaknesses which affect the whole spectrum of government operations, such as buying and safeguarding billions of dollars worth of goods and services, including weapons which are vital to our national security and involve sensitive technologies. They also include such areas as debt collection and other cash management efforts which are increasingly important in light of the current federal deficit.

Identifying a problem is the first step in correcting it. Therefore, continuous emphasis by agency managers to identify administrative and accounting control weaknesses is required if the government's systems of control are to substantially improve. The requirements of the Federal Managers' Financial Integrity Act provide the necessary vehicle to ensure that the efforts to bring about this improvement are sustained.

Material Weaknesses Affect a Broad Range of Activities

Internal control weaknesses, which impair the effectiveness of essential federal programs and result in the loss or waste of billions of dollars, continue to be reported by agency managers in their annual reports required by the act. These weaknesses are not limited to certain "problem areas" but rather span a broad range of government activities and affect a variety of programs.

Table 2.1 shows our summary comparison of agency-reported weaknesses since 1983 grouped into eight categories. Appendix III provides more details on weaknesses reported in individual categories by each agency.

Table 2.1: Comparison of the Number of Agencies Reporting Material Weaknesses by Category

	Number of agencies[a]			
Category	1983	1984	1985	1986
Procurement	14	14	13	13
Grant, loan, and debt collection management	13	13	14	11
Eligibility and entitlement determinations	9	10	9	8
Cash management	12	12	12	13
Automated data processing	10	14	17	17
Property management	14	15	16	16
Financial management and accounting systems	17	17	17	17
Personnel and organizational management	10	12	11	16

[a]The 23 agencies reviewed included 6 Defense agencies (Office of the Secretary of Defense, Army, Navy, Air Force, the Defense Logistics Agency, and the Defense Security Assistance Agency). Because the 6 agencies were included in one report to the Congress and the President, the figures in this table are based on a total of 18 agencies. Information in the remaining tables in this report is also based on these 18 agencies.

Agencies reported in 1986 that about 30 percent of the 1,515 weaknesses they cited in their Financial Integrity Act reports since 1983 were uncorrected. A number of these weaknesses are long-standing. As indicated in agencies' 1986 reports, about 35 percent, or 156 of the 443 material weaknesses they reported as uncorrected at the end of fiscal year 1986, had first been reported in 1983 or 1984. Also, in some instances, the problem had been identified by auditors or agency managers years before passage of the Financial Integrity Act. Although sometimes difficult to achieve, solutions are possible. Key to this effort is the realization that significant benefits will require a sustained commitment by the agencies and the administration and the continuing support of and oversight by the Congress. (Chapter 3 discusses agency efforts to correct reported weaknesses, and appendix IV provides a breakout of weaknesses agencies have reported each year since 1983 and the status of corrective actions.)

Numbers alone, however, do not provide a complete picture because the way in which agencies report weaknesses may vary from agency to agency or from year to year. For example, the Department of Agriculture reported 149 material internal control weaknesses in 1985 and only 10 in 1986. While Agriculture had previously reported each identified control weakness, it modified its reporting process in 1986 by categorizing each weakness according to 11 functional and program areas into which it had divided all of its programs and operations. By reviewing the significance of the individual problems within each category, the agency determined in 1986 that 10 of the 11 categories had material weaknesses. While it reported 10, Agriculture had actually identified

198 individual weaknesses during that year. However, a reader of Agriculture's Financial Integrity Act report could conclude that the agency had fewer problems in 1986 than in 1985.

Agency inspectors general and GAO audits have aided agency managers in their efforts to identify and correct material weaknesses. Frequently, these audits are in-depth examinations of weaknesses found and, for this reason, provide useful details on the root causes and specific effects of individual control problems which, in turn, help agencies frame corrective actions.

In the remainder of this chapter, we describe the eight categories of control weaknesses identified in table 2.1 as well as weaknesses in other program areas. In describing these weaknesses, we use information from agencies' 1986 Financial Integrity Act reports. We also use recent GAO and inspectors general reports to further explain and illustrate control weaknesses facing the federal government.

Procurement

Strong internal controls over procurement and contract administration activities are essential to control costs and to ensure that the government gets what it pays for. During fiscal year 1986, federal agencies contracted to buy goods and services amounting to over $200 billion. Almost 80 percent of this amount was related to Department of Defense procurement activities.

Thirteen of the 18 agencies cited material weaknesses in procurement in their 1986 Financial Integrity Act reports. Such weaknesses included deficient contract administration and quality control; insufficient safeguarding of confidential information, such as sealed bids; and inadequate control over cost growth of weapons system acquisitions. The examples below illustrate some of these problems at Defense and other agencies.

- Defense, which annually awards millions of contracts for purchases of spare parts, continues to have control problems which result in its paying unnecessarily high prices for these items. We reported in March 1986 that despite a multimillion-dollar program to improve controls over the pricing of spare parts, military services' contracts totaling an estimated $187 million experienced price increases of 25 percent or more; yet, adequate justifications for accepting the price increases, a key control feature, were not obtained. (See GAO/NSIAD-86-52, March 11, 1986.) In June 1987, we reported that although some improvements had been made at the Army command included in our previous review, inadequate price analyses still occurred in a substantial number of our sample cases. (See GAO/NSIAD-87-148, June 8, 1987.)

- Defense reported control weaknesses in assuring the quality of its purchases, and, in November 1986, we reported specific weaknesses in the Department's program to ensure the quality of major weapons purchases. We found that offices responsible for the Department's in-plant quality assurance program were not performing all mandatory inspections and inappropriately delegated some of their inspection responsibilities to contractors who were building the weapons. Also, because data to identify recurring supply and service deficiencies were not collected, the offices were often prevented from taking timely action to correct quality assurance deficiencies. (See GAO/NSIAD-87-33, November 3, 1986.)
- In fiscal year 1986, Defense awarded about $82 billion in contracts without price competition. In April 1987, we testified that Defense did not have adequate internal controls to assure that negotiated prices, absent competitive bidding, were reasonable. For example, we examined contractor estimates totaling $244 million in 24 prime contracts and found that over half of them were inaccurate or unreliable. (See GAO/T-NSIAD-87-25, April 8, 1987.)
- Beginning in 1985, the State Department reported material weaknesses in contracting for architectural, engineering, and construction services. Inadequate controls over construction blueprints allowed distribution of building specifications for a new U.S. embassy annex in Beirut, Lebanon, to 11 Lebanese contractors who did not have required security clearances. Beirut is a high-threat post where terrorist attacks, including those on our embassy grounds, have claimed 260 American lives since April 1983. Therefore, effectively controlling construction-related documents is of utmost importance. Weak controls by the State Department in this area appear to be more than an isolated event. As reported in June 1986, 10 of the 16 U.S. architectural and engineering firms under contract to design sensitive communication centers at 49 overseas posts did not hold industrial security clearances as required by Defense regulations with which the State Department must comply. (See GAO/NSIAD-87-83, April 14, 1987.)
- The Department of Transportation cited six procurement-related material weaknesses in its 1986 report, none of which had been fully corrected at the end of that year. Transportation said that these weaknesses prevented effective contract negotiations, reduced full and open competition for goods and services procured, and created the opportunity for four employees to defraud the government of about $1.3 million.

Grant, Loan, and Debt Collection Management

Debt collection continues to be a serious problem. According to agency reports, receivables at the beginning of fiscal year 1986 totaled $346 billion, including $24 billion in nontax delinquencies. This represents a 27-percent increase in total receivables since the end of 1982, with nontax delinquencies growing by 55 percent over this 3-year period.

The principal barriers to federal debt collection have been (1) inaccurate and unreliable accounting data and (2) weak debt collection management. These problems, which cost the government billions of dollars, have been long-standing.

Strengthening debt collection systems has been a management priority of the current administration, and OMB has implemented a "Nine Point Credit Management Program" aimed at developing more efficient and effective credit management systems and aggressively investigating delinquent and defaulted accounts. OMB recently reported related accomplishments such as:

- using private collection agencies to collect seriously delinquent debt;
- successfully implementating the Internal Revenue Service's (IRS) refund offset program, which has resulted in additional collections of over $454 million over a 2-year period; and
- modernizing collection systems at several major credit agencies, including the Small Business Administration (SBA) and IRS.

Important improvements have been made, but agencies have a long way to go before federal debt collection is effectively managed. Eleven of the 18 agencies included in our review reported material weaknesses in this area, and we continue to report related problems. A few examples are described below.

- In 1986, we reported that the four agencies (the Departments of Education and Housing and Urban Development, the Veterans Administration, and the Department of Agriculture's Farmers Home Administration) which administer the largest loan programs and had $14 billion in delinquencies, had not fully availed themselves of most provisions of the Debt Collection Act of 1982. (See GAO/AFMD-86-39, May 23, 1986.)
- The Department of Justice stated in its 1986 Financial Integrity Act report that its legal process debts, which are debts referred to the Department for litigation and collection when an agency's administrative efforts to collect have been unsuccessful, are not fully controlled.

Justice said that, despite having made some progress, it could not readily identify the number and value of outstanding debts, their potential collectibility, or how much has been collected. We reported in March 1986 that Justice did not have a departmentwide system to account for, control, and report on legal process debt collection activities. (See GAO/GGD-86-12, March 14, 1986.)

- We reviewed the Department of the Interior's Minerals Management Service activities in five states and reported that, as of September 30, 1986, over $12.6 million in royalties and rent on coal leases had not been collected from lessees. We found a number of internal control weaknesses which contributed to the inadequate collection practices, such as the Service's not having an adequate system to identify the nonpayment or underpayment of rent. (See GAO/RCED-87-164, August 25, 1987.)

Eligibility and Entitlement Determinations

Eight agencies said in their 1986 Financial Integrity Act reports that they did not have adequate internal controls to assure that only eligible parties received loans, grants, or other federal assistance. While it is always important that federal funds earmarked for such programs are properly controlled, the current severe problem of the federal deficit increases this importance. Following are some problems identified in recent audit reports.

- In 1986, the Department of Education's inspector general reported specific instances of fraud and lack of control in the multibillion dollar Guaranteed Student Loan Program. The inspector general found that borrowers had obtained loans using fictitious names and social security numbers, had obtained additional loans despite previous defaults, and had borrowed funds in excess of annual and aggregate statutory loan limits.
- We first reported control problems in identifying abusers of Medicaid in 1978 (HRD-78-151, September 26, 1978), when we noted that states administering the program did not effectively use their management information systems for this purpose. Since then, although the Health Care Financing Administration (HCFA) has implemented a program to review the effectiveness of states' control systems, those who may improperly receive Medicaid funds are still rarely identified and investigated. In a September 1987 report, we estimated that Medicaid recipients and providers of Medicaid services abusing the system may have cost the federal government at least $54.5 million and possibly as much as $400 million during 1985. Such abuse continued because HCFA's reviews of states' systems, a principal control feature, were inadequate and because HCFA did not provide sufficient technical assistance to states

having problems using their information systems. (See GAO/HRD-87-75, September 1, 1987.)

- In July 1987, we reported that HCFA did not have adequate controls to assure that Medicare outpatient rehabilitation services claims were paid only to those eligible to receive them. In 1984 (the latest year for which data were available), HCFA records indicated that Medicare paid about $1 billion for such services. We found that in 96 percent of 346 randomly sampled beneficiary cases, claims-processing contractors had insufficient documentation to determine whether a beneficiary was eligible for those services and that many of these cases were of types that indicated the beneficiaries were, in fact, not eligible. (See GAO/HRD-87-91, July 9, 1987.)

Cash Management

Thirteen of the 18 agencies included in our review cited material cash management weaknesses in their 1986 Financial Integrity Act reports. Substantive improvements in this area could save the government millions of dollars annually.

Proper cash management requires agencies to carefully time payments so that they are neither early nor late, to deposit collections as soon as possible, and to ensure that advances, such as those provided contractors and grantees, are carefully timed and kept at the minimum required amounts. Also, by properly timing their commercial payments, agencies can take advantage of prompt payment discounts, avoid late payment penalties, and achieve additional savings because early payments cost the government money due to additional borrowing costs or decreased interest income on federal bank account balances.

As with debt collection, cash management has been a management priority of the current administration. OMB has taken steps to improve federal cash management by encouraging agencies to increase their use of (1) electronic funds transfers to more accurately time payments and (2) bank lockboxes to ensure immediate deposit of collections. Responding to our recommendation, in June 1987, OMB issued revised regulations to agencies on compliance with the Prompt Payment Act, which are to clarify federal payment policy and help agencies to reduce late and early payments to private vendors.

In addition, the State/Federal Cash Management Reform Task Force, made up of state and federal officials, has developed intergovernmental financing concepts to (1) govern the exchange of funds between federal and state governments and (2) ensure that neither federal nor state governments benefit or suffer financially from the transfer of cash in support of federal programs. These, as well as other provisions for cash management reform are incorporated in the proposed "Cash Management Improvement Act of 1987" (S. 1381) which we supported in July 1987 testimony before the Senate Committee on Governmental Affairs. (See GAO/T-AFMD-87-17, July 22, 1987.)

Specific examples of weaknesses in agency cash management include the following.

- In 1986 Financial Integrity Act reports, the Departments of Agriculture and Transportation and the Veterans Administration (VA) reported that they did not have reasonable assurance that their payment operations complied with the Prompt Payment Act, and Interior said that 1 of its 10 administrative payment systems also did not comply.
- In August 1986, we reported that, on a governmentwide basis, federal agencies had not fully complied with the provisions of the Prompt Payment Act. They had paid about one-quarter of the government's bills late, thereby incurring millions of dollars in interest penalties annually. Another problem was that agencies had paid close to a quarter of their bills too early, thereby costing the government at least $350 million annually in lost interest. (See GAO/AFMD-86-69, August 28, 1986.) Because of continuing concern regarding agency compliance with the Prompt Payment Act, the Senate passed "The Prompt Payment Act Amendments of 1987" (S. 328) in October 1987. (See GAO/T-AFMD-87-3, March 19, 1987.)
- We testified in March 1987 that Treasury's Customs Service and Justice's Drug Enforcement Administration unnecessarily held millions of dollars in cash seized from drug traffickers and organized crime figures in vaults and safety deposit boxes instead of expeditiously depositing this money with the Treasury. Deposit delays ranged as high as 4 years, with one-third of the delays in our sample exceeding 1 year. (See GAO/T-GGD-87-7, March 13, 1987.)

Automated Data Processing

Agencies continue to disclose substantial weaknesses in automated systems that control billions of dollars and provide information essential to our safety and national security. Seventeen of the 18 agencies reported material automated data processing (ADP) weaknesses. The following examples illustrate vulnerabilities that are unique to automated systems.

- Several agencies reported material weaknesses in computer security, which can lead to unauthorized alterations in data, disclosures of class fied or confidential information, and data destruction. The Departmen of Defense, State, and Transportation, as well as the National Aeronau tics and Space Administration (NASA) and VA disclosed a variety of secu ity weaknesses that affect their departments' control over data and resources. Specific weaknesses reported include inadequate contingenc plans for backup processing, poorly controlled access to data and computer programs, insufficient computer risk analyses, and inadequate security training. Also, the Department of Agriculture reported that it had not yet completed 70 corrective actions related to ADP weaknesses reported from 1983 through 1986.
- Treasury's 1986 Financial Integrity Act report cited continuing deficie cies in its ADP operations that account for billions of dollars annually. I 1987, we reported that the computer system Treasury's Customs Servi uses to help identify and examine imported goods and collect duties, which amounted to $13 billion in 1986, was not properly documented and did not contain adequate controls to prevent unauthorized access that could lead to fraud. For example, we identified 43 employees who still had access to the system despite having transferred or left the agency. (See GAO/IMTEC-87-10, February 10, 1987.)

Property Management

Adequate agency property management requires internal controls to ensure that the government's investment is prudent and that property, including inventories, is properly used, maintained, safeguarded, accounted for, and redistributed or disposed of when no longer needed. In addition to managing property which is under their direct control, agencies are responsible for government property which is used by others, such as contractors and grantees.

Sixteen agencies included in our review reported material weaknesses i this area. Weaknesses in the armed services management of Defense's $160 billion inventory have been reported in over 300 Defense and GAO reports and show that systemic internal control problems in this area have existed for years. The lack of basic security and other internal cor trols makes it extremely difficult for Defense to effectively manage its inventories of about 5.5 million different items, some of which represen sensitive technologies and require top security.

In its 1986 Financial Integrity Act report, the Defense Department said that inventory and supply management problems represented the largest number of uncorrected weaknesses reported by its components.

These problems, most of which
been exacerbated by the recent
Defense has attempted to stren
an inventory control improvem
actions through 1990, widespre
erty management problems foll

- In May 1986, we reported that
closed that the Army could not
explosives are lost each year. L
lethal military items as C-4 exp
sonnel mines which have repor
organizations. Equally importa
age inventory to carry out its n
NSIAD-86-106BR, May 23, 1986.)
- Also, in October 1987, we repo
five of the nine Army ammunit
as the Stinger, were stored in li
the type of weapon stenciled o
tank rockets, had doors whose
stored in tractor trailers and o
the perimeter of the storage fa
1987.)
- Since 1983, the State Departm
controlling its personal proper
time to correct. Auditors have re
State Department is not adequat
worldwide inventories valued at
1987, we again reported that the
problems in this area. Of 16 for
most had not fully and proper
had adequately reconciled the
records. Also, all property rec
incomplete or inaccurate, and
so lax that property could eas
(See GAO/NSIAD-87-156, June 10,
- In 1986, the NASA inspector ge
internal controls over approxi
ment located at the Goddard S
tagged or recorded in account
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components were inadequate
to other components that cou

Financial Management and Accounting Systems

Strong internal controls are an essential element of accounting and financial management systems. Well-designed and enforced controls help ensure that a system operates as planned and that data are recorded accurately and expeditiously. However, 17 of the 18 agencies included in our review reported material internal control weaknesses ir this area. Following are some examples of the weaknesses reported.

- In 1986, the Defense Logistics Agency reported that its Defense Fuel Supply Center's accounting system, which controls about $400 million i accounts payable, had serious weaknesses. We reported in May 1987 that accounts payable balances we reviewed were inaccurate because information critical to calculating correct balances was either not recorded or not accurately processed by the system. Also, we identified over $46 million in negative accounts payable balances. Because the Center recorded amounts contractors owed it as negative accounts payable, thus obscuring the amount owed, it could not readily detect and ensure prompt collection of these amounts. In a subsequent review of the negative accounts payable balances we identified, the Center found that contractors owed it more than $17 million. Over $10 million of the negative accounts payable balances had been in this status for at least 1 year. (See GAO/AFMD-87-30, May 13, 1987.)
- In December 1986, Treasury's inspector general reported that the IRS could not promptly identify and correct employee and taxpayer errors, involving 721,000 deposits of federal tax payments, totaling $6.5 billior According to the inspector general, this will result in affected taxpayers receiving erroneous bills, penalties, refunds, and inquiries for delinquen returns. Over 80 percent of these tax deposits are payments of income and social security taxes that employers withheld from their employees paychecks. Inspector general auditors concluded that errors in these ta: deposit records added greatly to IRS service center, collection division, and taxpayer service workloads.
- As we testified in April 1987, because IRS had not identified the true amount or composition of its accounts receivable, it could not adequately plan how many and what kind of collection resources it needed. According to IRS, its accounts receivables, which are taxes that have been assessed but not collected, had increased to over $47 billion as of September 1986 and are expected to approach $51 billion by the end of fiscal year 1988. IRS has said that by the spring of 1988, it will have analyzed the composition of its accounts receivables and the reasons for their growth. In addition, accounting records contain inaccuracies, specifically with respect to interest and penalties. IRS has recognized this problem and is working to solve it. (See GAO/T-GGD-87-9, April 23, 1987.)

Other examples of material weaknesses in agency accounting and financial management systems are discussed in chapter 4.

Personnel and Organizational Management

Sixteen of the 18 agencies reported material internal control weaknesses in personnel and organizational management. An organization structure graphically depicts areas of operational authority, superior/subordinate relationships, and lines of communication to be followed in coordinating work and making decisions. Such a structure has to be tailored to an organization's goals and circumstances because each structure possesses characteristics that enhance or detract from its ability to facilitate the management of certain situations. In addition to structure, the mix, size, quality, security clearance, and training of available personnel also determine an organization's ability to perform efficiently and effectively. Following are some examples of identified weaknesses in this area.

- In a March 1987 report, we concluded that material weaknesses within the organizational structure of the Social Security Administration (SSA) had diffused and fragmented accountability throughout the Administration. For example, 30 organizational units operated one disbursement subsystem, requiring extensive coordination and cooperation. As a result of its overall organizational problems, SSA has been unable to (1) rectify significant management and service delivery problems, (2) provide a strong sense of direction to its components, (3) adequately control its daily operations and its computer system modernization efforts (see page 37), or (4) focus on personnel management. (See GAO/HRD-87-39, March 18, 1987.)
- Each year since 1983, the Department of Energy has reported internal control weaknesses in safeguards over classified and sensitive information and technology. One weakness is the inadequacy of Energy's security clearance program for personnel who may have access to sensitive information, nuclear materials, and nuclear weapons technology. In March 1987, we reported that Energy had not been performing timely reinvestigations required of employees with security clearances. Failure to do so has contributed to Energy's having employees with security clearances who possibly should not have clearances because they have serious drug, alcohol, or other problems. (See GAO/RCED-87-72, March 10, 1987.)
- In March 1986, we reported that the Department of Justice's organizational structure provided neither the authority nor the control necessary to effectively plan for new information technology or new major automated information systems. As a result, Justice components routinely

developed and enhanced data processing systems and telecommunications networks costing millions of dollars annually without adequate assurance that such systems were cost-effective for the Department as a whole. (See GAO/GGD-86-12, March 14, 1986.)

- In June 1987, we testified that airport security remains a major concern. Personnel-related problems, such as high employee turnover rates, low pay, and inadequate training, have led to weaknesses in preboard passenger screening for weapons. The Federal Aviation Administration (FAA) conducted tests from September through December 1986 in which weapons were smuggled undetected through airport screening devices. Screening personnel detected approximately 79 percent of test weapons in x-ray tests, 82 percent in metal detector tests, and 81 percent in physical search tests. FAA says that preboard passenger screening is a critical control component of its overall security program. We concluded that better security requires that FAA establish and implement standards for detecting weapons as an essential element of its oversight of airport passenger screening. (See GAO/T-RCED-87-34, June 18, 1987.)

Weaknesses in Other Program Areas

Agencies also reported internal control problems that impede their ability to carry out responsibilities in many other program areas. The following examples are but a few of the wide-ranging control problems reported on by GAO in 1987.

- The State Department is responsible for reviewing the political and technological sensitivity of proposed exports that are inherently military in nature—ranging from spare parts to major weapons systems such as fighter aircraft—to determine whether legal, procedural, and policy requirements are met. We found that the Department's Office of Munitions Control performed little screening of arms export registrants and license applications and had not systematically checked parties to license applications, such as freight forwarders and consignees, against lists of questionable exporters, exporters convicted of prior export violations, or those denied export rights by the Department of Commerce. We also found that the Office's automated capabilities were insufficient for storing and quickly retrieving historical data, such as detailed information on prior export licenses, which would be useful in license application reviews. (See GAO/NSIAD-87-211, September 9, 1987.)
- In June 1986, we reported that the Navy's testing of antisubmarine warfare weapons during development, an important control in the weapons' development process, was inadequate to demonstrate that these weapons could meet performance objectives. We found that antisubmarine warfare test resources used during testing did not completely represent

enemy submarine capabilities and ocean environments in which the enemy submarines will operate. As a result, the weapons' capabilities to hit a target have not been completely demonstrated. (See GAO/NSIAD-86-174, June 30, 1986.)

- In April 1987, we testified that due to the Food and Drug Administration's (FDA) limited time, resources, and testing capabilities and the lack of adequate information on pesticides used in foreign countries and imported into this country, FDA's testing of food for pesticide residues, a key control feature, cannot ensure public safety. Less than 1 percent of the estimated more than 290 billion pounds of food consumed annually in the United States is tested by FDA. In addition, FDA is overlooking a number of pesticide chemicals with a moderate to high health risk potential and, because it has inadequate data on imports, it often does not know with any degree of accuracy what pesticides to test for. (See GAO/T-RCED-87-21, April 30, 1987.)
- Weaknesses in Justice's Immigration and Naturalization Service's (INS) controls over detention and deportation activities have allowed criminal aliens who have been permanently deported to reenter the United States, where they have continued to commit serious crimes such as grand larceny, voluntary manslaughter, and attempted murder. Our recent reviews of INS activities in the New York City area disclosed inadequately defined investigative priorities and a cumbersome deportation process which contributed to significant backlogs. We estimated that about 94 percent of the criminal aliens deported from the New York City area were not listed in the National Automated Immigration Lookout System, the nationwide database for recording illegal aliens. This limits the system's ability to detect aliens who attempt to reenter the United States at ports-of-entry. (See GAO/GGD-86-58BR, March 10, 1986; and GAO/GGD-87-41BR, March 3, 1987.)

Newly Identified Weaknesses Reported by Agencies in 1986

Agency self-evaluations of their internal control systems have resulted in identifying new material weaknesses. We believe that such a sustained effort is an important measure of the Financial Integrity Act's success and indicates agencies' and the administration's commitment to implementing the act. For 1986, the 18 agencies included in our review reported 229 material weaknesses for the first time. For example:

- NASA reported material weaknesses in five aspects of its National Space Transportation System program. These weaknesses were uncovered during investigations into the Space Shuttle Challenger accident and related to such matters as the space program's management structure, safety organization, communications, and criticality and hazards analysis. NASA had not reported material weaknesses in the previous years.

- The Navy reported that its ability to meet peak manpower mobilization requirements was impaired because, among other things, "systems did not accurately reflect mobilization requirements and did not contain data needed for various decision making processes and effective management oversight of the program."
- The Department of Justice's Drug Enforcement Administration reported material weakness in maintaining, disposing of, and accounting for millions of dollars worth of non-drug related seized assets. Justice stated that it held about 3,800 seized items valued at about $327 million, with an additional 1,000 seizures each month. The agency said that failure to adequately maintain and promptly dispose of these assets results in additional storage costs and erosion of asset value, which reduces net revenue available to the government.
- The Department of Energy reported that its internal controls over its reimbursable work orders, with $2.3 billion in spending authority in fiscal year 1986, were inadequate. Contrary to federal laws and regulations and Department policy, Energy had performed work for non-federal entities without the required advance of funds.
- The Department of Health and Human Services (HHS) reported six newly identified material weaknesses in property management. Three involved inadequate controls, including physical control, over Public Health Service controlled substances inventories. The remaining three involved not reconciling property records with related accounting records and not conducting physical inventories for up to 3 years prior to an internal control review in 1986. When physical inventories were finally conducted, a significant number of items could not be found.

Agencies' Actions To Strengthen Internal Controls

During fiscal year 1986, agencies continued to report strengthened internal controls. Since the Financial Integrity Act's inception, they have reported correcting over two-thirds of their material internal control weaknesses. However, agencies sometimes considered weaknesses corrected by issuing policy guidelines or planned corrective actions. We found that in some cases the stated actions had not effectively alleviated the reported problem.

In addition, although the Financial Integrity Act specifically calls for the prompt resolution of all audit findings, this has not always been the case. Some agencies reported in 1986 that they had weaknesses in their audit follow-up systems. Also, we recently reported on the Defense Department's resolution of internal audit findings and found that, in some cases, managers had not taken corrective actions as claimed, and actions with reported potential monetary benefits of more than $363 million had not been taken more than 1 year after scheduled implementation dates.

Agencies Report Progress in Correcting Weaknesses

As table 3.1 shows, the 18 agencies included in our review reported that by the end of fiscal year 1986, they had corrected 1,072 of 1,515, or about 70 percent, of the material internal control weaknesses cited in their Financial Integrity Act reports since 1983.

Table 3.1: Status of Material Weaknesses Reported by Agencies During Fiscal Years 1983 Through 1986

	Number of material weaknesses		
Agency	**Reported**	**Corrected**	**Pendin**
Agriculture	401	314	8
Commerce	27	22	
Defense	316	217	9
Education	42	28	1
Energy	8	4	
EPA	12	10	[illegible]
GSA	25	24	
HHS	258	229	2
HUD	47	13	3
Interior	114	69	4
Justice	14	8	[illegible]
Labor	26	14	1
NASA	19	6	1
SBA	44	30	1
State	16	5	1
Transportation	84	60	2
Treasury	37	6	3
VA	25	13	1
Total	**1,515**	**1,072**	**44**

The Defense Department, for instance, reported it had corrected over two-thirds of the material weaknesses it identified since 1983. Although we did not confirm that the reported actions have been taken, following are some examples of significant improvements reported for 1986.

- The Air Force reported that, through strengthening internal controls, it reduced by 32 percent the value of Air Force "undefinitized contractual actions," which had surged to a level of $12.9 billion at the end of fiscal year 1985. Undefinitized contractual actions authorize the start of work prior to finalizing pricing agreements between the government and the contractor. The Air Force also stated that through verifying and correcting data, which are key controls, it has been able to ensure that the number of expendable spare parts for F100 aircraft engines is sufficient to meet Air Force mission requirements.
- As part of an effort to address serious internal control weaknesses in its health care activities, the Army reported that it had completed verification of active duty Army physicians' credentials and that it had taken actions to increase the exchange of such information among the Army, state medical boards, and the American Medical Association. The Army

also stated that weak internal controls which led to errors in an Army model for determining flying hour requirements for its pilots had been corrected. Mistakes related to the flaws in the model had contributed to a $130-million overstatement of funding requirements.

- The Navy reported it had strengthened internal controls to ensure the security of classified material and physical security and had implemented automated controls and guidance to prevent duplicate payments made by Navy finance centers.
- The Department of Labor reported that it had corrected several internal control weaknesses in its Mine Safety and Health Administration's regulations which had impaired the investigation of mine accidents and injuries and the reporting of these data.
- Treasury reported having installed a system to improve the reliability and efficiency of accounting operations for billions of dollars in U.S. savings bonds.
- The Department of Energy reported correcting a number of internal control weaknesses which were key to effective administration of its Petroleum Pricing Violation Program. The objective of the program is to investigate petroleum pricing violations, recover overcharges, and make restitution to injured parties.
- HHS reported that SSA had completed acquisition of a hardware back-up and implementation of a contingency plan for its principal ADP center.

As highlighted below, our work has confirmed that there has been some progress in correcting identified internal control weaknesses.

- In 1983 and 1984, the Department of Transportation reported material weaknesses in the Urban Mass Transportation Administration's (UMTA) bus grants program, which cost $336.5 million in fiscal year 1986. The weaknesses resulted in UMTA's approving funds for additional buses for some transit systems which already had more buses than they needed. Transportation reported the weaknesses as corrected in 1985. To correct the problem, UMTA had (1) issued guidelines governing federal assistance for the purchase, rehabilitation, and stockpiling of buses to ensure that grantees properly manage their bus fleets, (2) increased monitoring of grantee bus management practices through triennial reviews, and (3) withheld or denied funds for the acquisition of buses by grantees with excess buses. In an April 1987 report, we noted that corrective actions were being adhered to by UMTA's regional offices, which administer the program. (See GAO/RCED-87-97, April 28, 1987.)
- In August 1987, we reported that the Department of the Interior's Bureau of Land Management had essentially corrected a major internal control weakness in its management of royalties due the government for

drilling and mining activities on federally-owned land. Between 1976 and 1984, the Bureau's failure to promptly readjust federal coal leases had resulted in an estimated loss of $187 million in royalty and rental payments. Our review of readjustments scheduled for 1985 and 1986 found that all but one of the scheduled readjustments had been made on time. (See GAO/RCED-87-164, August 25, 1987.)

Agencies Do Not Consistently Ensure Effective and Prompt Actions

An important step in strengthening internal controls is verifying that planned actions have been implemented as envisioned and that the completed corrective actions have been effective. During our review of agencies' 1986 Financial Integrity Act reports, we noted some differences in how agencies defined completed corrective actions.

For example, Defense generally included corrective action plans in its reports which showed specific tasks and estimated completion dates. Some of the tasks called for an evaluation as to whether the corrective actions have been effective before considering a weakness corrected. On the other hand, Defense, as well as other agencies, sometimes considered a weakness as having been corrected through the issuance of policy guidelines or plans for corrective actions.

Audits are another tool to help managers detect and correct internal control problems, and the Financial Integrity Act calls for prompt resolution of audit findings. However, as we recently reported, managers are not always effectively or expeditiously availing themselves of this tool.

Corrective Actions Taken Were Not Always Effective

Although, as discussed in the previous section, a number of corrective actions have been effective, we also found some instances where, contrary to agencies' reports, this was not the case. Following are some examples.

- In August 1987, we reported that the Bureau of Indian Affairs' Housing Improvement Program, which provides housing assistance grants to families in 271 tribes, continued to contain internal control weaknesses and that the agency did not have adequate assurance that the most needy Indian families were being served and that funds were being properly spent. Based on issuance of a model contract to be used by all tribes that have contracted to manage the program, the Department of the Interior reported the weakness as corrected in its 1984 Financial Integrity Act report. However, based on recently completed work, we concluded that, although the model contract is a positive step toward improving program effectiveness, the material weakness reported by Interior in 1983 still existed. (See GAO/RCED-87-148, August 5, 1987.)

- The Department of Housing and Urban Development (HUD) reported deficiencies in the appraisal review process for its Single-Family Housing Insurance Program as a material weakness in its 1983 and 1984 Financial Integrity Act reports. Based on actions to improve appraisers' performance and its supervision over them, the Department reported this problem as corrected in 1985. We reported in September 1987 that, although some corrective actions were implemented, we found that HUD still was not adequately monitoring appraisers' performance or properly controlling the field review process. The program has experienced billions of dollars of losses since its inception. Internal control weaknesses and adverse economic conditions in certain areas of the country contributed to the program's $629 million loss in fiscal year 1986. (See GAO/RCED-87-165, September 30, 1987.)
- In its 1983 Financial Integrity Act report, the Department of Labor cited material weaknesses in its Federal Employees Compensation Act Program, including deficiencies in assuring the accuracy and reasonableness of payments made to medical providers. Labor reported in 1986 that the final action to correct the weaknesses, the establishment of a medical fee schedule to limit payments to the program's medical providers, was completed. However, in a subsequent review, we found that this medical fee schedule covered less than half of the program's medical payments and that additional controls were needed to limit payments to medical providers not covered by the schedule, such as hospitals and pharmacies. (See GAO/IMTEC-88-9, December 1987.)

Audit Follow-Up Systems Not Always Effective

Audits are tools for agency managers to help detect problem areas and find solutions to improve internal control weaknesses. However, agencies' 1986 Financial Integrity Act reports and our recent review of recommendations made by Defense internal auditors, suggest that not all agencies are fully availing themselves of these tools.

Managers are required to have a follow-up system to ensure that internal control weaknesses reported in their Financial Integrity Act reports are promptly and effectively implemented. In addition, as prescribed by the act, the Comptroller General's internal control standards include an audit resolution standard which requires managers to take prompt, responsive action on all findings and recommendations made by auditors.

In this regard, OMB Circular A-50 requires agencies to establish systems for following up on audit findings and related recommendations that are reported by GAO, internal auditors, and agency managers. Each agency head is required to designate a top management official to oversee follow-up actions and ensure that corrective actions are implemented promptly. The largest agencies, as in the case of the Defense Department, may receive thousands of audit recommendations in a year.

For 1986, OMB directed agencies to evaluate their audit resolution efforts and include in their Financial Integrity Act reports specific information regarding their systems for tracking audit recommendations and their success in correcting reported problems in a timely manner. Most agencies said that they were taking steps to improve audit resolution and had established, or were in the process of establishing, a tracking system. While many said that they essentially complied with Circular A-50, some indicated that problems remained.

For example, NASA reported that, although it partially complied with the requirements of Circular A-50, it considered the remaining weaknesses to be material. NASA said it needed to establish an effective agencywide system to follow up on and track corrective actions related to audit findings. The Departments of Commerce, Labor, and Transportation also reported that they had some remaining weaknesses.

To test the adequacy of audit resolution systems in Defense, we reviewed 377 recommendations made by Army, Air Force, and Defense inspector general auditors, where managers and follow-up officials had claimed that corrective actions had been completed between April 1985 and March 1986. We found that in 16 percent of the cases, such actions had apparently not been taken as claimed. We also found that corrective actions related to an additional 45 recommendations (made by the above-mentioned auditors as well as Navy auditors) with potential monetary benefits of $363 million had not been implemented within at least 1 year, and in some instances as much as 2 years, after scheduled implementation dates. (See GAO/AFMD-87-37BR, July 31, 1987.) A few examples follow.

- The Air Force had agreed to implement June 1984 auditor recommendations, estimated to save about $14.5 million through the use of spare parts from excess engines, by September 1984. In October 1987, the Defense Inspector General's Office said that corrective actions were not yet completed.

- In response to April 1984 Defense inspector general recommendations, the Army agreed to verify its requirements for ammunition resupply vehicles, which the auditors estimated could save $75 million. The Army was to take required corrective actions by August 1985 but, subsequently, moved this date to June 1986. As of October 1987, the recommended actions had not yet been taken, and the Army indicated that it would complete the study by April 1988.

Initiatives To Strengthen Federal Financial Management Systems Are Under Way

Financial systems are the cornerstone of good internal control and are critical to assuring accountability. The Congress, in passing the Financial Integrity Act, called for agencies to separately report on whether their accounting systems meet the Comptroller General's principles and standards. While agencies have been required by law since 1950 to maintain adequate accounting systems, there is a recognition today that most of the government's accounting systems are generally outmoded, inefficient, and ineffective and that improvements in financial management are urgently needed.

Hundreds of millions of dollars are being spent today on uncoordinated efforts to upgrade accounting and financial management systems. In the past, successful completion of such efforts has often been an elusive target. There is an emerging consensus within the Congress and the executive branch that improvement, if it is to be effective and lasting, must be sustained across administrations and guided by a cohesive framework under centralized leadership. Governmentwide efforts have been initiated by the administration to address the problem more systematically. The Congress is considering legislation as an important underpinning of the improvement effort.

System Problems Continue To Be Severe and Widespread

The federal government has for the most part continued to rely on antiquated accounting systems that do not provide the information required for effective management and decisionmaking. The basic structure of many of the current systems was laid out in World War II, and many of them were built around 1950s vintage concepts and computers. The systems have become inefficient as new requirements have been layered on old without changing the basic structure. They are costly to operate and maintain, and they do not produce the complete, consistent, reliable, and timely data needed for deciding policy or managing day-to-day operations.

In addition, as discussed in chapter 2, many of the systems do not include strong internal controls. Although conformity with the Comptroller General's accounting requirements was mandated by the Congress in 1950, many accounting systems still do not meet these standards.

OMB has recognized the severity of the problem. It said in the President's fiscal year 1988 report on Management of the United States Government, that these problems include:

"• Financial management information that is inadequate for general management purposes, with large gaps in information on cash flows, program and administrative costs, property, and outstanding debt;

• Financial systems that are redundant and antiquated, cost millions of dollars to update and maintain, and do not effectively manage the Government's resources;

• Cash management practices that waste hundreds of millions of dollars annually; and

• Internal controls that are ineffective against fraud and waste and fail to prevent losses or inefficient use of billions of dollars in Federal Programs."

Of the 18 agencies included in our review, all but NASA stated that their accounting systems had material weaknesses. Appendix V shows the status of individual agency accounting systems as reported by them in 1986. Agencies cited hundreds of weaknesses in their accounting systems. As a result of these weaknesses, billions of dollars are not being adequately accounted for, managed, or financially controlled.

Also, since our December 1985 governmentwide status report on the act, GAO audits have continued to identify serious deficiencies in agencies' abilities to account for and control resources and produce reliable accounting information and reports to federal managers and the Congress. Examples of identified accounting systems problems follow.

- The Department of Defense stated in its 1986 Financial Integrity Act report that 52 of its 114 accounting systems did not conform with the Comptroller General's requirements. One such system is used to account for the multibillion dollar Foreign Military Sales Program. Major system design and internal control weaknesses have resulted in inaccurate records of foreign military sales disbursements and deliveries. These problems have been documented in over 50 GAO reports over the past 15 years. During a recent review, we found that as of December 1986, foreign military sales accounting records indicated that Defense had spent over $600 million in customer countries' advances that could not be adequately accounted for. Due to serious internal control problems that have existed for many years in this and earlier systems, Defense may never be able to fully resolve these discrepancies and, thus, may be forced to reimburse the foreign customers substantial sums at taxpayers' expense. (See GAO/T-AFMD-87-12, June 4, 1987.)
- Because of substantial financial system weaknesses, SSA does not know if its records of individual workers' wages are accurate. Such errors

result in overpaying some social security recipients while underpaying others. SSA estimated that it made about $2 billion in overpayments in 1984, but expects only a net recovery of about $870 million, or 44 percent. As to underpayments, SSA and the IRS have struggled for years to reconcile differences in their employee earnings files. In a September 1987 report, we said that for 1978 through 1984, SSA credited workers with $58.5 billion less in earnings than did the IRS. Our review of a sample of files for current beneficiaries showed that affected beneficiaries lost nearly $17 a month. Based on our work, we estimated that 9.7 million wage earners could have uncredited earnings. (See GAO/HRD-87-52, September 18, 1987.)

- The Department of the Interior said in its 1986 Financial Integrity Act report that two of its four nonconforming accounting systems require major redesign efforts to bring them into conformance with the Comptroller General's requirements. The systems in question account for the activities of the Department's National Park Service and Bureau of Indian Affairs and have material weaknesses in accounting for property and non-property assets, financial reporting, accounting procedures, systems documentation, and other areas. To resolve these problems, Interior is moving toward a standard integrated accounting system for all its bureaus.
- During a 1986 financial statement audit, we found that the General Services Administration (GSA) continued to have material accounting systems weaknesses. For example, at year-end, GSA's accounting records showed $36 million more cash than Treasury's records showed. Because it did not reconcile its cash balances in a timely manner as required by Treasury, GSA was unable to satisfactorily determine why such a large discrepancy existed and arbitrarily adjusted its cash balance downward by this amount to agree with Treasury's records. Similar differences from prior fiscal years had also not been resolved, making satisfactory determinations for these differences highly unlikely.

In its 1986 Financial Integrity Act report, GSA cited weaknesses in accounting for its Motor Pool Fund. During fiscal year 1986, managers of that fund did not have reliable and timely financial reports, which hampered analysis of financial operations including vehicle inventory and billings. This added to a service credibility problem for GSA's Fleet Management operations and resulted in numerous complaints from other agencies. The problem arose because GSA had discontinued its existing system and converted to a new one before assuring itself that the new system was operating adequately. (See GAO/AFMD-87-49, September 30, 1987.)

Agencies Have Struggled To Correct Problems

The types of problems that continue to be disclosed in agencies' Financial Integrity Act reports have existed for many years. Federal agencies have struggled to redesign or develop new systems to address many of these problems. These efforts have all too frequently fallen short of expectations or been delayed for years. The result is that federal agency financial management systems continue to have major deficiencies. Examples of some of the ongoing agency system redesign efforts follow.

- The Navy reported in 1986 that it had 39 system redesign or enhancement projects in progress at a projected cost of almost $2.5 billion. Eleven of these projects were significantly behind schedule. One project, estimated to cost over $200 million, is 4 years behind schedule, and another, estimated to cost over $230 million, was 3 years late.
- The Army's effort to consolidate 60 accounting systems into a small family of standard systems began in the 1970s and is estimated to be completed in the 1990s at a cost of $380 million. The new systems will account for $80 billion annually in support of 170 worldwide installations. In 1987, we reviewed this system redesign effort. While recognizing that because of its complexity it was a difficult undertaking, we pointed out that the Army is risking substantial delays and cost overruns in the project because it had not (1) kept its plans up-to-date with recent significant decisions, (2) fixed accountability and responsibility for the project which has resulted in fragmented management, and (3) adequately documented how internal controls will be tested in the new systems. (See GAO/AFMD-87-19, May 19, 1987.)
- As discussed on page 35, Defense has had long-standing problems in accounting for its multibillion dollar Foreign Military Sales Program. As we testified in June 1987, the Department has been working since 1982 on its current attempt to implement a new accounting system for this program. As of March 1987, over $35 million had been spent on the new system, but no significant benefits had yet been achieved. Of additional concern is that this is only the latest in a series of major efforts undertaken by Defense since 1976 to resolve the same system deficiencies that continue to exist. (See GAO/T-AFMD-87-12, June 4, 1987.)
- Similarly, after years of effort and expenditures of millions of dollars, SSA has not been able to significantly correct deficiencies in its benefit payment systems, which have resulted in incorrect benefit payments and delays in issuing checks. Since 1982, SSA has been working on a software development project originally projected for completion in 5 years at a cost of $478 million. By October 1985, the cost estimate had risen to almost $1 billion and the completion date moved to the 1990s. One year later, SSA decided it would no longer forecast the project's completion

date, and cost estimates to complete the project were unknown. However, as we reported in September 1986, we have reservations about this latest decision because the system's most significant weakness, errors and delays in adjustments for those who already receive benefits, will remain uncorrected for an unknown period of time. (See GAO/IMTEC-87-8, December 22, 1986.)

- Since 1959, we have reported on the inability of the Department of the Interior's Minerals Management Service's accounting system to adequately account for and control oil and gas royalties. In 1983, we recommended against Interior's implementation of its current accounting system because of inadequate system documentation, unclear user requirements, inadequate testing, and other unresolved problems. In April 1985, Interior contracted for the conversion of the system to a larger computer. The conversion, originally slated for December 1985, was completed in September 1987. However, the system will have to be enhanced even more in order to better satisfy the information needs of the federal government and other system users. As we testified in April 1987, a principal problem has been the complexity of the system and the accompanying costs and paperwork burden it would place on the oil and gas industry. Thus, new approaches to simplify the process of determining the proper royalty and the related accounting should be explored. (See GAO/T-AFMD-87-10, April 28, 1987.)

Based on our experience in reviewing federal systems development projects and concerns about the many problems agencies have in developing these systems, in January 1987, we issued a booklet, Critical Factors in Developing Automated Accounting and Financial Management Systems (GAO Document Accession No. 132042). The booklet, which was sent to all government agencies, describes some critical aspects of accounting and financial management systems development. We discuss 14 major factors that are often critical to the success of major systems development projects. These include an overall plan, management commitment, the contracting process, basic features, documentation, training, independent testing, and other areas.

Increased Governmentwide Attention To Improve Financial Systems

Governmentwide efforts are ongoing to address the federal government's accounting problems. Progress has been made since we issued our last governmentwide Financial Integrity Act status report in December 1985. In August 1986, the Comptroller General, the Director of OMB, and the Secretary of the Treasury signed a joint letter to all federal agencies conveying the top level commitment of the three central federal financial agencies to improve federal financial management. As highlighted below, the three agencies have continued their efforts to ensure the success of these improvements.

In February 1985, we issued a report, Managing the Cost of Government (GAO/AFMD-85-35), which laid out an overall proposed strategy for overcoming the major, long-standing, and often intertwined financial management problems facing the federal government. We found that, although a number of these problems had been well documented, previous efforts to remedy them had been piecemeal and partial, while successful reform requires a comprehensive, integrated approach. As discussed in February 1987 testimony on improving government management and accountability,[7] by studying the experience of state and local governments and other organizations, we have seen that a successful program of improving financial management is possible.

In August 1987, we issued a newly developed appendix to title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. The appendix, "Accounting System Standards," prescribes standards that agency heads must observe in establishing, maintaining, and reporting on their systems of accounting and internal controls. The standards are intended to promote, to the maximum extent possible, the use of agency systems that will provide the information needed for effective and economical management of the government's resources and operations and to assess management stewardship.

In a further effort to ensure that agencies do not continue to go their own way in designing, implementing, and operating financial management systems, an interagency task force has been established. It is directed by the Joint Financial Management Improvement Program and includes members from GAO, OMB, and the Department of the Treasury. The task force, with assistance from other federal agencies, is continuing to develop uniform functional requirements for agencies' core financial management systems that will meet basic governmentwide and agency financial management needs. The U.S. Standard General Ledger, issued by OMB in September 1986 and containing a uniform chart of accounts for federal government use, will be reissued as a supplement to the Treasury Financial Manual. The purpose of the general ledger and other requirements being developed is to standardize federal accounting and financial reporting.

[7] "Improving Government Management and Accountability," Statement of Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Governmental Affairs, delivered on February 18, 1987 (GAO/T-AFMD-87-1).

In the President's fiscal year 1988 report on Management of the United States Government, OMB stated that financial management reform in the federal government is of "paramount importance," and outlined a program for implementation of modern, effective primary accounting systems based on uniform requirements. In a document entitled Financial Management and Accounting Objectives, OMB expanded on the objectives stated in its Circular A-127, "Financial Management Systems"—the regulation which prescribes policies and procedures which federal agencies must follow in developing, operating, evaluating, and reporting on financial management systems—by calling for increased standardization of agency financial systems and information.

In August 1986, OMB issued a revised Circular A-123, "Internal Control Systems." The circular now requires that each agency have a written 5-year plan on how it will implement the requirements of the Financial Integrity Act. OMB requires agencies to involve senior managers in developing the plans. The plans are to include the agency's strategy for reviewing risk and identifying and correcting material weaknesses in internal control systems. They are to be updated annually and include sufficient detail to allow agency managers at various levels, as well as others outside the agency, to monitor the progress an agency is making in improving its internal control systems.

Finally, OMB has recently appointed a Chief Financial Officer within OMB to provide leadership, direction, and monitoring of federal financial management systems. On November 9, 1987, OMB directed that each agency also designate a chief financial officer. At the same time, OMB announced plans to set up a council of chief financial officers to serve as an advisory body on governmentwide accounting and financial management policy and to consider topics such as consolidation and modernization of federal financial systems, improved quality of financial information, and Financial Integrity Act implementation issues.

Long-Term Commitment Is Crucial to Success of Reform

While there is momentum today, improving federal financial management systems will not come about overnight. If such efforts are ultimately to succeed, they must be continued across successive administrations. As we indicated in July 1987 testimony on the "Federal Financial Management Reform Act" (S. 1529),[8] GAO studied centrally

[8]"The Federal Financial Management Reform Act of 1987," Statement of Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Governmental Affairs, delivered on July 23, 1987 (GAO/T-AFMD-87-18).

directed, governmentwide management improvements conducted in the 1970s and found that few initiatives had lasting impact.[9] In our view, many of these initiatives would not have been so short-lived if there had been a legislative mandate to ensure that they would continue in existence and be consistent across successive administrations.

As we testified, equally important to the success of the reform initiatives is the development and implementation of a long-range, governmentwide plan to improve and operate federal financial management systems. Such an overall plan would generate greater confidence that the financial management system upgrades would result in integrated systems for the government as well as in information needed by individual agencies. The planning process would reveal opportunities for (1) reducing the number of accounting systems by use of cross-servicing arrangements where one agency performs financial services for other agencies, (2) eliminating redundant or antiquated systems, and (3) sharing system design among agencies to avoid the all too common problem of "reinventing the wheel." With the budget deficit problem and the corresponding need to reduce government expenditures, it is especially important that agencies spend any moneys appropriated for new systems wisely. An overall, long-range plan would also provide a measure of direction and continuity when leadership changes centrally and at the agency level.

An additional tool for ensuring success is continued monitoring of efforts in this area. The Financial Integrity Act provides the means for accomplishing this. We are committed to continuing our monitoring of the act's implementation and will continue to report periodically to the Congress on the progress being made and the problems facing the government in this important area. We also believe that the administration should continually emphasize the importance of Financial Integrity Act reporting and the need to correct the numerous internal control and accounting system problems that continue to exist. We are sending copies of this report to heads of federal agencies to highlight the need for their continued actions to correct these problems.

[9]Selected Government-Wide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, August 8, 1983).

Federal Managers' Financial Integrity Act of 1982

An Act

To amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Federal Managers' Financial Integrity Act of 1982".

SEC. 2. Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) is amended by adding at the end thereof the following new subsection:

"(d)(1)(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that—

"(i) obligations and costs are in compliance with applicable law;

"(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

"(iii) 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.

"(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

"(2) By December 31, 1982, the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.

"(3) By December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement—

"(A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or

"(B) that such systems do not fully comply with such requirements.

"(4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

"(5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is—

"(A) specifically prohibited from disclosure by any provision of law; or

"(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs,

such information shall be deleted prior to the report or statement being made available to the public.".

SEC. 3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C. 11), is amended by adding at the end thereof the following new subsection:

"(k)(1) The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1983, a separate statement, with respect to each department and establishment, of the amounts of appropriations requested by the President for the Office of Inspector General, if any, of each such establishment or department.

"(2) At the request of a committee of the Congress, additional information concerning the amount of appropriations originally requested by any office of Inspector General, shall be submitted to such committee.".

SEC. 4. Section 113(b) of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a(b)), is amended by adding at the end thereof the following new sentence: "Each annual statement prepared pursuant to subsection (d) of this section shall include a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General under section 112 of this Act.".

Approved September 8, 1982.

Departments and Agencies Included in Our Review

Department of Agriculture
Department of Commerce
Department of Defense
Office of the Secretary of Defense
Department of the Army
Department of the Navy
Department of the Air Force
Defense Logistics Agency
Defense Security Assistance Agency
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
Small Business Administration
Veterans Administration

Categories of Reported Material Weaknesses by Agency—1983 Through 1986

Department or agency	Automated data processing 1983	1984	1985	1986	Eligibility and entitlement 1983	1984	1985	1986	Accounting and financial systems 1983	1984	1985	1986
Agriculture	x	x	x	x	x	x	x	x	x	x	x	x
Commerce		x	x	x	x				x	x	x	x
Defense[a]	x	x	x	x	x	x	x		x	x	x	x
Education		x	x	x	x	x	x	x	x	x	x	x
Energy									x	x	x	x
EPA		x	x	x					x	x	x	x
GSA	x	x	x	x					x	x	x	x
HHS	x	x	x	x		x	x	x	x	x	x	x
HUD			x	x	x	x	x	x	x	x	x	x
Interior	x	x	x	x	x	x	x	x	x	x	x	x
Justice			x	x					x	x	x	x
Labor	x	x	x	x	x	x	x		x	x	x	x
NASA[b]		x	x	x								
SBA	x		x	x	x	x	x	x	x	x	x	x
State		x	x	x					x	x	x	x
Transportation	x	x	x	x		x		x	x	x	x	x
Treasury	x	x	x	x				x	x	x	x	x
VA	x	x	x	x	x	x	x		x	x	x	x
Total	**10**	**14**	**17**	**17**	**9**	**10**	**9**	**8**	**17**	**17**	**17**	**17**

Grant, loan, and debt collection				Personnel and organizational management				Procurement				Property management				Cash management			
1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986
x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
x	x	x				x	x		x			x	x	x	x		x		x
x	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x	x	x	
								x	x	x		x	x	x	x				x
x	x	x		x	x	x	x	x				x			x				
					x	x	x	x	x	x	x	x	x	x	x				
x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
x	x	x	x	x	x	x	x	x	x	x			x	x		x	x	x	x
x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
x	x	x	x	x	x		x	x	x			x	x	x	x	x	x	x	x
x	x	x	x				x	x	x	x	x	x	x	x		x	x	x	
							x		x	x	x			x	x				
x	x	x	x	x	x	x	x	x		x	x				x	x	x	x	x
		x		x	x	x	x		x		x	x	x	x	x	x	x	x	x
x	x	x	x					x		x	x	x	x	x	x	x		x	x
							x				x	x	x	x	x				x
x	x	x	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x	x
13	**13**	**14**	**11**	**10**	**12**	**11**	**16**	**14**	**14**	**13**	**13**	**14**	**15**	**16**	**16**	**12**	**12**	**12**	**13**

[a] Six Department of Defense agencies (the Office of the Secretary of Defense, Army, Navy, Air Force, the Defense Logistics Agency, and the Defense Security Assistance Agency) were included in one report to the Congress and the President.

[b] NASA did not cite "material weaknesses" in its 1983, 1984, and 1985 reports. However 1984's report disclosed weaknesses in the ADP and procurement categories, and 1985's report said that weaknesses were identified in the ADP, personnel management, procurement, and property management categories.

Number of Material Weaknesses Reported, Reported as Corrected, and Reported as Pending by Agency—1983 Through 1986

	1983 and 1984		
Department or agency	**Reported**	**Corrected**	**Pending**
Agriculture	242	195	47
Commerce	19	17	2
Defense	173	157	16
Education	33	25	8
Energy	5	3	2
EPA	9	9	0
GSA	23	23	0
HHS	218	214	4
HUD	37	12	25
Interior	93	64	29
Justice	10	8	2
Labor	17	12	5
NASA	4	4	0
SBA	18	18	0
State	8	5	3
Transportation	31	27	4
Treasury	2	0	2
VA	17	10	7
Total	**959**	**803**	**156**

1985			1986			Total		
Reported	Corrected	Pending	Reported	Corrected	Pending	Reported	Corrected	Pending
149	119	30	10	0	10	401	314	87
7	4	3	1	1	0	27	22	5
74	42	32	69	18	51	316	217	99
4	2	2	5	1	4	42	28	14
1	1	0	2	0	2	8	4	4
2	1	1	1	0	1	12	10	2
0	0	0	2	1	1	25	24	1
31	14	17	9	1	8	258	229	29
4	1	3	6	0	6	47	13	34
9	5	4	12	0	12	114	69	45
1	0	1	3	0	3	14	8	6
5	1	4	4	1	3	26	14	12
4	2	2	11	0	11	19	6	13
14	12	2	12	0	12	44	30	14
3	0	3	5	0	5	16	5	11
13	9	4	40	24	16	84	60	24
1	1	0	34	5	29	37	6	31
5	3	2	3	0	3	25	13	12
327	**217**	**110**	**229**	**52**	**177**	**1,515**	**1,072**	**443**

GAO Notes:
(1) The number of weaknesses corrected and pending for 1983, 1984, 1985, and 1986 are as reported by agencies as of the close of fiscal year 1986.
(2) See page 13 for a discussion of the number of weaknesses Agriculture reported in 1986.

Reported Status of Accounting Systems by Agency—1986

	Number of systems			
Department or agency	In conformance	Not in conformance	No opinion	To
Agriculture	5	2	0	
Commerce	10	0	0	
Defense	62	52	0	1
Education	24	4	0	
Energy	8	0	0	
EPA	1	0	0	
GSA	1	0	0	
HHS	34	2	0	
HUD	0	0	8	
Interior	9	4	0	
Justice	7	0	0	
Labor	15	2	0	
NASA	20	0	0	
SBA	5	1	0	
State	0	2	0	
Transportation	10	3	0	
Treasury	26	0	0	
VA	2	0	4	
Total	**239**	**72**	**12**	**3**

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