United States General Accounting Office

GAO

Report to the Congress

November 1989

FINANCIAL INTEGRITY ACT

Inadequate Controls Result in Ineffective Federal Programs and Billions in Losses

140137

GAO/AFMD-90-10

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

Comptroller General
of the United States

B-216946

November 28, 1989

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

The Federal Managers' Financial Integrity Act of 1982 (Pub. L. No. 97-255, 96 Stat. 814) requires ongoing evaluations of the internal control and accounting systems that protect federal programs against fraud, waste, abuse, and mismanagement. It further requires that the heads of federal agencies report annually to the President and the Congress on the condition of these systems and on their actions to correct the weaknesses identified.

This is GAO's fourth governmentwide report on federal efforts to strengthen internal control and accounting systems under the act. It illustrates the types and severity of the internal control and accounting system problems that exist throughout the government and the need for a vigorous program to correct these problems. These problems cost the taxpayer billions of dollars, result in ineffective programs, and paint a picture of federal agencies unable to manage their programs and fully account for their assets. The continuing existence of serious internal control and accounting system weaknesses reinforces the need for intensified actions to strengthen controls across the government and for comprehensive reform of the government's accounting systems.

This report recommends several actions by the Office of Management and Budget and the Congress to improve agency implementation of the act and strengthen the condition of internal control and accounting systems throughout the government. It also discusses how GAO will place greater emphasis on selected high risk areas within the government and develop actions to correct the problems in those areas.

We are sending copies of this report to the Director of the Office of Management and Budget and the heads of federal agencies. We call on them to emphasize the importance of strong internal control and accounting systems and to take steps to improve implementation of the act.

Charles A. Bowsher

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Comptroller General
of the United States

Executive Summary

Purpose

This is the General Accounting Office's (GAO) fourth overall report on the implementation of the Federal Managers' Financial Integrity Act of 1982. It discusses GAO's views on the condition of internal control and accounting systems within the government; the types of systems problems that agencies have faced and continue to face; and their efforts to correct the system weaknesses identified and reduce the occurrence of fraud, waste, abuse, and mismanagement in federal programs. Because of the seriousness and continuing nature of the deficiencies noted in this report and the lack of satisfactory progress in correcting them, this report also contains recommendations to strengthen governmentwide implementation of the act.

Background

The Congress passed the Financial Integrity Act in an attempt to improve the government's ability to manage its programs. It recognized that strong internal control and accounting systems help ensure proper use of funds and resources, compliance with laws and regulations, and preparation of reliable financial reports for oversight and decision-making.

The act requires the head of each agency to report annually to the President and the Congress on the condition of agency internal control and accounting systems. The report must describe the material internal control weaknesses identified and agency plans for correcting them, and state whether the agency's accounting system conforms to the Comptroller General's accounting principles, standards, and related requirements. The act holds agency managers publicly accountable for correcting deficiencies noted.

Results in Brief

The most pressing crisis facing the government today is the federal budget deficit and the growing accumulation of debt. The burdens of the government's estimated $139 billion share of the savings and loan crisis cleanup costs, Federal Housing Administration losses of $4.2 billion, and the continuing growth of the $89 billion of uncollected delinquent debts and taxes owed the federal government represent only a few of the difficulties facing the administration and the Congress in their efforts to improve federal programs and stem the tide of red ink. Each of these problems, with its attendant cost to the taxpayer, represents a failure that could have been substantially reduced by a more effective system of internal controls.

While the government's efforts to strengthen its programs and implement the act have evolved over time and agencies have reported achieving some success in identifying and correcting material internal control and accounting system weaknesses, these efforts have clearly not produced the results intended by the Congress when passing the act. Seven years after the Financial Integrity Act became law, it is evident that

- the government does not currently have the internal control and accounting systems necessary to effectively operate many of its programs and safeguard its assets;
- many of the weaknesses are long-standing and have resulted in billions of dollars of losses and wasteful spending;
- major government scandals and system breakdowns serve to reinforce the public's perception that the federal government is poorly managed, with little or no control over its activities; and
- top-level officials must provide leadership if this situation is to ever change.

Principal Findings

Widespread Internal Control and Accounting System Problems Remain

The government continues to be plagued by serious breakdowns in its internal control and accounting systems. Management deficiencies, program abuses, and illegal activities cost the taxpayers billions of dollars and undermine their confidence in the government. This situation is unacceptable under any circumstance, but becomes even more serious in light of overwhelming budget deficits. The scandal at the Department of Housing and Urban Development (HUD), for example, has seriously impacted several of the nation's housing programs and the integrity of government. HUD, however, is not alone. The Director of the Office of Management and Budget (OMB) recently testified before the Senate Committee on Governmental Affairs that "The recently-exposed HUD problems are not unique, not merely peculiar to a particular agency under what some have described as absentee management. . . . There are analogous problems in other agencies."

Other examples of deficiencies in federal programs follow.

- Delinquent debts and taxes continue to grow and are now reported at over $89 billion. The Internal Revenue Service, which has seen its receivables increase to over $50 billion, a threefold increase since 1981, has been plagued by the lack of accurate receivables information which has inhibited its efforts to collect these debts. (See chapter 2.)

- Federal agencies are spending billions of dollars developing and acquiring automated systems and are experiencing massive problems in the process. Design flaws, misjudgments in requirements, and poor program management caused the Navy to halt installation of a new automated management information system after spending an estimated $230 million over 9 years to develop the system. Unfortunately, the Navy's experience is not an exception. (See chapter 2.)
- The Department of Defense has historically had problems managing its spare parts inventories. From 1980 to 1988, the value of unneeded secondary inventory items almost tripled, going from $10 billion to $29 billion. (See chapter 2.)
- The federal government continues to rely on accounting systems that, despite improvement efforts over many years, have serious problems. Existing systems are antiquated; in a general state of disrepair; costly to operate and maintain; and do not produce the complete, timely, and reliable financial data needed to help make policy and management decisions. All but 1 of the 18 agencies GAO reviewed reported material weaknesses in their accounting systems. (See chapter 2.)

Managers See Mixed Results From Financial Integrity Act Efforts

The Financial Integrity Act has had some results in focusing managers' attention on agency problems. Senior agency executives and the managers responsible for day-to-day operations of programs, in responding to a GAO questionnaire, perceived that internal controls have improved as a result of the act and identified benefits that resulted from the evaluations conducted. This is in sharp contrast to the early years of the act's implementation when managers were largely critical of the process, which they characterized as a paper exercise.

At the same time, federal managers' questionnaire responses identified a number of areas where greater emphasis is needed. Almost one-half of the federal managers responsible for implementing the act had received no training concerning the conduct of risk assessments, internal control evaluations and other functions essential to effective implementation of the act. Also, managers reported that a significant number of agency activities had received one or no evaluation of their control systems since 1982. (See chapter 3.)

Greater Top-Level Leadership Is Needed

Unless something more is done to correct agency internal control and accounting system weaknesses, major losses of federal funds and the collateral incidents of fraud and abuse will continue. Most of the problems are known and, in many instances, have been known for years, but they remain uncorrected. Timely and effective corrective action has been a problem. Agencies must increase their efforts to correct the weaknesses, ensure proper control and accountability over their programs, and ensure the existence of the efficient and effective federal programs that the American public expects and deserves.

In October 1989, OMB issued to each of the 16 largest agencies a critique of agency reporting under the act, a listing of agency highest risk areas, and a listing of key elements necessary to achieve early identification and correction of problems. OMB's actions respond to GAO's primary concern that major problems must receive high-level priority attention, and they address several of the recommendations made by the Internal Control Interagency Coordination Council in its July 1989 report to the President's Council on Management Improvement. A number of other important recommendations in that report remain to be addressed, including

- linking the Financial Integrity Act internal control review and reporting process to the budget;
- providing for and promoting senior management involvement in the internal control process;
- identifying, in annual reports, agency actions to correct weaknesses; and
- validating that corrective actions have been accomplished and were effective. (See chapter 3 and appendix V.)

Recommendations

GAO, which participated in the Council study, strongly endorses the recommendations of the Internal Control Interagency Coordination Council and recommends that OMB take prompt action to ensure that agencies implement them.

GAO further recommends that OMB increase its oversight of agency internal control and accounting system evaluation, reporting, and corrective action processes to ensure that the agencies are effectively implementing the act.

GAO believes that the Congress can significantly contribute to effective corrective action through its oversight role. GAO recommends that the

Congress, through its authorizing, appropriations, and oversight committees, hold annual hearings using Financial Integrity Act reports, plans for corrective actions, and agency financial statements as the focal point in the process of reviewing agency actions to correct internal control and accounting system weaknesses. Such annual hearings could help assure the Congress that corrective measures are actually implemented.

The widespread occurrence and significant dollar and programmatic impact of the weaknesses in federal accounting systems, in particular, highlights the need for a new approach to federal financial management. GAO urges the Congress to enact legislation which would

- establish a Chief Financial Officer of the United States with responsibility for, among other things, developing and implementing a long-range financial management improvement plan for the government;
- set up chief financial officers in each major agency; and
- require the annual preparation and audit of agency financial statements.

GAO believes the above recommendations are critical for meaningful financial reform to take place, and, if implemented, will help bring about the purpose of the Congress when it passed the Financial Integrity Act.

For its part, GAO is intensifying its efforts to help the Congress and the agencies identify those programs with critical weaknesses in their internal control and accounting systems that are most likely to result in material losses. This program will initially include

- identifying the major areas GAO believes to be most vulnerable;
- focusing, in conjunction with efforts of agency management and the inspectors general, on the root causes of serious long-standing weaknesses to develop approaches to solve the problems;
- monitoring agency corrective actions and reporting the results to the appropriate congressional committees; and
- recommending the legislative action necessary to ensure that corrective measures are implemented.

Agency Comments

This report primarily summarizes problems and actions previously identified in agency Financial Integrity Act or GAO reports. Therefore, GAO did not obtain official comments from the 18 agencies included in this report. GAO obtained comments from OMB officials, and they agreed with the report's thrust and recommendations to OMB.

Contents

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Abbreviations

ADP	automated data processing
AICR	alternative internal control review
CFO	Chief Financial Officer
CHAMPVA	Civilian Health and Medical Program (Veterans Administration)
DOD	Department of Defense
DOE	Department of Energy
DSAA	Defense Security Assistance Agency
FAA	Federal Aviation 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
ICR	internal control review
IG	inspector general
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
PCMI	President's Council on Management Improvement
VA	Department of Veterans Affairs

Introduction

In 1982, the Congress passed the Federal Managers' Financial Integrity Act (Pub. L. No. 97-255, 96 Stat. 814 (September 8, 1982)) to strengthen internal control[1] and accounting systems throughout the federal government and reduce fraud, waste, abuse, and misappropriation of federal funds. (See appendix I.) At that time, audits of government programs and media reports identified an almost never ending trail of serious problems in areas cutting across all agencies and programs. That situation has changed little since 1982. Adding to these problems is the need to manage the government's rising debt of $2.8 trillion. Together, the deficiencies identified in federal programs and the massive debt continue to paint a picture of federal agencies that are unable to manage their programs and properly control and fully account for their resources.

This, our fourth report on the efforts of the 18 largest federal departments and agencies[2] to implement the act, illustrates the seriousness of the internal control and accounting system problems encountered in recent years and the need for a vigorous program to correct these problems. It also provides the perspectives of various levels of agency management on the effect of the act and the benefits and problems resulting from their implementation of it.

Requirements of the Act

The act is a brief, concise, straightforward document. Section 2 of the act requires that agency systems of internal control comply with internal control standards prescribed by the Comptroller General and provide reasonable assurance that

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

The act's application is very broad and covers the programs, activities, operations, and functions of federal agencies. The act addresses the

[1] For purposes of the act, the terms internal controls, internal accounting and administrative controls, and management controls are synonymous.

[2] The 18 agencies account for about 95 percent of the federal government's expenditures.

entire range of policies and procedures (e.g., internal controls) that management employs to perform its mission efficiently and effectively and to provide a full accountability to the taxpayer. In passing it, the Congress took a major step forward by requiring that the head of each executive agency report annually, to the President and the Congress, on the status of agency internal control systems, and by holding managers publicly accountable for correcting weaknesses in those systems. The act further required

- the Comptroller General to establish internal control standards with which executive agency systems of internal control shall comply, and
- the Office of Management and Budget (OMB) to prepare guidelines for agency use in developing the internal control review and evaluation programs needed to support the agency head's annual report.

Section 4 of the act requires that the agency head's annual Financial Integrity Act report include a separate report on whether the agency's accounting system conforms to the Comptroller General's accounting principles, standards, and related requirements.[3] Here also, the act's goal is for agencies to recognize their accounting system problems and to correct them so that the government has first-rate systems.

Brief History of the Governmentwide Efforts to Implement the Act

Executive agencies faced a major challenge in implementing the act. The first annual Financial Integrity Act reports were due by December 31, 1983. Between October 1982 and December 31, 1983, each agency had to develop and implement an agencywide internal control evaluation and reporting process that provided the information needed to support the first agency head report to the President and the Congress.

Before developing their implementation procedures and beginning the required evaluations, agencies needed some central, governmentwide direction on how to implement the act and standards against which to evaluate their control systems. OMB provided the implementation guidance in December 1982 when it issued its "Internal Control Guidelines." This document provided agency management with guidance on the

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

development of plans for evaluating, correcting, and reporting on its internal control systems.

The General Accounting Office (GAO) provided the second form of guidance when it issued "Standards for Internal Controls in the Federal Government" in 1983. Like the act, these internal control standards apply to program and general management as well as the traditional internal accounting and administrative control areas.

In addition, each year since passage of the act, GAO, OMB, and the offices of inspector general have provided assistance to aid federal agencies in understanding internal controls, developing evaluation and reporting systems, and preparing the annual reports.

Previous GAO Financial Integrity Act Reports and Testimony

We have monitored federal efforts to implement the act since 1983. Our first overall report[4] characterized the initial agency efforts to assess and report on the status of their internal control systems as a learning experience. The need existed for more effective identification and correction of material internal control weaknesses and a more accurate description of the status of the internal control systems. We recommended that OMB improve its guidance to agencies on evaluating and reporting on internal control systems.

Our second governmentwide report[5] summarized many of the internal control and accounting system problems facing the government and noted that the internal control system assessment activities often did not result in reliable and useful information to agency managers. Agency personnel widely criticized the assessment processes as paperwork exercises. The report reiterated the recommendations contained in our first report.

In June 1986 testimony before the House Committee on Government Operations, the Comptroller General reemphasized the seriousness of

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

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

the internal control weaknesses facing the government and the importance of correcting those problems in a more timely manner.[6] Specifically, he cited a need for

- managers to focus on risks when identifying systems needing improvement rather than waiting for major breakdowns 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.

Our third governmentwide report[7] provided an overall perspective on the progress agencies had made since the act's passage, the internal control and accounting systems problems that remained, and identified some efforts under way to correct those problems. We pointed out that long-standing problems needed sustained attention from agency management and continued to plague federal programs.

We also discussed the poor condition of internal controls over federal programs and the governmentwide impact this has had on efficient and effective program operations in our recent transition series report on financial management.[8] The report concluded that the administration and the Congress need to clearly articulate priority and support for internal control improvement initiatives. In addition, we called on the new administration to

- give priority to correcting known, long-standing internal control problems and
- hold leadership at those agencies with internal control problems accountable for improving internal controls.

In addition, the report discussed

[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.

[7]Financial Integrity Act: Continuing Efforts Needed to Improve Internal Control and Accounting Systems (GAO/AFMD-88-10, December 30, 1987).

[8]Financial Management Issues (GAO/OCG-89-7TR, November 1988).

- the need for agency inspectors general to emphasize the review of internal control systems and make managers fully aware of the internal control implications of audit findings and
- the need for a major accounting system reform initiative establishing a chief financial officer structure in the government and a long-range, governmentwide financial management improvement plan.

Objective, Scope, and Methodology

The objective of this review is to discuss the overall condition of internal control and accounting systems within the federal government and to recommend actions to strengthen and accelerate implementation of the act. To accomplish this objective, we focused on four key questions. First, what have the Financial Integrity Act activities of the 18 largest federal agencies (see appendix II) accomplished since passage of the act? Second, do any problems exist that reflect areas needing more attention in order to make agency implementation of the act more effective? Third, what is the current condition of internal controls over federal programs and activities? Finally, what can the federal government do to further strengthen internal controls and better meet the objectives of the act?

To answer these questions, we

- reviewed the information contained in the annual agency Financial Integrity Act reports and in the three governmentwide GAO Financial Integrity Act reports that discussed the progress agencies had made since the act's passage, the internal control and accounting system problems remaining, and efforts under way to correct the problems;
- obtained, through questionnaires and interviews, perceptions and historical information concerning the act from several levels of agency management (see appendix III for a description of the data collection methodologies used);
- discussed agency implementation and the effects of the act with the inspector general or chief audit official in each agency included in our review;
- reviewed GAO audit and other audit organization reports that identified internal control and accounting systems weaknesses in agency programs, activities, organizations, and functions; and
- reviewed GAO testimony and speeches, OMB reports, and news media articles that discussed internal control and accounting system weaknesses and corrective actions.

We performed our work from January 1988 through September 1989 in accordance with generally accepted government auditing standards. We obtained comments from OMB, which oversees federal agency implementation of the act, and it concurred with the report's contents. We did not obtain comments from the 18 agencies included in our review because this report addresses the governmentwide effort to strengthen internal control systems. For illustrative purposes, the report discusses previously issued GAO, inspector general, and agency reports which address agency-specific problems and make recommendations for corrections. This fourth governmentwide report also presents a compilation of agency managers' perceptions of the act and of the condition of internal controls within their programs and activities.

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 GAO and inspectors general reports which addressed internal control problems and agency corrective actions.

Federal agencies have 7 years of experience under the act in which to evaluate and correct their internal control system problems. In chapter 2, we discuss the seriousness of the problems agencies are still experiencing and the need for effective initiatives to correct these problems. In chapter 3, we discuss the perceptions of agency managers and audit officials about the impact that the act has had on program efficiency and effectiveness and some problems encountered in implementing the act. We also discuss agency and OMB efforts to strengthen implementation of the act and to better focus on needed corrective actions. Chapter 4 contains recommendations for actions needed by OMB and the Congress to strengthen internal control and accounting systems in federal agency programs and highlights GAO's program for addressing high risk areas in agencies.

Internal Controls: Agency Experiences and Future Directions

Since passage of the Financial Integrity Act in 1982, federal agencies have conducted tens of thousands of assessments and other evaluations of their internal control and accounting systems, developed and implemented actions to correct weaknesses identified, and reported the results to the President and the Congress. According to OMB statistics, through 1988, the 18 agencies included in our review identified about 2,200 material weaknesses in their internal control systems.

Despite the reported correction of 1,800 material weaknesses, the condition of controls throughout the government remains poor. Agencies do not currently have the internal controls necessary to effectively manage their programs and safeguard their assets. Serious weaknesses exist in each of the 18 agencies included in our review. There is a seemingly never ending and costly trail of mismanagement, abuse, and illegal acts involving federal programs. One need only look at the Department of Housing and Urban Development to find an agency rocked by disclosures of widespread instances of mismanagement, theft, favoritism, and influence peddling involving billions of taxpayer dollars. Results of these disclosures have been the Secretary's suspension of three agency housing programs and a discrediting of government.

In this chapter, we will look at the types of internal control and accounting system problems that agencies must resolve if they are to make the goals of the Financial Integrity Act a reality. We highlight agency and governmentwide initiatives to correct these weaknesses, and discuss actions needed to strengthen internal control and accounting systems over federal programs.

Control Weaknesses Span a Broad Range of Activities

Agency self-evaluations of internal control and accounting systems and GAO, IG, and other audit organization reports have identified material internal control system weaknesses in agency programs each year since implementation of the act. These weaknesses cover a broad range of functions and cut across all phases of the government's operations. They can have a serious impact on the ability of the programs involved to meet their intended objectives and collectively put the government at high risk.

Federal programs operate in an ever changing environment. Implementation of new programs, changes in existing program objectives, personnel turnover, and use of new technologies can all affect the condition of controls over government programs. Therefore, to some extent, the continued identification of material internal control and accounting system weaknesses is not unexpected. The Financial Integrity Act called for ongoing agency self-evaluations of their internal control and accounting systems to help ensure that the weaknesses that arise over time are identified and corrected.

Table 2.1 summarizes the number of the 18 agencies included in our review that have reported uncorrected material weaknesses in each category as of the end of each of the first 6 years of the act. As in our three previous governmentwide Financial Integrity Act reports, we separated these weaknesses into eight broad categories which depict a wide range of activities experiencing problems.[1]

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

	Number of Agencies					
Category	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Procurement	14	14	13	13	11	10
Credit management	13	13	14	11	8	7
Eligibility and entitlement determinations	9	10	9	8	5	4
Cash management	12	12	12	13	6	8
Automated data processing	10	14	17	17	13	13
Property management	14	15	16	16	9	10
Financial management and accounting systems	17	17	17	17	15	17[a]
Personnel and organizational management	10	12	11	16	12	10

[a]Although NASA's 1988 Financial Integrity Act report identified no accounting system nonconformances, OMB recently identified financial systems as a high risk area within NASA.

These numbers do not tell a complete story, however, because they do not provide insight into the seriousness of individual weaknesses reported. In the remainder of this chapter, we will complete the picture by discussing material weaknesses in each of the eight categories.

Procurement

The acquisition of goods and services involves substantial federal outlays. The government spends about $200 billion annually on 22 million contracts for goods and services. It is important, therefore, to have strong internal controls over agency procurement processes in order to protect this large investment and to ensure that only needed goods and

[1]We renamed the category "Grants, Loans and Debt Collection Management" to "Credit Management" to be compatible with discussions in the administration's fiscal year 1990 Management of the United States Government report.

services are ordered, prices paid are reasonable, and goods delivered meet quality standards.

Procurement problems cost the government billions of dollars annually, but the cost is not restricted to dollars. Faulty procurement practices and weak controls have resulted in the acceptance of defective or below specification parts, cost overruns, and increased risk of injury and loss of life.

The Department of Defense (DOD) procurement system is probably the largest and most complex in the world and managing it has always been formidable. In the area of the implementation of strong internal control systems, the Department has tended to be reactive rather than proactive. Common problems include cost growth, extremely long acquisition time, and program stretchouts resulting in inefficient production rates. Together with the disclosures resulting from procurement scandal investigations, these problems raise serious questions about DOD's ability to effectively manage its acquisition programs. Examples of procurement weaknesses within DOD follow.

- The Air Force contracted for the production of a new strategic bomber, the B-1B. A fast paced production schedule, driven by the need to meet an early initial operational capability date, conflicted with the orderly completion of B-1B development and flight testing. After spending over $30 billion, however, the B-1Bs do not work as planned. (See GAO/NSIAD-88-13 and GAO/T-OCG-89-27.)
- In July 1988 testimony before the Senate Armed Services Committee, we cited a case in which the Commander of the Naval Security and Investigative Command, in October 1987, reported instances of procurement fraud, such as conflict of interest and bribery. He also indicated that several of the Command's ongoing and recently closed investigations involved high-ranking Naval officers and high level Navy Department civilians. The Navy official indicated that emphasis must continue to be given to compliance with existing systems and assigning personnel responsibility for proper operation of those systems. (See GAO/T-NSIAD-88-38.)

The Department of Defense is not the only agency experiencing procurement problems. The General Services Administration (GSA), which plays a major leadership role in implementing procurement policy within the federal government, has also experienced serious internal control weaknesses in the procurement area. The new federal telecommunications system, FTS 2000, is an example. This system is designed to make available a comprehensive range of advanced voice, data, and related telecommunications services. In an August 1987 report, we noted that GSA's overall strategy for identifying and meeting the governmentwide telecommunications requirements was based on inadequate knowledge of the range of government needs and that GSA gave insufficient consideration to potentially attractive alternative technical strategies. Since GSA did not conduct a complete analysis of the range of alternatives for satisfying federal telecommunication requirements, questions arose as to whether FTS 2000 was optimal either technically, economically, or contractually. (See GAO/IMTEC-89-6, GAO/IMTEC-87-42, and GAO/IMTEC-88-24.)

The President's fiscal year 1989 and 1990 Management of the United States Government reports (Management Report) and a July 1989 Secretary of Defense plan discuss initiatives to address weaknesses in procurement practices. Many of the reform activities are based on recommendations of the Blue Ribbon Commission on Defense Management (the Packard Commission) and relate to underlying procurement principles and policies as well as the procurement processes themselves. Some of these initiatives include: (1) consolidating and simplifying the statutory and regulatory base of federal procurement, (2) streamlining the development of governmentwide procurement regulations, (3) rescinding unnecessary regulations, (4) increasing competition in the award of government contracts, (5) applying commercial techniques to small purchases, (6) improving procurement data collection, (7) improving the competence and calibre of the procurement work force, and (8) restoring the authority of contracting officers.

If the reform activities are implemented and result in improved controls over the procurement process, federal agencies can better ensure that what we buy meets our needs and that prices paid are reasonable without large cost overruns or program stretchouts. However, these problems are long-standing and will require a sustained commitment to convert plans and initiatives to solid actions that work to correct the problems.

Credit Management

The management of federal credit programs and collection of amounts owed the government by those participating in these programs is an ever growing problem. Taxpayers, loan recipients, users of federal land and resources, and others owe the government billions of dollars. Federal loan programs often extend credit on easier terms and conditions than are available in the private sector in order to meet legislated policy objectives and accomplish a variety of social and economic goals. According to the President's fiscal year 1990 Management Report, total 1988 federal receivables were $316 billion, and about 28 percent, or $89 billion, was classified as delinquent. Overdue taxes accounted for about 64 percent of the delinquencies.

During the 1970s and 1980s, GAO emphasized the need for proper accounting for receivables and greater use of commercial practices in an effort to collect delinquent debts, but debt collection continues to be a serious problem. Some examples of weaknesses encountered in the credit management area follow.

- We reported recently that the number of outstanding student loans insured by the Department of Education has grown rapidly, increasing by 100 percent from 1982 to 1987. During that same period, defaults increased by 280 percent. Almost 20 percent of all students who received their last loan in 1983 had defaulted by September 1987. We have reported instances where (1) guaranty agencies (federal departments) fail to use available collection tools, such as the IRS tax refund offset, the resources of state offices, and contract collection agencies, (2) guaranty agencies have failed to follow their own collection standards and have not required lenders to do so, and (3) educational institutions admit students who have little chance of success and who are highly likely to default on their loans. (See GAO/HRD-88-72 and GAO/OCG-89-18TR.)
- In 1987 and 1988, the IRS reported a material weakness related to accounts receivable. The fiscal year 1987 report noted that IRS' delinquent accounts receivable balance was about $51 billion—almost threefold the approximately $18 billion reported in fiscal year 1981. IRS' Internal Audit Division estimated that about $33 billion of the balance was collectible, but IRS had little detailed information on how much of the accounts receivable inventory could be collected and did not know what collection tools would be most effective. As a result, IRS has been unable to effectively reduce the growth of accounts receivable and collect delinquent taxes. The IRS contracted with a consulting firm to identify why accounts receivable have grown so rapidly and to discuss the changes that IRS should make in monitoring and reporting on accounts receivable. The consultant issued a final report in April 1988, and, according to the IRS' fiscal year 1988 Financial Integrity Act report, the IRS was studying the report's recommendations. (See GAO/GGD-89-1, GAO/IMTEC-88-41, and GAO/OCG-89-26TR.)

The government has taken several actions to address the credit management problems. The Reagan administration designated OMB as the focal point for debt collection initiatives. In addition, the Congress passed the Debt Collection Act of 1982, Treasury's Financial Management Service issued guidance on credit management and debt collection, OMB prescribed policies and procedures for managing federal credit programs and instructed agencies to follow a nine-point credit management program,[2] and Treasury issued "Managing Government Credit: A Supplement to the Treasury Financial Manual."

Agencies have also reported making progress in improving their credit management. Examples of reported improvements follow.

- Federal agencies have begun offsetting federal employees' salaries to collect delinquent loans. In 1987 and 1988, five major agencies—the Departments of Agriculture, Education, Housing and Urban Development (HUD), Veterans Affairs (VA), and the Small Business Administration—matched their delinquent accounts with federal employment rosters. Over 140,000 federal employees were found to be delinquent on federal debts valued at almost $500 million. The agencies sent the debtors 30-day notice letters and implemented offset procedures. OMB reported that, as of the end of November 1988, employees had repaid $58 million, most of which ($55 million) was from debts owed to the VA and the Department of Education.
- A pilot program, which we recommended in the late 1970s, authorized by the Deficit Reduction Act of 1984, allows delinquent debts owed to the federal government to be offset against tax refunds due to the debtor. The Congress has extended the authority for the program to January 1994. Under the provisions of the act, federal agencies send delinquent debtors notices of intent to offset any tax refund to which the debtor may be entitled. Each year, agencies provide the IRS with a list of those debts that are not repaid, renegotiated, or otherwise resolved for matching against tax returns and subsequent offset of any refund due. As of October 1989, Treasury reported that the offset program had recovered over $1.2 billion in the past 3 years.

[2]The nine-point program focuses on credit management initiatives in each of the credit cycle phases—loan origination, account servicing, loan collection, and write-offs. To the extent allowed by agencies' legislation, the nine-point program instructs agencies to implement initiatives under each credit cycle phase.

Despite these efforts, the government's need to effectively manage its credit programs has become acute, with delinquencies constantly growing. More emphasis must be placed on the use of available credit management tools, such as private collection agencies and reporting of delinquent debtors to credit bureaus. Agencies must improve their accounting systems to help ensure that management has the information needed to collect the government's delinquent debts. Independent audits of debts owed the government are essential to properly manage debt collection activities.

Eligibility and Entitlement Determinations

Eligibility and entitlement determinations impact a large portion of America's citizens through programs which affect housing, education, farming, and retirees' lives. Historically, weaknesses in this area have resulted from such factors as applicant fraud, lack of controls over key information, and failure to effectively use management information systems to identify program abusers. The current environment of federal deficits and funding reductions makes it even more imperative to ensure that all decisions concerning eligibility and entitlements are sound. The following section provides examples of weaknesses in this area and actions taken to correct them.

- The Health Care Financing Administration (HCFA), which is responsible for administering the Medicare program, contracts with private firms, often insurance companies, to pay hospital claims. In a January 1987 report (GAO/HRD-87-43), we discussed erroneous Medicare payments and estimated that during 1985, Medicare paid at least $527 million in hospital costs that should have been paid by other insurers. In a November 1988 follow-up report, we noted that HCFA had not acted on our earlier recommendations to strengthen internal controls. As a result, Medicare contractors were still not using available information to collect on claims that other insurers should have paid ahead of Medicare. In one case, HCFA estimated that one of its largest contractors (and a major independent health insurance company from the contractor's state) had not reimbursed Medicare for about $10 million in erroneous claims. We found that the contractor's private business should have paid these claims before Medicare but had not done so. This problem continues in 1989. (See GAO/HRD-87-43 and GAO/HRD-89-19.)
- The Department of Veterans Affairs has cited problems with the Civilian Health and Medical Program (CHAMPVA) since 1983. This program pays for hospital care and doctor visits for certain spouses and dependents of members of the armed forces. The primary weakness concerns

the need for reverification of CHAMPVA eligibility to ensure that only eligible individuals receive benefits. The Department reported that it took action and that the weakness was corrected in 1986; however, VA reestablished it as a material weakness in 1987 after a review by the inspector general revealed that about 19 percent of those receiving benefits were ineligible.

While serious problems remain, some agencies have reported improvements in the eligibility and entitlement area. The President's fiscal years 1989 and 1990 Management Reports noted the following improvements:

- Agencies managing programs where creditworthiness is a criterion for credit eligibility are purchasing credit bureau reports to aid in their decision-making.
- Loan application forms for federal financial assistance have been revised and now include a question as to whether the applicant is delinquent or has defaulted on any federal debt. Furthermore, if a debt is delinquent or in default, agencies cannot provide additional financial assistance until payment is made in full or satisfactory repayment arrangements are made with the agency to which the debt is owed.

These actions will improve the basic internal controls over the programs affected, but they are not sufficiently responsive to the seriousness of the eligibility and entitlement problems the government faces. Programs in these areas are far-reaching and total outlays associated with them are large. More internal control improvements are needed to reduce the possibility of waste and abuse.

Cash Management

In a June 1988 report (see GAO/AFMD-88-52), we discussed the important task of effectively managing the government's $2 trillion annual cash flow. Managing this amount of funds requires depositing collections promptly as well as making government disbursements and paying bills on time. Over the years, our work has shown that payments to vendors were often made either too early or too late and that advances to grantees were made well before they needed the funds. Legislative efforts to make more timely payments resulted in passage of the Prompt Payment Act.[3] Examples of cash management weaknesses follow.

[3] The Prompt Payment Act of 1982 (Public Law 97-177; 31 U.S.C. Chapter 39) provides specific criteria to federal agencies for determining due dates on commercial invoices when related contracts do not include payment-timing provisions and requires agencies to pay interest penalties when payments are late.

- In its 1987 Financial Integrity Act report, the Department of Housing and Urban Development reported that inadequate controls in the property disposition process provided the potential for closing agents to manipulate or otherwise take funds for their own use or to delay the transfer of such funds to the Department. Corrective actions, which were scheduled for completion by October 1989, included development of an automated system to provide complete, accurate, and prompt accounting for all properties and funds handled in the property disposition process. The system is designed to provide better control over the management and disposition of properties and improvement of the accounting function associated with the property disposition process.

  This problem continues to exist and has, along with problems in several other HUD programs, recently received widespread news media attention.

- In 1987, VA reported it had not fully complied with the Prompt Payment Act's provisions concerning timeliness and the payment of interest penalties on late payments.[4] Its corrective actions have centered around implementation of the Computer Assisted Payment Processing System which matches vendor invoices with receiving reports. While VA reported progress in paying some bills processed through its system prior to the grace period, it nevertheless continued to experience difficulty in paying certified invoices. In 1988, VA reported further improvements in complying with the Prompt Payment Act and noted that interest penalties had declined from about $430,000 in fiscal year 1987 to about $360,000 in fiscal year 1988. Further, VA stated that it no longer considered the weakness material because these penalties were projected to decline further in 1989 and they were below OMB's threshold for materiality.
- In 1988, the Department of State reported that it was not consistently complying with provisions of the Prompt Payment Act. It reported significant problems throughout the Department involving late documentation and the correction and transmittal of purchase orders, invoices, and receiving reports. In addition, the Department indicated it was still making payments either early or late and, at times, without the proper interest penalty payment. The Department reported taking initial steps to address this weakness. However, it does not anticipate correcting it until

[4]In October 1988, the Congress passed the Prompt Payment Act amendments of 1988 to provide more specific guidance on the timing of payments and related interest penalties to vendors, to increase the amount of interest penalties agencies must pay to vendors if interest penalties are not made automatically, and to eliminate the grace periods (e.g., a 15-day period after the payment due date during which payments could be made without incurring interest penalties).

fiscal year 1990, when its new Central Financial Management System is fully implemented throughout the Department.

- The Treasury Inspector General's 1988 annual report noted that established policies and procedures for controlling Customs collections, serially-numbered forms, and Government Losses in Shipment Act transmittals were not followed at the Los Angeles International Airport. Consequently, a theft of over $800,000 was not detected for more than a year. The Inspector General's report further noted that on four previous occasions, the internal audit staff had reported the procedural problems which permitted the undetected theft but that corrective actions had not been taken.

The federal government must set new goals and implement strategies for achieving cash savings. Initiatives such as Treasury's plan to have all agencies use electronic certification technology for submitting payment requests to Treasury regional financial centers, and the processing of all Form 1040 estimated tax payments to a lockbox system are helpful. However, agencies must continue to search for efficient cash management techniques and use current and emerging technology to better process payments, collect receipts, and improve overall cash management.

Automated Data Processing

Technology is transforming how the government does business. Federal agencies currently operate over 53,000 unclassified automated systems, some with life cycle costs in the billions of dollars. According to the President's budget for 1989, by the year 2000, 75 percent of public transactions will be handled electronically. Projected federal expenditures for information technology and management in fiscal year 1989 total about $17 billion as compared to $9 billion in fiscal year 1982. While spending these billions of dollars, federal agencies are experiencing massive problems in acquiring and developing the systems necessary to manage government operations. Invariably, these systems do not work as planned, have cost overruns in the millions and even hundreds of millions of dollars, and are not developed on time. Congressional interest in these matters has increased as the Congress is being asked to fund more and more systems at higher and higher costs. (See GAO/OCG-89-6TR.)

In a 1989 report, we analyzed the ADP weaknesses reported by agencies under the Financial Integrity Act. (See GAO/IMTEC-89-11.) We found that, for the period 1983 through 1987, about 80 percent of the weaknesses fell into 4 categories: (1) controls over computer applications, (2) ADP security, (3) ADP organization and management, and (4) methodology for evaluating ADP controls and security. The following examples illustrate some specific weaknesses occurring in the ADP area.

- DOD spends in excess of $8 billion annually on automated information systems to support military functions such as supply and maintenance, technical data, and manpower management and an additional $22 billion each year on systems for command, control, and communications. In recent years, we have reported that many of these Defense systems far exceeded their original cost estimates, became operational later than scheduled, and fell significantly short of originally approved performance expectations because of design flaws, misjudgments in requirements, and poor program management. For example, in a September 1988 report, we noted that the project costs for the Standard Automated Financial System, which the Navy initiated in 1980, had grown from an estimated $33 million to $479 million, a staggering fifteenfold increase. Although faced with dramatic cost increases to develop and implement this system, the Navy did not adequately explore alternatives. In January 1989, after spending 9 years and an estimated $230 million on the project and facing opposition from most users who doubted the system could be successfully deployed, the Navy judged the system to be too costly and halted its installation. (See GAO/IMTEC-88-47, GAO/T-IMTEC-88-7, and GAO/T-OCG-89-27.)
- In 1984, the IRS expanded its Automated Examination System for tax returns. The expanded project was to be completed by 1989 at a cost of $1 billion. Since the 1984 expansion, the cost estimates have risen by $800 million, the schedule has been delayed by 6 years, and the IRS has been unable to conclusively demonstrate benefits from the one portion of the system that is operational. Because few benefits can be cited as a result of already spending $187 million through 1988, the IRS has requested no further development funds for fiscal year 1990.
- The Department of State has reported multiple weaknesses relating to ADP since 1984. These weaknesses include: (1) lack of alternate computing capability in the event that a disaster or terrorist act should close the Department's only main computer complex or its regional computer sites, (2) inadequate security and control over automated information systems, (3) poor environmental controls at the Department's main computer complex (inoperative humidity controls, water leakage through the roof, frequent air conditioning failures, and failure by the General Services Administration to maintain backup generators in the event of a power outage), (4) environmental deficiencies at the regional administrative management centers in Paris, Bangkok, and Mexico City, and (5) lack of documented contingency plans or procedures in the event of a

long-term power outage. Although the Department has reported progress in correcting some of these weaknesses, most scheduled completion dates range from 1989 to 1992.

These examples and others reported by agencies and GAO show that agencies across the government have problems implementing automated information systems. In June 1989 testimony, we noted that, for the most part, these problems are not caused by a lack of regulations, policies, or procedures but are caused by some of the following. (See GAO/T-IMTEC-89-9.)

- Agency needs are not clearly identified, leading to inadequate definition of requirements.
- Alternative approaches are not considered; too frequently, agencies seek unique solutions for common application needs.
- Problems in software development or system configuration are often deferred to the next development phase and are not addressed before moving on.
- Determinations of system needs and requirements continuously change, leading to cost overruns and schedule delays.
- Top managers and congressional leaders are not always provided with accurate cost and schedule estimates.
- Managers are frequently reluctant to make the tough decision to terminate a poor development effort; instead, they choose to spend additional funds in an attempt to solve the problem.
- Program management responsibility frequently changes and is often poorly defined.
- Top agency management is not adequately involved in system development.

Top agency management needs to become more involved in information management decisions, to recognize the role and importance of strategic planning in guiding information resource activities toward achieving the agency's mission, and to review these plans and update them periodically to ensure their applicability and usefulness.

Managers at all levels must give increased attention to managing information and information resources, but in order to do this, managers must educate themselves in how to manage information and information resources. Agency management needs to ensure that individual system projects are developed in accordance with the strategic plans, that program managers follow more strictly established system design and acquisition procedures, and that strategic plans are consistent with budget requests and agency reprogramming actions. System requirements should be adequately defined, alternative solutions fully evaluated, and the costs and benefits of alternatives assessed. Finally, managers must be willing to look beyond familiar parameters—the private sector has much that we can learn in the areas of information skills and application.

Property Management

Property constitutes a large percentage of the government's total assets. At the end of fiscal year 1987, Treasury reported in the Consolidated Financial Statements of the United States Government, Prototype, that property, plant, and equipment (net of depreciation) was over $450 billion or about 40 percent of the government's total reported assets. To ensure that the government's investment in property is safeguarded and maintained and that property is accounted for and properly used, sound internal controls are necessary.

Over the past 7 years, DOD's property management weaknesses have involved areas such as property furnished to contractors, inventory inaccuracies, materials-in-transit, and inventories of secondary items. The following are examples of some of these weaknesses.

- Since 1967, GAO has raised concerns about property furnished to Defense contractors. In 1981, DOD directed the services to establish management control activities to maintain control over access to government furnished materials. However, a March 1988 GAO report indicated that, while more than 6 years had passed since DOD required better controls over contractor access to the DOD supply system, poor controls were still evident in the Army. In 1988, DOD estimated that, as of September 1986, the amount of government furnished material in the possession of Army contractors was about $2 billion. GAO found that the Army had made little progress in implementing the management control and reporting systems that DOD requires to adequately control government furnished material provided to contractors. Also, the Army had not yet developed an accounting system that would provide an independent means of identifying how much government furnished material the contractors had on hand and received annually and how it was being used. These control weaknesses offered the potential for fraud, waste, and abuse of government furnished materials. DOD agreed with our findings and stated that the Army had not been as aggressive as it should have been in implementing existing DOD policies for instituting controls in this area. (See GAO/NSIAD-88-98.)

- In a July 1988 report, GAO discussed the increase in the value of spare parts inventories at DOD and concluded that, while much of this growth resulted from increased costs due to inflation and the need to support weapon systems modernization, a sizable portion represented unneeded inventories. The amount of unneeded secondary items increased from approximately $10 billion in 1980 to about $29 billion in 1988. More efficient inventory management by the military services and defense agencies could reduce these inventories, which could free defense dollars for other areas without reducing readiness. (See GAO/NSIAD-88-189BR and GAO/OCG-89-9TR.)

The Department of Defense is not the only agency experiencing weaknesses in property management. The following examples show that they exist elsewhere in the government.

- Since 1984, VA has reported that pharmaceuticals from its hospital ward Inpatient Drug Distribution System have been susceptible to unauthorized use or loss. According to VA's 1988 Financial Integrity Act report, its Department of Medicine and Surgery is in the process of implementing a new medication disbursement system to reduce access to medications. In addition, VA reported that it has converted approximately 70 percent of the medical facilities to the new system and that its central office pharmacy service monitors those facilities that have not yet been converted. VA's 1988 Financial Integrity Act report also included this condition as an uncorrected material weakness. It further noted that while no funds had been allocated to continue the conversion process in fiscal year 1988, VA would continue to monitor those facilities which had not yet been converted.
- Over the past 18 years, numerous reports by GAO, and more recently by the State Department's Inspector General, have reported inadequate internal controls over personal property located at about 260 foreign posts and 21 domestic cities. This condition occurred because the Department neither followed regulations nor took proper enforcement actions. State Department officials have repeatedly promised, but not taken, corrective actions.

In a related example, GAO reported that, because of years of neglect, serious maintenance problems now exist at a number of the government's owned and leased overseas properties. This occurred in part because the responsibility for identifying maintenance needs typically rests with foreign service generalists who do not have the technical skills needed to assess maintenance problems. State officials have acknowledged that a serious maintenance backlog exists and estimate that about $1 billion would be needed to provide necessary maintenance and repairs. (See GAO/NSIAD-87-156, GAO/NSIAD-89-116, and GAO/OCG-89-19TR.)

While the government has a large investment in property, its problems in this area have been particularly long-standing. Agencies must improve the internal control and accounting systems designed to control and manage federal property and reduce the potential for waste and abuse of federal funds.

Financial Management and Accounting Systems

The federal government faces a major fiscal crisis. Effective measures must be taken to control the continuing budget deficits and reduce the massive accumulated federal debt. Hard choices must be made; however, their effectiveness can be affected by the quality of the financial information and ultimately the adequacy of the underlying financial management systems. Many federal financial systems are weak, outdated and inefficient, and cannot routinely produce relevant, timely, and comprehensive information. As a result, managers and the Congress are denied the opportunity to know the real financial effects of past decisions and the potential costs and benefits of alternative actions.

The basic structures of many present federal financial management systems were designed during World War II. The result is that financial reports provide a flood of information but little reliable operational and cost data that are essential to monitor programs, anticipate overruns, and provide a basis for program and budget planning. The ongoing HUD debacle underlines this problem. The systems could not provide basic accountability and control. Our recent financial audit of the Federal Housing Administration, for example, showed that while the administration's system showed losses of about $860 million, in fact the losses were $4.2 billion, or almost 5 times higher.

Hundreds of millions of dollars are spent each year on uncoordinated efforts to upgrade these systems. Despite improvement efforts over many years, the systems are still second rate. As the President's fiscal year 1989 Management Report states, "Once a leader in the early days of automation, the Government's financial systems and operations have eroded to the point that they do not meet generally accepted standards."

Conventional efforts to put the government's financial house in order have lacked the long-term, governmentwide approach that is necessary to ensure that consistent data are available across agency and department lines. The reform effort needs centralized leadership, which is tasked with developing a long-range plan to guide the reform activities and corresponding financial management positions in the agencies.

In 1985, we issued a report entitled, Managing the Cost of Government, which was the culmination of a major study of the government's financial management practices. The report identified significant problems affecting the federal financial management structure, proposed a conceptual framework to guide improvement efforts, and provided an implementation strategy. Since then, we have seen a growing consensus as to the need to reform the government's financial management systems and as to what needs to be done throughout the government to accomplish meaningful and lasting improvements. (See GAO/AFMD-85-35 and 35A, and GAO/OCG-89-7TR.) Some examples of the continuing accounting system weaknesses that plague government programs follow.

- GAO first identified major accounting and internal control weaknesses related to the Foreign Military Sales trust fund more than 10 years ago. Because of a long-standing lack of accounting control over trust fund cash and related bills to customer countries, the federal government might have to refund millions of dollars to foreign governments. In 1982, after 6 years of largely unsuccessful efforts to improve accounting in this program, DOD established a Foreign Military Sales Financial Management Improvement Program under the defense comptroller through which DOD developed a comprehensive plan to correct deficiencies. The centerpiece of the plan was the Defense Security Assistance Agency's (DSAA) new central system. The plan also included the development of interfacing systems in each military department. However, the plan failed, and in July 1988, in an effort to redirect faltering system development efforts, the Deputy Secretary of Defense reassigned responsibility for operating the existing system and developing an improved system from DSAA to the Air Force. (See GAO/T-AFMD-88-9 and GAO/AFMD-88-75.)
- The United States Mint has accounting problems which need management attention. In a 1989 report on the Mint's financial management system, GAO identified several internal control weaknesses including inadequate accountability for coin dies, outdated and incomplete policies and procedures for cost accounting and budgetary funds control, and inadequate training and supervision of accounting staff. In addition, the Mint incorrectly accounted for costs in recording revenue and expense information and used inappropriate methodologies to distribute certain overhead costs between the businesslike numismatic, or collectors' coin,

programs and the appropriated domestic coin programs. As a result, certain numismatic coin program revenue and expense reports were unreliable, and the Mint cannot ensure that these programs operate at no net cost to the government. Also, funds control reports contained errors and did not show balances available for obligation, and the Mint cannot ensure that obligations do not exceed authorized funding. (See GAO/AFMD-89-88 and GAO/T-AFMD-89-12.)

- Key accounting and related internal control systems currently operated by the Department of Health and Human Services (HHS) have serious weaknesses. As discussed in a September 1988 GAO report and subsequently reported in HHS' 1988 Financial Integrity Act report, differences between the balances recorded in the HHS operating divisions' accounting systems and internal and external financial reports amounted to billions of dollars. As a result, HHS did not know the amount of funds it had available, the amount of advances made to grant recipients, and the amount of property it was responsible for controlling. Also, efforts to collect approximately $31 million in audit disallowances have been hampered by inadequate documentation, untimely recording of accounts receivable, and the lack of written debt collection procedures. Over the past 10 years, HHS initiated two major departmentwide accounting system enhancement efforts, but neither was successful. (See GAO/AFMD-88-37.)
- In 1987, the Department of Education identified two material weaknesses related to guaranteed student loan interest subsidy payments. Supporting documentation for the report noted (1) interest subsidy billing errors of $121 million due to lenders' overstatements of loan account balances and incorrect classifications of loan and student status and (2) missing documentation in lenders' files for individual borrower accounts associated with $417 million of payments. The program's controls (edit checks) were not sufficient to detect most lender errors. The Department stated that it was upgrading the interest billing subsystem by building stronger controls, and reported, in 1988, that it expected to complete corrective actions by 1991.

In the past, successful completion of financial management improvement efforts has often been elusive. Currently, there is an emerging consensus within the Congress and the executive branch that effective and lasting improvement must be sustained across administrations and guided by a cohesive framework under centralized leadership.

The administration's strategy for improving the government's financial management systems involves consolidating and standardizing the government's many separate financial management systems by establishing a single, primary accounting system in each major agency. Agencies are required to follow the minimum system standards set out in the Joint Financial Management Improvement Project's Core Financial System Requirements, select off-the-shelf software, and eliminate redundant systems through the use of cross-servicing arrangements whereby one agency provides data processing and accounting services for one or more other agencies.

In addition, in July 1987, the Director of OMB appointed a Chief Financial Officer (CFO) of the United States to provide leadership, policy direction, and oversight for federal financial management, and, in November 1987, recommended that each of the major agencies create a chief financial officer position within its organization. Subsequently, OMB created a council of these officers to provide advice and assistance to the CFO of the United States.

Over the past several years, interest in a legislatively established chief financial officer position for the federal government has increased. Bills introduced in the 99th and 100th Congresses called for a CFO, and the President's Management Report for fiscal years 1989 and 1990 pointed to the need for a legislatively mandated CFO. GAO has called for the establishment of a legislative CFO that would develop a long-range, governmentwide financial management plan and provide direction and continuity when leadership changes occur in the administration as well as at the agency level. (See GAO/T-AFMD-88-18.)

Experience has shown that management reforms are more likely to succeed if they have a legislative mandate. As noted in May 1986 testimony, GAO studied centrally directed, governmentwide management improvements conducted in the 1970s and found that few initiatives had a lasting impact. For problems as complex and long-standing as those of federal financial management, there are no magical solutions. The situation can be righted only through painstaking, long-term efforts. However, short term actions which are very productive can and should also be taken. Legislation may not solve every facet of the problem, but it will provide a permanence that is absent from administratively based initiatives. Further, a statutorily mandated CFO for the government and corresponding positions in the agencies would give financial management the prominence necessary to achieve reform. Such action will also enable the federal government to better manage its financial affairs, save billions of dollars, and help restore the accountability of managers and the credibility of government.

Personnel and Organizational Management

A key factor in the development, implementation, and maintenance of strong internal control systems is the competence and motivation of the federal workforce. Today, the federal government is challenged by a number of personnel concerns. It needs to attract, motivate, and retain committed people at all levels who can develop new ideas and innovative approaches and see them through to effective implementation. Concern is mounting over the impact that both the federal pay structure and the turnover in leadership positions are having on the government's ability to acquire and retain top quality people to carry out its programs.

The federal government's pay structure has deteriorated. The result of this deterioration has been that over half of all federal personnel officers we surveyed in 1987 said that their ability to hire competitively over the last 5 years had worsened. The Federal Aviation Administration, the Internal Revenue Service (IRS), and the Social Security Administration have had substantial difficulty attracting or retaining air traffic controllers, revenue agents, and computer specialists, respectively. Over half of the government's senior career executives we surveyed said they would likely accept a desirable position outside the federal government if one became available. The following are some examples of weaknesses in personnel and organizational management.

- GAO has testified more than 20 times in the past 2 years on personnel problems affecting the operation of the Federal Aviation Administration's (FAA) air traffic control system. FAA does not have a recruitment policy or a coordinated recruitment program and is finding it difficult to attract and retain high quality personnel. Today, 8 years after the 1981 air traffic controllers' strike, there are almost 4,000 fewer fully qualified controllers than before the strike. Moreover, shortages of inspectors and maintenance technicians are having an adverse impact on FAA's ability to cope with increasing levels of air traffic.
- In an October 1988 report, we noted that the IRS had recognized the need to improve its ability to attract and retain a high quality financial management and accounting work force. For example, IRS-furnished statistics for regional accounting section staffing showed turnover rates in excess of 25 percent. The IRS identified several factors that hindered its attempts to solve this problem. First, a large number of people living in some of the communities where IRS has its service centers did not have the needed accounting knowledge and experience for accounting technician positions. Second, in those localities where qualified people live, the IRS was often at a disadvantage because the private sector paid higher salaries. Finally, when accounting technicians reach the journeyman

level, they face extremely limited prospects for continued advancement in the accounting section. (See GAO/GGD-89-1 and GAO/OCG-89-26TR.)

- In a July 1988 report, we discussed a DOD personnel problem concerning the validation of physicians' qualifications and the adequacy of documentation in credential files. Validation, which should be documented, is an important step to ensure that practicing military physicians are qualified. In July 1985, DOD stated that by July 1988, it would require its physicians to have a valid, current state medical license. However, as of May 1988, many DOD physicians were still unlicensed.

Another example of personnel and organizational management weaknesses relates to the DOD hospital quality assurance review of patient records. This review identifies occurrences that deviate from normal medical procedures or expected outcomes. Once identified, an occurrence is evaluated by physicians, who determine whether the care given was appropriate and met acceptable medical standards. In a January 1989 report, we stated that DOD's initial screening process did not identify a substantial number of deviations which had occurred. We identified three factors that contributed to this situation: (1) DOD and the services had not provided sufficient guidance on what to do if more than one deviation was found in a patient's record, (2) in the Navy, corpsmen reviewing patient records may not have had sufficient medical expertise and training to identify all of the deviations, and (3) in the Army and Air Force, physicians screen their own patient records. DOD made policy changes in 1986 and 1987 to improve the utility of occurrence screening programs at the hospital level in order to achieve more positive acceptance of the program by the hospitals. The extent to which these changes help will depend on how the hospitals and services design and implement their programs within the revised policy framework.

The range of personnel and organizational management problems cited thus far involve individuals' recruitment, retention, or qualifications, and organizational considerations such as separation of duties. However, differences in management philosophy can also affect how well an agency fulfills its mission. The following example illustrates this point.

- The Secretary of Energy recently pointed out significant personnel and organization weaknesses within the Department of Energy (DOE) which also impact such key departmental functions as environmental protection and waste management. The Secretary stated that he strongly disagrees with the "...underlying operating philosophy and culture of DOE, ... that adequate production of defense nuclear materials and a healthy, safe environment were not compatible objectives." In 1988, DOE did report multiple weaknesses causing significant environmental problems at its facilities which may take as many as 20 years and as much as $95 billion to correct. Although these weaknesses have been identified and corrective actions indicated, the newly appointed Secretary stated that he will undertake his own assessment of all DOE operations and that he "... will not be driven by previously set schedules or management decisions which still do not answer emerging questions as to the soundness of technical data or completeness of reviews." The Secretary of Energy has proposed ten initiatives intended "... to restore credibility to the Department of Energy, and to provide the kind of environmentally responsible direction that is critical ..." to meet DOE's mission.

The identification of new material weaknesses, continued existence of previously reported weaknesses, and detrimental effect of internal control and accounting system weaknesses such as those discussed in this chapter lend credibility to the concerns of the Congress and the American public that the federal government is not effectively and efficiently managing its programs. They show a need for greater top-level management emphasis on ensuring strong internal control and accounting systems in all federal programs and for actions to improve the governmentwide efforts to implement the act. Later in this report, we recommend several actions that the Congress and OMB can take to satisfy these needs.

Agency Management Perceptions of the Financial Integrity Act

At the time the Congress passed the Financial Integrity Act, federal managers' primary interests focused on achieving program goals, with little interest in program efficiency and economy. As a result, we saw a continual stream of reported incidences of fraud, waste, and abuse stemming from weak internal control and accounting systems. Although widespread serious weaknesses continue to exist in the internal control and accounting systems throughout federal programs, the results of GAO questionnaires and discussions with agency managers and audit officials show that agencies have made progress since 1982 in establishing the self-evaluation programs called for in the act. Federal managers generally perceive that the Financial Integrity Act has had a positive impact on their activities, and that, overall, their internal control systems have improved.

Nevertheless, implementation problems remain. The questionnaires revealed that a significant number of components still had not received the required evaluations of their internal control systems, and about 50 percent of the managers responsible for performing the internal control assessments and evaluations have not received any training concerning the act and the work required to comply with its provisions. Further, an Internal Control Interagency Coordination Council report highlighted a number of actions to improve the governmentwide Financial Integrity Act efforts in the evaluation, reporting, and corrective action areas.

In this chapter, we will present, on a governmentwide basis, historical information on the internal control evaluation activities of the 18 major federal agencies and the perceptions of managers and audit officials within those agencies on the act in general and the benefits and problems encountered as a result of implementing it. Unless otherwise noted, our analysis is based on the responses of over 1,400 component managers and senior agency executives[1] from the 18 agencies included in our review.

GAO's Survey of Agency Managers

We used two questionnaires and structured interviews to collect information on agency efforts to implement the act. We distributed one questionnaire to a statistically representative sample of component managers and the other to the senior executives in each agency. The

[1]Component managers are responsible for an agency component, which OMB defines as "a major program, administrative activity, organization, or functional subdivision of an agency." Agency senior executives are assistant secretaries or executives of an equivalent level.

questionnaires focused on individual manager experience with and perceptions of the act. In addition, we interviewed each agency's inspector general (IG) or chief audit official and chief internal control official to obtain their perceptions of the act. (See appendix III for a discussion of the scope and methodology used in developing and administering these data collection instruments and appendix IV for a copy of each questionnaire and summary of the responses received.)

Agency Knowledge of the Condition of Internal Controls Before the Act

Agency senior executive and component manager responses to the questionnaires show that, prior to 1983, most federal agencies had established processes for evaluating their internal control systems. Our interviews with the IGs and chief internal control officials confirm the existence of such processes. These officials, however, generally characterized the processes as informal and limited in scope (usually to a location such as a hospital, management center, military base, or function, such as payments). Overall, they lacked the formal reporting procedures needed to focus top management's attention on the problems identified. The Financial Integrity Act provided this structure.

Managers Report Significant Financial Integrity Act Efforts

The act requires ongoing evaluations of agency internal control systems. The results of these evaluations form the basis of the agency head's annual report to the Congress and the President on the condition of controls within each agency. The guidance developed by OMB for agency use in implementing the act provides for two evaluation activities—risk assessments and internal control evaluations. Managers reported conducting about 90,000 of these evaluations from 1983 through 1987.

Managers Perceive That Risk Assessments Achieve Their Intended Objectives

The first step in evaluating internal controls is the assessment of an agency component's risk or susceptibility to waste, loss, unauthorized use, or misappropriation. Agency personnel accomplish this task by performing risk assessments. We found that the number of risk assessments conducted has steadily increased since 1983 and that managers gave this process high marks in measuring the susceptibility of their programs.

In conducting risk assessments, agencies may follow the procedures outlined in OMB's Financial Integrity Act implementing guidelines or use other systematic reviews that build on management's knowledge, information obtained from management reporting systems, previous risk assessments, audits, and other sources. The three basic steps in these assessments are

- analysis of the general control environment,
- analysis of the component's inherent risk, and
- preliminary evaluation of the controls in the component.

Our questionnaire results show that, since passage of the act, the number of units performing risk assessments has steadily risen each year, from 6,443 (35 percent of the 18,319 total agency components) in 1983 to 10,656 (58 percent) in 1987. Ninety-three percent of the component managers judged the most recent risk assessment as adequate or better in rating their component's susceptibility to waste, loss, unauthorized use, or misappropriation. In addition, as a preliminary internal control system evaluation methodology, risk assessments are not expected to identify material internal control weaknesses. However, about 24 percent of the component managers indicated that the assessments identified material internal control weaknesses, with about 13 percent saying that the process identified this type of weakness to a great or very great extent.

Agencies Are Conducting Internal Control System Evaluations and Identifying Material System Weaknesses

The number of internal control evaluations conducted each year since 1983 has also increased. These evaluations are detailed reviews of an agency component's internal control systems to determine whether those systems meet the control objectives established in the act. Managers almost unanimously viewed them in positive terms and report that these evaluations have identified material internal control weaknesses in their programs.

An internal control evaluation may consist of the procedures outlined in OMB's Financial Integrity Act guidelines or the alternative procedures identified in OMB Circular A-123, "Internal Control Systems." These alternative procedures include reviews made under OMB Circulars A-76, A-127, and A-130,[2] inspector general and GAO audits, management studies, and consultant reviews.

Federal agencies have been very active in conducting internal control evaluations. Questionnaire results show that the number of these

[2]These OMB circulars require agencies to report on in-house activities and acquisition of commercial type products and services (Circular A-76), financial management systems (Circular A-127), and information resources, including ADP and telecommunications (Circular A-130).

detailed reviews performed has increased each year since 1983, going from a low of 6,888 in 1983 to a high of 11,117 in 1987. Since implementation of the act, the 18 agencies included in our review have conducted about 50,000 internal control evaluations.

Managers gave these evaluations high marks. Ninety-four percent of the component managers stated that the internal control evaluations did an adequate or more than adequate job of portraying the condition of the control systems in their programs. About half of the evaluations identified material internal control system weaknesses to at least some extent, and 16 percent of the evaluations identified material weaknesses to a great or very great extent.

Based on OMB guidance, agency managers should conduct internal control evaluations in areas judged to have a high or moderate risk of loss based on the risk assessment results. However, our questionnaire results showed that a component's risk rating was not a factor in determining which components had an internal control evaluation. Components with high risk ratings were no more likely to have an internal control evaluation than those with low or medium risk ratings.

However, a clear relationship exists between the number of risk assessments an agency component had and the component's involvement with internal control evaluations. Those with two or more risk assessments (group one) were significantly more likely to have had an internal control evaluation than those having one or none (group two). Almost 90 percent of the group one components received at least one internal control evaluation during calendar years 1983-1987. In addition, group one component managers were somewhat more directly involved in all aspects of the Financial Integrity Act work in their components than their group two counterparts. For example, nearly 71 percent of group one managers conducted the last internal control evaluation in their component as opposed to 62 percent of group two managers.

Agency Actions to Correct Material Weaknesses

The underlying purpose of the act is to improve agency internal control systems; prevent and detect fraud, abuse, waste and mismanagement; and increase the efficiency and effectiveness of federal agency operations and programs. The identification of material internal control weaknesses is an important first step in this process, but, for the Financial Integrity Act program to work, agencies must take the next step and correct the weaknesses detected. This is the central problem facing government today. For the most part, we believe agencies are aware of their major problems. HUD is a case in point. The problems that gave rise to the infamous "Robin HUD" case were identified and reported in HUD's 1987 Financial Integrity Act report. Where HUD fell down was in not promptly and effectively correcting the problem. Management support is critical in order for agencies to eliminate serious and oftentimes long-standing internal control system weaknesses, such as those highlighted in chapter 2.

Managers Perceive Agency Support for Corrective Actions

Senior agency executives and component managers generally believe that their agencies have supported actions to correct identified internal control weaknesses and that they are working to correct those problems.

- About 90 percent of the senior executives said their agency supports actions to correct identified material weaknesses from a moderate to very great extent, and 79 percent felt that, from a great to a very great extent, their agencies implemented corrective actions. About 80 and 60 percent of the component managers, respectively, responded the same way.
- Only 7 percent of the managers felt that their agencies took little or no action to correct the weaknesses identified, and 7 percent indicated that agency actions had little or no effect on resolving the weaknesses.

Managers identified the following as ways their agencies demonstrate support for corrective actions.

- Agency heads distribute memos/letters discussing the importance of agency efforts to strengthen internal controls.
- High-level agency management is directly involved in determining the needed corrective actions.
- High-level agency management is directly involved in implementing corrective actions identified.
- The agency has provided additional funds to make the needed changes.
- The agency has increased staffing to implement and maintain improved internal control systems.
- Agency management is involved in follow-up procedures to determine the timeliness and effectiveness of corrective actions.
- The agency requires training in internal control system reviews and methods to correct weaknesses identified.

We found a positive relationship between the number of risk assessments conducted in a component and the level of management support for the Financial Integrity Act program. Managers of components having two or more risk assessments were more likely to follow up to ensure that the corrective actions taken resolved the weakness identified than managers of components having one or no assessments. In addition, their responses indicated that they received stronger top management support, were more likely to get additional funding and staff, and that agency management followed up more often to determine the effectiveness of corrective actions than was the case for the other group of managers. In addition, they perceived that they obtained more results from their efforts (i.e., their efforts resulted in improvements in the efficiency of their program's operations and controls) than those managers involved in programs where one or no risk assessments had been performed.

Twenty-nine and 43 percent of the senior executives and component managers, respectively, many of whom also identified ways in which their agencies supported corrective actions, cited areas where agency support for correcting internal control system weaknesses was lacking. These areas include the need for more staffing, more funding, and improved training.

Cost-Effectiveness of Agency Actions to Strengthen Internal Controls

While strong internal control systems are the cornerstone of effective and efficient management, they must be cost-effective. They should not be developed and implemented just for the sake of having them. Agency management must compare the projected cost of evaluating existing control systems, and developing, implementing, and maintaining internal control and accounting systems against the potential losses, financial and other, that could result from not having those systems.

We asked the senior executives and component managers the extent to which improvements resulting from the Financial Integrity Act evaluations justified the costs to evaluate the internal control systems. Overall, their response was positive. Eighty-six percent of the senior executives responding felt that the benefits obtained justified, to some or a greater extent, the costs incurred. Seventy-one percent of the component managers responding answered in the same way.

Agency executives and component managers identified a number of benefits resulting from the efforts to implement the act and evaluate agency internal control systems. The benefits identified by both groups of respondents follow.

- Management attention has been focused on solving long-standing problems.
- Efficiency and effectiveness in accomplishing program missions have improved.
- The Financial Integrity Act has helped identify actions to improve the efficiency and effectiveness of operations.
- Managers have better control over operations.
- Internal control evaluation activities have helped managers set priorities.
- Program or activity personnel are more aware of the importance of strong internal controls.

About one-third of those managers whose questionnaires indicated that the benefits justified the cost to only some or no extent (about 10 percent of the total respondents) cited one or more of the following reasons for this perception.

- Implementing the act required too much paperwork.
- The work required the participation of too many staff.
- Review efforts duplicated other work.
- Program controls were already considered adequate.
- The process did not identify any weaknesses not already known.
- Financial Integrity Act efforts identified only insignificant weaknesses.

The first three of these items were serious concerns in the early years of the act. In our second governmentwide report on the act's implementation (GAO/AFMD-86-14, December 1985), we cited the widespread concern that managers viewed the implementation of the Financial Integrity Act as a meaningless paper exercise that accomplished little beyond adding to their paperwork burden. There was a general perception that the paper-intensive implementation processes used by agencies diluted the act's merits.

A 1985 report prepared by the President's Council on Management Improvement (PCMI) confirmed that, while agencies recognized the need to strengthen their internal controls, they considered paperwork for risk assessments and internal control evaluations to be excessive. The study team recommended, among other things, that changes be made to reduce the effort expended on risk assessments and internal control reviews without compromising the act's objectives.

OMB has, through revisions to Circular A-123 and other documents, provided agencies with the flexibility needed to reduce the paperwork, staffing, and duplication problems. In revising Circular A-123 in 1986, it amended the guidance for risk assessments and internal control evaluations and permitted the use of alternative procedures, such as audit and other reports in meeting the requirements of the act. So, while some managers still see a paperwork burden, our survey results clearly show a significant decrease in managers' concerns in these areas since the 1985 PCMI study. We also believe this indicates that a cultural change may be taking place and that managers better understand and accept their management responsibility for internal controls.

Questionnaires Identify Areas Needing Improvement

In addition to the perceptions discussed in the preceding section of this chapter, the questionnaires collected information on the involvement of component managers in several areas instrumental to the act's success. Two such areas are involvement in risk assessments and internal control evaluations and receipt of training in Financial Integrity Act areas. In both areas, the component manager questionnaires identified problems that could raise questions as to whether federal agencies are serious in their efforts to implement the act and are somewhat counter to the perceptions discussed earlier in this chapter. First, a significant number of the components within the 18 agencies included in our review had received too few risk assessments or internal control evaluations from 1983 through 1987. In the second area, only about 50 percent of component managers had received training related to the evaluations required under the act and their agency's processes for implementing those requirements.

Inadequate Number of Internal Control System Evaluations Conducted on Agency Components

When passing the Financial Integrity Act, the Congress intended that agencies conduct ongoing evaluations of all aspects of their internal control systems. While the numbers of evaluations conducted have steadily increased each year, a significant percentage of agency components had received an insufficient number of evaluations.

OMB prescribed timeframes within which agencies should conduct risk assessments of their components. This guidance, as presented in OMB Circular A-123, initially required agencies to perform these assessments on all components at least once every 2 years. In 1986, OMB revised A-123 and, among other things, changed the 2-year review cycle to a 5-year cycle or earlier as major changes occur. GAO believes that each agency, if serious about implementing the act, should have reviewed the controls in each component at least twice during the 1983 through 1987 time period.

Based on the results of our questionnaires, we found that about 3,450, or 19 percent, of the components received one or no evaluations from 1983 through 1987. More specifically, 2,408, or 13 percent, received no evaluations, 377, or 2 percent, received one internal control evaluation and no risk assessments, and 663, or 4 percent, received one risk assessment and no internal control evaluations. Considering the importance of internal controls to the efficient and economical operation of federal programs and the congressional interest in strengthening these controls throughout the government, the 19 percent represents an unacceptably high number of components whose systems have received an insufficient number of reviews. This must be changed in the future to fully gain the benefits the act has to offer.

More and Better Training Are Needed in Financial Integrity Act Issues

Another disappointing statistic coming from the questionnaire analysis is that only a little more than half of the component managers had received training on risk assessments and internal control evaluations. The most common types of training received were formal classroom and on-the-job training. The majority of those receiving this training felt that it was adequate or better.

Despite the general satisfaction expressed by those who had received training, about half of the component managers receiving training identified areas in which their agencies could improve that training in the risk assessment and internal control evaluation areas. They cited one or more of the following as needing improvement.

- Defining the purpose and objective of internal control evaluations.
- Identifying the methodology to be used in evaluating internal controls of ADP systems.
- Identifying the procedures required to perform evaluations.
- Explaining how to analyze and evaluate the results.
- Identifying the documentation needed to support the evaluations.

Managers' perceived training needs varied depending upon the number of assessments that their components had received under the Financial Integrity Act. For example, managers of components having two or more risk assessments cited the need for guidance in conceptual areas, such as the definition of materiality or selection of weaknesses that should be included in the agency report. Managers having one or no risk assessments tended to identify training needs in areas dealing with the basic implementation of the act. For example, they wanted answers to questions dealing with how to conduct risk assessments and internal control evaluations and information on who is responsible for conducting those evaluations.

On January 25, 1988, the Internal Control Interagency Coordination Council, an organization composed of representatives from all the major agencies, OMB and GAO, wrote to the Director of the Office of Personnel Management (OPM) citing the need for improvements in OPM-offered internal controls training for managers. The Council was concerned that most available OPM training did not adequately distinguish between program controls and accounting system controls and, therefore, failed to serve the needs of the majority of managers with responsibility for controls in program areas. It is working with OPM to develop a revised training course and has established a task force to study training needs, evaluate current curricula, and make recommendations. Expedited action in this area is needed as the Council first raised its concern over the adequacy of training almost 2 years ago.

Agencies Have Identified Opportunities for Strengthening Financial Integrity Act Activities

Federal agencies have recognized and reported on several other aspects of Financial Integrity Act implementation needing improvement. In 1985, the President's Council on Management Improvement conducted a study designed to identify ways to improve and streamline the Financial Integrity Act evaluation and reporting processes. As noted earlier in this chapter, its report resulted in several changes in the governmentwide efforts to implement the act.

In March 1989, the Internal Control Interagency Coordination Council formed a subcommittee composed of representatives of seven agencies, OMB, GAO, and the President's Council on Integrity and Efficiency (PCIE) to review aspects of the government's Financial Integrity Act activities. Specifically, the subcommittee examined the feasibility of integrating or consolidating the review requirements of various OMB circulars, enhancing the usefulness and acceptability of the Financial Integrity Act's internal control review and reporting process to senior agency management, and improving the effectiveness of the Annual Statement of Assurance to the President and the Congress.

The subcommittee's report highlighted the following seven issues:

- linking the internal control review and reporting process with the budget to assist the Congress and OMB in analyzing the impact of corrective actions on agency resources,

- emphasizing the early warning capabilities of the internal control process to ensure timely actions to correct weaknesses identified,
- consolidating the review processes of various OMB circulars to eliminate overlapping review requirements and improve staff utilization,
- providing for and promoting senior management involvement in the internal control process to ensure more effective and lasting oversight and accountability in Financial Integrity Act activities,
- highlighting the most critical internal control weaknesses included in the Financial Integrity Act reports to increase the usefulness of the report to the President and the Congress,
- reporting on agency processes to validate actions taken to correct material weaknesses, ascertain that desired results were achieved, and reduce the likelihood of repeated occurrences of the same weaknesses, and
- improving management awareness and understanding of the act to provide for more consistent program manager interpretation and acceptance of the act.

(Appendix V contains a detailed discussion of each issue area.) The Council forwarded the report to the President's Council on Management Improvement on July 6, 1989, and briefed the Chief Financial Officers' Council on the report on July 19, 1989. Implementation of the recommendations contained in the report, which we fully support, if taken across the government, should have a significant impact on the condition of internal controls over federal programs.

Audit and Chief Internal Control Officials See Benefits From the Act

We interviewed agency audit officials and chief internal control officials to obtain their perceptions about the success of the act and any areas where improvements might be made. While agency audit officials (inspectors general and chief audit officials) have no legislative responsibilities under the act, they have played an important role since the outset. The results of our interviews with them indicate that they continue to be very involved in agency Financial Integrity Act programs. For example, they typically

- examine agency annual Financial Integrity Act work plans,
- provide technical assistance to agency personnel implementing the act,
- review risk assessment and internal control evaluation activities,
- review agency year-end Financial Integrity Act reports for accuracy and completeness, and
- report to agency heads on the results of their examination of agency implementation of the act.

The audit officials generally stated that controls had improved from 1983 through 1987 and that their agencies had implemented logical, cohesive, coordinated agencywide approaches to identifying and correcting internal control problems. They noted moderate or better top management support for a strong internal control review process and for reporting weaknesses identified and making the needed improvements. Audit officials generally rated their agency corrective actions as adequate or slightly better in solving the problems identified. However, some audit officials did not rank highly their agency's timeliness in implementing corrective actions. Furthermore, about half of the audit officials indicated their agencies needed to make changes in both their follow-up and training processes.

In addition to the chief audit officials, we also discussed the act with the chief internal control official of each agency included in our review. These officials, who are responsible for the Financial Integrity Act program within their agencies, generally felt that internal control systems had improved from 1983 through 1987. All of these individuals rated the effectiveness of agency actions to correct the material weaknesses identified as average or better. They also stated that their agencies require periodic follow-up or have a system to monitor or test component progress in taking planned corrective actions. Most of these officials also reported that their agency had some system to test or monitor those actions reported as corrected. However, about half of these officials reported they do not have a system that validates the effectiveness of the corrective action.

Federal managers generally perceive that positive impacts, such as improved internal controls and program efficiency and effectiveness, have resulted from the Federal Managers' Financial Integrity Act. However, these managers also believe improvements can be made in the areas of agency support for correcting weaknesses and in training managers to implement the act. GAO believes that opportunities for improvement exist and that agency efforts in these areas will have a positive impact on the condition of controls in the federal government.

OMB Is Renewing Its Emphasis on Evaluating Internal Controls

In June 1989, the Director of OMB met with deputy and under secretaries of the executive agencies and asked them to prepare a new assessment of their internal control and audit follow-up processes and to report the results to him by July 23, 1989. Resulting from this effort has been an agreement between OMB and each agency as to a priority ranking of their highest risk areas. OMB expects agencies to concentrate on these areas to correct long-standing problems and will fully support and closely oversee the improvement efforts. Also, OMB is planning to increase its Financial Integrity Act staff from one to seven individuals. Continual OMB oversight and the assignment of a high priority to efforts to strengthen internal controls throughout the government are critical if we are going to see needed improvements.

On July 21, 1989, the Director of OMB met with the heads or deputies of 52 independent agencies and requested a similar report on internal controls. In addition, the President's Management by Objectives system, which is managed by OMB, includes an objective targeted at guaranteeing the effectiveness and integrity of programs and services for the public and the proper stewardship of public resources. Among the actions planned under this objective are the following:

- installation and operation of an integrated, governmentwide network of financial management systems by 1992;
- enhancement of top management's decision-making capacity by developing quality data bases which integrate program results, budget, and accounting data by 1993; and
- increase in the priority of, and policy and program level attention to, internal control and audit follow-up programs to reduce the risk of unidentified fraud and waste.

Conclusions and Recommendations

Conclusions

Internal controls are a primary contributing factor to the efficient and economical operation of an organization's programs, whether that organization is in the public or private sector. By establishing specific operational policies and procedures and checks and balances, internal controls help provide assurance that programs accomplish their intended objectives in an efficient and effective manner with full stewardship and accountability for public funds. As such, it is incumbent upon and a direct responsibility of managers at all levels within government to ensure the existence and operation of strong internal control systems within their programs.

Almost 7 years have passed since the Financial Integrity Act became law. Governmentwide efforts to implement it have evolved over time, and agencies have reported achieving some success in identifying and correcting material internal control and accounting system weaknesses in their programs. These efforts have not, however, produced the results intended by the Congress when passing the act. The government does not currently have the internal control systems necessary to effectively operate its programs and safeguard its assets. In addition, its accounting systems are antiquated and second rate. These problems span major activities across the government and result in losses totaling billions of dollars.

Disclosures of continued widespread problems in federal programs raise serious questions about the government's commitment to strong internal control and accounting systems and to the achievement of the objectives of the act. Their existence reinforces the need for intensified actions to strengthen internal controls across the government and for comprehensive reform of the government's accounting systems. A clear need exists for changes in agency internal control and accounting system evaluation, reporting, and corrective action processes and, more importantly, for changes in the management philosophies and the general environment under which federal programs operate. The development, implementation and maintenance of a strong Financial Integrity Act program would help ensure that situations such as HUD do not occur or that the problems that do surface are less severe in terms of the dollar magnitude of the losses and the number of programs with material weaknesses. The Congress, OMB, federal agencies, GAO and the federal audit community each has a role in making the needed changes. Corrective actions must be a priority, and agencies must ensure that those actions taken are effective and get to the root cause of the problem.

Recommendations to OMB

The Financial Integrity Act requires OMB to provide guidance for agency use in implementing the internal control evaluation, reporting, and corrective action processes required by the act. Action by the Director of OMB to personally assert leadership in this area and to reach agreement with the major agencies on the highest risk areas is an important step in addressing long-standing problems. As a next step, we recommend that OMB take prompt action to insure that agencies implement the recommendations contained in the Internal Control Interagency Coordination Council report. These recommendations include:

- linking the Financial Integrity Act internal control review and reporting process to the budget,
- identifying, in annual reports, agency actions taken to correct weaknesses, and
- validating that corrective actions are accomplished and are effective.

One Council recommendation focused on the establishment of senior level policy committees at each agency to provide oversight of the internal control evaluation and reporting processes. We recommend that OMB guidance on this point be expanded to include, as a responsibility of these committees, oversight of agency evaluations of planned, in-progress, and completed corrective actions.

To ensure the existence of a strong governmentwide Financial Integrity Act effort, we also recommend that OMB annually review the internal control and accounting system evaluation, reporting and corrective action processes in each major agency to ensure that the agencies are effectively implementing the act. We support OMB's plan to increase the number of staff assigned to Financial Integrity Act activities.

Recommendations to the Congress

Federal agency annual Financial Integrity Act reports are an important mechanism for providing the Congress with information on serious problem areas within agency programs and with information on agency progress in correcting these problems. Additional congressional actions are needed to help ensure continued agency emphasis on the development, implementation, and maintenance of strong internal control and accounting systems. We recommend that the Congress, through its appropriation, authorization, and oversight committees, hold annual hearings on the actions of each of the 18 major federal agencies to evaluate its systems, to correct the material weaknesses identified, and to ensure that similar problems will not occur in the future. Agency Financial Integrity Act reports, plans for actions to correct material internal control and accounting system weaknesses, and financial statements provide information that congressional committees can use when planning and conducting annual oversight hearings.

Further, we continue to believe that legislation to establish a permanent financial management structure for the government is essential. We recommend that the Congress enact legislation which would, among other things:

- establish a Chief Financial Officer of the United States whose responsibilities include developing a long-range financial management improvement plan for the government,
- set up corresponding chief financial officers in each major agency, and
- require the annual preparation and audit of agency financial statements.

GAO is ready to work with the Congress in preparing this legislation.

Because of the sheer number of serious problems faced by the government, an intensified effort to correct long-standing weaknesses is needed, and urgent and effective corrective actions must be a priority. In this context, we plan to intensify our efforts in examining and evaluating internal control and accounting systems and in communicating to the agencies and the Congress the significant deficiencies and the needed short- and long-term corrective actions.

First, we plan to identify the most vulnerable federal programs or activities. Our past work has given us an understanding of the various internal control and accounting system problems facing agencies, and we have specific knowledge of many areas where fraud, waste, and mismanagement might occur. By applying selected criteria to these problem areas, we will target and prioritize specific areas for evaluation. The criteria include:

- the magnitude of the risk and the potential for the vulnerable area becoming a reality;
- our existing knowledge of the vulnerable area and the potential to clearly define the root causes of the problem;
- the probability that a meaningful solution to the problem can be developed and implemented, and
- the likelihood of achieving short-term measurable financial savings, meaning a payback for the effort and the cost of corrective measures.

Second, in concert with the agencies and the inspectors general, we will identify actions to correct the problems. Among such actions would be to

- introduce new internal controls to help these officials deal with the problem in a systematic manner;
- develop a temporary solution to obtain immediate savings;
- implement systems changes to permanently reduce or eliminate the problem for the future; and
- have the agency head, chief financial officer, or chief internal control official closely monitor the problem area.

In some instances, legislation may be needed to help correct a problem. If, in the process of identifying corrective actions, we determine that legislative action is needed, we will recommend it.

Finally, we will undertake an ongoing monitoring role of the high risk areas in the following context. The agency chief financial officer and/or chief internal control official would have day-to-day responsibility for overseeing corrective actions with concurrent review of progress by the agency's inspector general. We will review progress reports, periodically have follow-up discussions with agency personnel and alert the Congress if the corrective action program adopted does not appear to be effective, is seriously behind schedule, needs to be revised significantly, or requires additional resources to be carried out effectively and expeditiously.

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 the Review

Department of Agriculture
Department of Commerce
Department of Defense[1]
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
Department of Veterans Affairs

[1]For Financial Integrity Act reporting purposes, the Department of Defense (DOD) reviews the reports prepared by its component organizations (i.e., Army, Navy, Air Force, Defense Intelligence Agency, Defense Communications Agency, and other offices) and prepares a single Financial Integrity Act report for transmittal to the President and the Congress.

For the questionnaire phase of this assignment, we obtained DOD information from component managers and agency senior executives in Army, Navy, Air Force, and the Defense Logistics Agency (DLA). For chief control official interview purposes, we added the Office of the Secretary of Defense to the list of DOD organizations. We used the same universe for the inspector general (IG) or audit official interviews except we excluded DLA, which does not have an auditor general or IG position comparable to those in the other DOD organizations.

Technical Description of GAO's Survey and Sampling Methodology

In this appendix we discuss the sampling procedures used in our survey. We address pretesting the instruments, selecting the universe and sample size, and validating the results. The instruments we used were: (1) a component manager questionnaire, (2) a senior agency executive questionnaire, and (3) standardized interview documents for meetings with agency inspectors general and chief internal control officials.

Pretesting

The purpose of our pretest was to ensure that each question had a common or uniform meaning, that the instrument was clear and easy to understand, and that the instrument elicited standardized responses. Except for the inspector general and chief internal control official universe, we did not include the responses to the pretest in our results. We included their responses because of the small size of these universes and potential difficulties in scheduling second interviews with these officials.

The pretest of the questionnaire consisted of two phases. In phase one, we asked several component managers and senior executives to complete the questionnaire as if they had received it in the mail. GAO observers noted the length of time it took to complete the questionnaire and any difficulties encountered. In phase two, we discussed each question and the overall questionnaire content with the manager or senior executive. We also discussed the possible responses that their colleagues might make to the questions in order to determine whether we should revise any of them.

We did not conduct a similar pretest of the standardized interview document. Rather, we used the responses of the first three inspector general and chief internal control official interviews as a pretest. During the interview, we noted any difficulties experienced by the individual being interviewed and made adjustments as we deemed necessary. We designed the interview questions to be consistent with the questions in the questionnaires.

Selecting the Universe and Sample Size

To determine the universe for the component manager questionnaire, we used information that each of the 17 civilian agencies reported in the Management Control Plan contained in their annual Federal Managers' Financial Integrity Act report. For the defense agencies, we used information provided by each organizational unit's (i.e., Army, Navy, etc.) internal control coordinator. We identified a total of 23,758 components in our universe of 18 agencies.

We stratified the civil agency universe, by agency, into two groups: (1) components that had conducted an internal control review (ICR) or an alternative internal control review (AICR) of their systems and (2) components that had not conducted such reviews. We then calculated a sample size for each agency.

We did not stratify the defense agencies into groups because we were unable to identify those components that had conducted an ICR or AICR. Rather, we considered each service and the Defense Logistics Agency to be a separate agency strata.

The outcome of this process resulted in a component manager sample size of 1,070, comprised of 886 civilian and 184 military components. Of the 886 civilian components, 370 conducted ICRs and 516 did not. During the verification process, we determined that nine civilian components did not meet our selection criteria, so we reduced our sample size to 1061.

The universe for the senior agency executive questionnaire consisted of all of the assistant secretaries or equivalent level officials identified by each agency's internal control coordinator. We excluded any senior executive who was also the agency's chief internal control official. This process identified 671 executives, but, upon further inquiry, we excluded three from the universe because they did not meet our criteria. The final senior executive universe consisted of 668 executives—509 from civilian agencies and 159 from Defense agencies. We sent a questionnaire to each of these individuals.

We conducted standardized interviews with 21 inspectors general, auditors general, or internal auditors, and 22 assistant secretaries or equivalent level officials. In some cases, the agency's chief internal control official also was an assistant secretary or equivalent level official. (See appendix II for an agency listing.)

Validating the Survey Results

We used the interviews with the inspectors general and chief internal control officials to validate the responses obtained from the questionnaires. Data were also validated by a cross comparison between the senior agency executive and component manager questionnaires. As an additional validation procedure, we tested 59 hypotheses and performance variables and found consistency in all cases. In addition, as mentioned earlier, we conducted pretests to ensure the validity of the survey instruments. Since the data collection methods involve self-reporting by the subject populations, we expect adverse findings to be somewhat underreported.

Calculating the Sample Response Rates

Our effective (real) sample size for the component manager questionnaires was 1,061. We received 857 responses to our questionnaire for a response rate of 82 percent. We found that 704, or 80 percent, of the 877 civilian managers included in our sample responded. There was a similarly high response rate of 83 percent for the 153 defense managers who returned the questionnaire.

For the senior agency executive questionnaire, we had an effective or real universe of 668 and a response rate of 81 percent. Civilian executives submitted responses to 418, or 82 percent, of the 509 questionnaires mailed. We found 126, or 79 percent, of the 159 defense managers surveyed responded.

Calculating the Nonresponse Rate and Sampling Error

We estimate, based on the responses received from the component manager questionnaire, that the overall response rate, when projected to the universe, is 78 percent. Therefore, if we had mailed questionnaires to the entire adjusted universe, we would have received 18,319 responses, from the universe of 23,758 (plus or minus 888 responses). Since we did not obtain a 100 percent response rate, our maximum sampling error increased to about plus or minus 5 percent as compared to the originally planned 4.4 percent rate.

Summary of Questionnaire Results

This appendix shows how the component managers and agency executives that responded to the survey answered each question. The percentage to the right of the question alternatives shows the percent or proportion of managers answering the question that chose that particular alternative. In some cases, questions were preceded by a filter question that screened out a proportion or percent of the population. The reader is cautioned to account for these filter questions when comparing the results of responses to specific questions back to the statistics cited in the body of the report. Because there are instances where the respondent could choose more than one alternative, the sum of the percentages for each alternative need not necessarily total 100 percent. Also, in questions where the respondent was asked to write in an amount (e.g., question nine of the component questionnaire), the average or mean of reported amounts is presented. In matrix-type questions, the percentage of respondents choosing a particular alternative are typed within the appropriate matrix box or row-column space.

Percentages may not total 100 due to rounding and may not, in some cases, appear to match those in the text. This is due to calculations made with the raw data to provide more meaningful information in the report. An example is calculating the percent of the entire population as opposed to the percent of the filtered respondents. The "missing" data category represents a "no response" to an individual question in this questionnaire. These values were considered as nonresponses and were not calculated into our evaluation. In most instances, this includes zero to 5 percent of the responses.

CD1 | | | | | | | 0 | 1 |

United States General Accounting Office

Survey of Agency Actions to Evaluate and Strengthen Control Systems in Agency Components — Agency Executives

INSTRUCTIONS

The Federal Managers' Financial Integrity Act of 1982 requires that federal agencies evaluate their systems of internal/management control and that each agency head annually report on the adequacy of their agency's control systems. Through this survey, the General Accounting Office is collecting agency senior official's perceptions of the agency actions to strengthen controls in their programs and activities.

The questions in this survey can be answered easily either by checking the boxes or filling in the blanks. You should be able to answer the questions in under 15 minutes.

What you, as a senior federal agency official, have to say is important to this study. So please give us your most frank assessment. We cannot make a meaningful evaluation of agency efforts to strengthen internal controls without your assistance and participation.

It is important that you provide an answer to each question. In answering this questionnaire, feel free to seek assistance or consensus from key staff or associates on questions. We do realize that there may be some instances where the information requested is difficult to obtain or not readily available. In these cases please provide us with your best estimate, rather than delay or fail to respond.

For your assistance, we have provided definitions of key terms at relevant places throughout the questionnaire.

Please return the completed questions in the self-addressed envelope within 7 days after receiving the questionnaire. The return address on the envelope is:

U.S. General Accounting Office
Mr. Thomas Broderick
Room 6007
441 G Street, N.W.
Washington, D.C. 20548

If you have any questions, please call Andy Killgore at FTS 8-275-9557 or Tom Broderick at (202) 275-9512.

Respondent Information	
(Your name)	(9-33)
(Organizational Unit)	(34-58)
(Title of person completing form)	(59-68)
(Your phone number) ( )	(69-80)

GAO Supplied Data
(Questionnaire Number)
(Agency Code)

CD2 | | | | | | | 0 | 2 |

I. REVIEWS OF MANAGEMENT CONTROL SYSTEMS

In this section, we are interested in obtaining your perceptions of the effectiveness of the reviews of agency management control systems within your organizational unit.

For purposes of this questionnaire, a **management control system** is the organization structure, operating procedures, and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out. Included within this definition are *both management and accounting control systems.*

Reviews of management control systems (i.e., an **internal control review** or **alternative internal control review**) are detailed evaluations of program or administrative activity control systems to determine whether adequate safeguards exist to reasonably ensure compliance with applicable laws; accountability over assets; protection against waste, loss, unauthorized use, and misappropriation; and preparation and maintenance of reliable financial and statistical reports.

1. To what extent, if at all, have **reviews of management control systems** been completed in your organizational unit within the past 3 years? (**Check one.**)

1. ☐ To a very great extent	26
2. ☐ To a great extent	44
3. ☐ To a moderate extent	19
4. ☐ To some extent	5
5. ☐ To little or no extent	1
6. ☐ Not applicable — no reviews have been completed — Go to question 4.	3
Missing	1

PLEASE GO TO NEXT PAGE

For purposes of this questionnaire, a **material management control weakness** is a weakness that would significantly impair the fulfillment of an organizatonal unit's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

For purposes of this questionnaire, a **nonmaterial weakness** is any weakness that is not sufficient to impair significantly the fulfillment of an organization unit's mission, etc.

2. To what extent, if at all, have the **reviews of management control systems** conducted in your organizational unit identified **material** and/or **nonmaterial management control system weaknesses? (Enter response number in the space provided.)**

RESPONSE SCALE

	MW	NMW
1 = To a very great extent	4	3
2 = To a great extent	11	17
3 = To a moderate extent	15	30
4 = To some extent	24	29
5 = To little or no extent	46	21

ACTION	RESPONSE NUMBER	
1. Material Weakness	____________	(10)
2. Nonmaterial Weakness	____________	(11)

3. To what extent, if at all, were you (or other senior agency officials) aware of these **management control weaknesses** before the **reviews of management control systems** in your organizational unit? **(Enter response number in the space provided.)**

RESPONSE SCALE

	MW	NMW
1 = To a very great extent	9	6
2 = To a great extent	21	17
3 = To a moderate extent	15	27
4 = To some extent	14	27
5 = To little or no extent	10	12
6 = No weaknesses have been identified	30	11

ACTION	RESPONSE NUMBER	
1. Material Weakness	____________	(12)
2. Nonmaterial Weakness	____________	(13)

PLEASE GO TO NEXT PAGE

II. ACTIONS TO CORRECT MANAGEMENT CONTROL SYSTEMS

In this section, we are interested in obtaining your perceptions of the effectiveness of agency efforts to eliminate management control system weaknesses and the level of agency support for improvement activities.

4. To what extent, if at all, does your agency support actions to correct management control system weaknesses? (Check one.) (14)

1. ☐ To a very great extent 49
2. ☐ To a great extent 41
3. ☐ To a moderate extent 8
4. ☐ To some extent 2
5. ☐ To little or no extent 1
6. ☐ Unknown 1

5. How, if at all, has your agency demonstrated its support for correcting management control system weaknesses in your organizational unit? (Check all that apply.)

1. ☐ Requested/budgeted increased funds to make the needed changes (15-16) 31
2. ☐ Provided funds to make the needed changes (17-18) 37
3. ☐ Increased staffing to implement and maintain improved management control systems (19-20) 32
4. ☐ Memo/letter from agency head discussing the importance of agency efforts to strengthen management controls (21-22) 67
5. ☐ Direct high-level agency management involvement in determining corrective actions needed (23-24) 63
6. ☐ Direct high-level agency management involvement in implementing corrective actions identified (25-26) 59
7. ☐ Agency management involved in follow-up procedures to determine the timeliness and effectiveness of corrective actions (27-28) 71
8. ☐ Requires training in management control system reviews and methods to correct weaknesses identified (29-30) 33
9. ☐ Other (Specify.) ____________ (31-32) 13
10. ☐ Not applicable -- organizational unit has no management control systems needing corrective actions (33-34) 9
11. ☐ Agency shows no support for correcting management control system weaknesses (35-36) 1

PLEASE GO TO NEXT PAGE

6. What agency actions, if any, indicate your agency's lack of support for correcting **management control system weaknesses** in your organizational unit?
(Check all that apply.)

1. ☐ Verbal support for improvements only (37-38) 2
2. ☐ Inadequate increase in funds to make needed changes (39-40) 6
3. ☐ Inadequate increase in staff to make needed improvements (41-42) 11
4. ☐ Agency priorities higher in improving control systems in other areas or activities within the agency (43-44) 5
5. ☐ Agency appears willing to accept the risk of fraud, waste, abuse, or mismanagement that exists under the current **management control systems** (45-46) 0
6. ☐ Agency omits important **management control systems** from the evaluation process (47-48) 2
7. ☐ Lack of meaningful training (49-50) 5
8. ☐ Other (Specify.) ________ (51-52) 3
9. ☐ None of the above — agency's actions support corrective actions (53-54) 71
10. ☐ Not applicable — organizational unit has no material weaknesses (55-56) 14

PLEASE GO TO NEXT PAGE

CD3 | | | | | | | 0 | 3 |

7. How, if at all, have *you* demonstrated your support for correcting **management control system weaknesses** in your organizational unit? **(Check all that apply.)**

1. ☐ Programs and/or activities within my organizational unit have no **management control system weaknesses** (57-58) 14
2. ☐ Requested funds to make needed changes (59-60) 26
3. ☐ Increased funds to make the needed changes (61-62) 24
4. ☐ Requested an increase in staffing to implement and maintain improved **management control systems** (63-64) 26
5. ☐ Increased staffing to implement and maintain improved **management control systems** (65-66) 27
6. ☐ Distributed memo/letter discussing the importance of agency efforts to strengthen internal controls (67-68) 50
7. ☐ Direct involvement in determining corrective actions needed (69-70) 61
8. ☐ Direct involvement in implementing corrective actions identified (71-72) 56
9. ☐ Direct involvement in follow-up procedures to determine the timeliness and effectiveness of corrective actions (73-74) 61
10. ☐ Required that personnel take training in **management control system evaluations** and methods to improve weaknesses identified (75-76) 31
11. ☐ Other (Specify.) ____________ (77-78) 11
12. ☐ I have not demonstrated any support (79-80) 0

8. How adequate or inadequate was your agency's discussion (in its annual report to the President and the Congress — as required by the **Federal Managers' Financial Integrity Act**) of the **material management control weaknesses** identified in your organizational unit? **(Check one.)** (9)

1. ☐ Very adequate 32
2. ☐ Adequate 31
3. ☐ Marginally adequate 2
4. ☐ Inadequate 0
5. ☐ Very inadequate 0
6. ☐ No basis to judge — did not see the report 12
7. ☐ Not applicable — no material weaknesses were identified 23

PLEASE GO TO NEXT PAGE

9. How adequate or inadequate was your opportunity for input in your agency's report to the President and the Congress as required by the **Federal Managers' Financial Integrity Act?**
(Check one.) (10)

1. ☐ Very adequate	45
2. ☐ Adequate	36
3. ☐ Marginally adequate	2
4. ☐ Inadequate	2
5. ☐ Very inadequate	2
6. ☐ Not applicable — no weaknesses in my unit	12
Missing	1

10. To what extent, if at all, have actions been implemented to correct **management control system weaknesses** identified in your organizational unit, by whatever means, during the past 3 years?
(Enter response number in the space provided.)

RESPONSE SCALE	MW	NMW
1 = To a very great extent	23	19
2 = To a great extent	28	40
3 = To a moderate extent	9	16
4 = To some extent	3	6
5 = To little or no extent	0	1
6 = This type weakness not identified in my unit	33	13
7 = No basis to judge	2	3
Missing	2	2

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(11)
2. Nonmaterial Weakness	______	(12)

11. To what extent, if at all, have the corrective actions taken eliminated the **management control system weaknesses** identified in your organizational unit's programs and/or activities, by whatever means, during the past 3 years? **(Enter response number in the space provided.)**

RESPONSE SCALE	MW	NMW
1 = To a very great extent	15	13
2 = To a great extent	28	41
3 = To a moderate extent	14	20
4 = To some extent	5	6
5 = To little or no extent	1	1
6 = This type weakness not identified in my unit	33	13
7 = No basis to judge	3	4
Missing	2	1

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(13)
2. Nonmaterial Weakness	______	(14)

12. To what extent, if at all, has your agency followed up to determine that planned corrective actions were taken on material weaknesses identified? **(Enter response number in the space provided.)**

RESPONSE SCALE	
1 = Not applicable — no weaknesses identified	22
2 = To a very great extent	30
3 = To a great extent	29
4 = To a moderate extent	9
5 = To some extent	4
6 = To little or no extent	2
7 = No basis to judge	5

ACTION	RESPONSE NUMBER	
1. Corrective Action	______	(15)

PLEASE GO TO NEXT PAGE

III. COST EFFECTIVENESS OF PROCESS OF EVALUATING AND STRENGTHENING MANAGEMENT CONTROL SYSTEMS

In this section, we are interested in collecting agency officials' perspectives of the costs and benefits resulting from agency efforts to evaluate and strengthen the management control systems within its programs, activities, organizations, and functions.

13. Based on your best estimate, to what extent, if at all, did the improvements made and benefits obtained, justify the costs incurred (consider all costs incurred — personnel, paperwork, etc.) to **review management control systems** in your organizational unit? (**Check one.**) (16)

1. ☐ To a very great extent — Go to question 15. 8
2. ☐ To a great extent — Go to question 15. 23
3. ☐ To a moderate extent — Go to question 15. 25
4. ☐ To some extent — Go to question 14. 17
5. ☐ To little or no extent — Go to question 14. 12
6. ☐ Unknown — cost and other relevant data not available for analysis purposes — Go to question 15. 16

14. Why did the improvements not justify the cost? (**Check all that apply.**)

1. ☐ Work required participation of too many staff (17) 40
2. ☐ Length of time (calendar days) excessive (18) 26
3. ☐ Work required too much paperwork (documentation and reports) (19) 65
4. ☐ Control systems considered adequate before the process (20) 51
5. ☐ Process did not identify any weaknesses not already known (21) 49
6. ☐ Duplicated review efforts already conducted by other organizations (i.e., Inspector General, GAO, etc.) (22) 48
7. ☐ Other (Specify.) ________________ (23) 12

____
____
____
____

PLEASE GO TO NEXT PAGE

15. **What, if any, are the most significant benefits resulting from the agency's action to strengthen the management control systems in the programs and/or activities in your organizational unit? (Check all that apply.)**

1. ☐ Helped me better establish priorities within the organizational unit (24-25) 25
2. ☐ Identified activities/functions which caused inefficient or ineffective operations (26-27) 39
3. ☐ Helped identify actions that could improve the efficiency and effectiveness of the organizational unit (28-29) 58
4. ☐ Better control over operations (30-31) 48
5. ☐ Better allocation of staff resources (32-33) 22
6. ☐ More accurate and timely information provided by ADP systems (34-35) 19
7. ☐ More accurate and timely information provided by accounting/financial management systems (36-37) 26
8. ☐ More effective or better controlled ADP or accounting/financial management systems were developed and implemented (38-39) 26
9. ☐ Organizational unit personnel more aware of importance of strong management control systems (40-41) 67
10. ☐ Identified material problems for my and other senior management officials consideration (42-43) 30
11. ☐ Organizational unit personnel actively attempt to identify and improve management control system weaknesses (44-45) 39
12. ☐ Improved efficiency/effectiveness in accomplishing the agency component's mission (46-47) 37
13. ☐ Focused attention on solving long-standing problems (48-49) 34
14. ☐ Other (Specify.) ________ (50-51) 5
15. ☐ No significant benefits observed (52-53) 7

PLEASE GO TO NEXT PAGE

16. What, if any, are the most significant problems in your organizational unit as a result of your agency's actions to strengthen the **management control systems** within its programs, activities, organizations, and functions? **(Check all that apply.)**

1. ☐ Program slippage (54) 6
2. ☐ **Management control system** improvement priorities inconsistent with meeting program objectives (55) 9
3. ☐ Control procedures too time consuming/ burdensome (56) 18
4. ☐ Other (Specify.) ______________ (57) 9
5. ☐ No significant problems observed (58) 67

17. To what extent, if at all, have **management controls** in the programs and/or activities in your organizational unit improved as a result of the **Federal Managers' Financial Integrity Act**? **(Check one.)** (59)

1. ☐ To a very great extent 2
2. ☐ To a great extent 20
3. ☐ To a moderate extent 30
4. ☐ To some extent 24
5. ☐ To little or no extent 13
6. ☐ No basis to judge 11

18. How successful or unsuccessful has your agency's implementation of the **Federal Managers' Financial Integrity Act** program been in your organizational unit? **(Check one.)** (60)

1. ☐ Very successful 19
2. ☐ Successful 58
3. ☐ Marginally successful 11
4. ☐ Unsuccessful 1
5. ☐ Very unsuccessful 0
6. ☐ No basis to judge 12

PLEASE GO TO NEXT PAGE

CD4 | | | | | | | 0 | 4

IV. ADDITIONAL COMMENTS

19. If you have any additional comments on any of the items in this questionnaire or related topics, please express your views in the space below. (Attach additional sheets, if necessary.) Thank you for your cooperation. (9-60)

No Comments	77
Comments	23

CD1 | | | | | | | 0 | 1 |

United States General Accounting Office

Survey of Agency Efforts To Evaluate and Strengthen Control Systems in Agency Components

INSTRUCTIONS

The Federal Managers' Financial Integrity Act of 1982 requires that federal agencies evaluate their systems of internal/management control and that each agency head annually report on the adequacy of their agency's control systems. Through this survey, the General Accounting Office is collecting selected historical information on, and agency managers' perceptions of, agency actions to strengthen controls in their programs and activities.

The questions in this survey can be answered easily either by checking the boxes or filling in the blanks. You can answer the questions in about 30 minutes.

What you, as the manager of a program and/or activity have to say is important to this study. The "Respondent Information" identifies the program and/or activity for which we wish to obtain information. So please give us your most frank assessment. We cannot make a meaningful evaluation of agency efforts to strengthen controls without your assistance and participation.

It is important that you provide an answer to each question. In answering this questionnaire, feel free to seek assistance or consensus from key staff or associates on questions. This may be particularly true in answering questions concerning the performance and results of risk assessments and management control evaluations. We do realize that there may be some instances where the information requested is difficult to obtain or not readily available. In these cases please provide us with your best estimate, rather than delay or fail to respond.

For your assistance, we have provided definitions of key terms at relevant places throughout the questionnaire.

Please return the completed form in the self-addressed envelope within 7 days after receiving the questionnaire. The return address on the envelope is:

U.S. General Accounting Office
Mr. Thomas Broderick
Room 6007
441 G Street, N.W.
Washington, D.C. 20548

If you have any questions, please call **Andy Killgore** at **FTS 8-275-9557** or **Tom Broderick** at **(202) 275-9512.**

Respondent Information	
(Your name)	(9-33)
(Program and/or activity)	(34-58)
(Title of person completing form)	(59-68)
(Your phone number) ( )	(69-80)

GAO Supplied Data
(Questionnaire number)
(Agency code)
(Recent risk assessment rating)

CD2 | | | | | | | 0 | 2 |

I. GENERAL INFORMATION

We are interested in collecting general information on the program and/or activity identified earlier.

1. How long have you been responsible for the program and/or activity identified earlier in the questionnaire? (**Check one.**) (9)

1. ☐ Under 1 year	15
2. ☐ From 1 to under 2 years	18
3. ☐ From 2 to under 5 years	31
4. ☐ 5 years or more	37

2. As of October 1, 1987, how many full-time staff worked in the program and/or activity? (**Check one.**) (10)

1. ☐ None	8
2. ☐ From 1 to 10	38
3. ☐ From 11 to 25	17
4. ☐ From 26 to 50	16
5. ☐ From 51 to 100	11
6. ☐ 101 or more	9

3. What was the fiscal year 1987 dollar budget of the program and/or activity? (**Check one.**) (11)

1. ☐ Under $500,000	26
2. ☐ From $500,000 to under $1,000,000	8
3. ☐ From $1,000,000 to under $5,000,000	16
4. ☐ From $5,000,000 to under $10,000,000	3
5. ☐ From $10,000,000 to under $50,000,000	8
6. ☐ Over $50,000,000	12
7. ☐ Unknown	25
Missing	2

GO TO NEXT PAGE

4. What is the primary function performed by the program and/or activity? (**Check one.**) (12-13)

1. ☐ ADP — Go to question 5.	8
2. ☐ Program management	37
3. ☐ Procurement	11
4. ☐ Grant management	2
5. ☐ Personnel and organizational management	12
6. ☐ Payment systems and cash management	5 GO TO QUESTION 6
7. ☐ Loan management and debt collection	0
8. ☐ Property and inventory management	5
9. ☐ Accounting or financial management	5
10. ☐ Other (Specify.)	16

Go to question 6.

5. Which ADP functions is the program and/or activity responsible for performing in support of other programs or activities? (**Check all that apply.**)

1. ☐ Procurement	20	(14)
2. ☐ Security	39	(15)
3. ☐ Data processing operations	58	(16)
4. ☐ Systems design, development, and/or maintenance	59	(17)
5. ☐ Other (Specify.)	15	(18)

6. In carrying out its mission, to what extent, if at all, does the program and/or activity use data generated from ADP systems? (**Check one.**) (19)

1. ☐ To a very great extent	23
2. ☐ To a great extent	25
3. ☐ To a moderate extent	20
4. ☐ To some extent	15
5. ☐ To little or no extent	13
6. ☐ No basis to judge	4

II. AGENCY EVALUATIONS OF MANAGEMENT CONTROL SYSTEMS

We are interested in collecting historical information and program and/or activity managers' perceptions of the risk assessment and management control evaluation phases of the agency's program for strengthening its management control systems.

> For purposes of this questionnaire, an **internal/management control system** is the organizational structure, operating procedures, and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out. Included within this definition are *both management and accounting control systems.*

7. Before 1983, to what extent, if at all, did your agency have a process for evaluating the **management control systems** in its programs and/or activities? (**Check one.**) (20)

1. ☐ To a very great extent	6	CONTINUE
2. ☐ To a great extent	17	CONTINUE
3. ☐ To a moderate extent	27	CONTINUE
4. ☐ To some extent	18	CONTINUE
5. ☐ To little or no extent Go to question 9.	7	
6. ☐ Unknown — Go to question 9.	25	
Missing	1	

8. How adequate or inadequate was the process that existed before 1983 for evaluating the program's and/or activity's **management control systems**? (**Check one.**) (21)

1. ☐ More than adequate	16
2. ☐ Adequate	50
3. ☐ Marginally adequate	22
4. ☐ Inadequate	5
5. ☐ Very inadequate	0
6. ☐ No basis to judge	6

GO TO NEXT PAGE

III. ASSESSMENT OF RISK IN THE PROGRAM AND/OR ACTIVITY

A key element in the process of examining agency management control systems is a determination of those programs and/or activities whose functions are most vulnerable to error or improper acts. We are interested in collecting information on the risk assessments performed on these programs and/or activities and on your perceptions of the assessments.

For purposes of this questionnaire, a **risk assessment** (also referred to as **vulnerability assessment** and/or **alternate procedures**) is a documented review by management of a program and/or activity's susceptibility to waste, loss, unauthorized use, or misappropriations.

9. How many risk assessments within your Department (i.e., Energy, Interior, etc.) did *you* conduct or participate in each year since 1983? (**Enter number.**)

YEAR	NUMBER	% -0-	% 1 or More	
1. 1983	______	63	37	(22-26)
2. 1984	______	57	43	(27-31)
3. 1985	______	53	47	(32-36)
4. 1986	______	44	56	(37-41)
5. 1987	______	41	59	(42-46)

10. Indicate the years in which a **risk assessment** was conducted on the program and/or activity identified earlier. (**Check all that apply.**)

1. ☐ None — Go to question 16.		22	(47)
2. ☐ 1983	CONTINUE	35	(48)
3. ☐ 1984	CONTINUE	45	(49)
4. ☐ 1985	CONTINUE	46	(50)
5. ☐ 1986	CONTINUE	58	(51)
6. ☐ 1987	CONTINUE	58	(52)

11. Who performed the most recent **risk assessment** of the program and/or activity? (**Check all that apply.**)

1. ☐ Me (or the prior program and/or activity manager) or a member of my (or the prior manager's) staff	76	(53)
2. ☐ Agency Inspector General or audit organization personnel	9	(54)
3. ☐ Other agency management officials/ personnel	37	(55)
4. ☐ Consultant/contractor	2	(56)
5. ☐ Other (Specify.)______	3	(57)
6. ☐ Unknown	0	(58)

12. How adequate or inadequate were the results of the most recent risk assessment of the program and/or activity in reflecting its susceptibility to waste, loss, unauthorized use, or misappropriations? (Check one.) (59)

1. ☐ More than adequate — Go to question 14.		35
2. ☐ Adequate — Go to question 14.		58
3. ☐ Marginally adequate	CONTINUE	4
4. ☐ Inadequate	CONTINUE	1
5. ☐ Very inadequate	CONTINUE	0
6. ☐ Unknown — Go to question 14.		2

13. If less than "adequate," why? (Check all that apply.)

1. ☐ Guidance for performing risk assessments is vague and/or procedures are poorly defined (60) 34
2. ☐ Agency's evaluation process is too judgmental (61) 40
3. ☐ Agency's evaluation process is based on factors that are not relevant to susceptibility (62) 33
4. ☐ Relevant management control systems are omitted from the assessments (63) 21
5. ☐ Other (Specify.) ______________ 15 (64)

For purposes of this questionnaire, a material internal/management control weakness is a weakness that would significantly impair the fulfillment of a program and/or activity's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

For purposes of this questionnaire, a nonmaterial weakness is any weakness that is not sufficient to impair significantly the fulfillment of a program and/or activity's mission, etc.

14. To what extent, if any, has the risk assessment work conducted on the program and/or activity identified material and/or nonmaterial management control system weaknesses? (Enter response number in the space provided.)

RESPONSE SCALE	MW	NMW
1 = To a very great extent	2	2
2 = To a great extent	7	8
3 = To a moderate extent	7	9
4 = To some extent	7	19
5 = To little or no extent	44	33
6 = No basis to judge	8	6
N/A Missing	25	23

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(65)
2. Nonmaterial Weakness	______	(66)

15. To what extent, if at all, were you (or other program and/or activity managers) aware of these weaknesses before the risk assessment(s) were conducted? (Enter response number in the space provided.)

RESPONSE SCALE	MW	NMW
1 = To a very great extent	7	7
2 = To a great extent	14	15
3 = To a moderate extent	7	9
4 = To some extent	9	16
5 = To little or no extent	7	8
6 = No basis to judge	6	4
7 = No material/nonmaterial weaknesses identified	27	18
N/A/Missing	25	23

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(67)
2. Nonmaterial Weakness	______	(68)

16. Does your agency offer internal and/or external training or other direct assistance in conducting risk assessments? (Check one.) (69)

1. ☐ Yes — Continue 73
2. ☐ No — Go to question 21. 27

17. Have you received internal and/or external training in understanding and conducting risk assessments? (Check one.) (70)

1. ☐ Yes — Continue 75
2. ☐ No — Go to question 21. 25

18. What types of training have you had? (Check all that apply.)

1. ☐ Internal classroom 53 (71)
2. ☐ External classroom 13 (72)
3. ☐ Private consultant 8 (73)
4. ☐ On the job training 69 (74)
5. ☐ Other (Specify.) 11 (75)

19. How adequate or inadequate is the current internal and/or external training in meeting your needs in understanding and performing risk assessments of programs and/or activities? (Check one.) (76)

1. ☐ More than adequate 25
2. ☐ Adequate 62
3. ☐ Marginally adequate 12
4. ☐ Inadequate 1
5. ☐ Very inadequate 0

GO TO NEXT PAGE

CD3 | | | | | | | 0 | 3 |

20. In what areas, if any, does your agency's **risk assessment** training need improvements? (**Check all that apply.**)

1. ☐ No improvements needed (9) 51
2. ☐ Defining terms (10) 9
3. ☐ Defining the purpose and objectives of the assessments (11) 16
4. ☐ Identifying the procedures required to perform a **risk assessment** (12) 17
5. ☐ Explaining how to analyze and evaluate the results of the **risk assessment** (13) 21
6. ☐ Identifying the documentation needed to support the **risk assessment** conclusions (14) 16
7. ☐ Identifying the methodology to be used in assessing risk in ADP systems (15) 15
8. ☐ Identifying methodology to be used in assessing risk in accounting/financial management systems (16) 11
9. ☐ Other (Specify.) ______________ (17) 6

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IV. EVALUATION OF MANAGEMENT CONTROL SYSTEMS IN THE PROGRAM AND/OR ACTIVITY

The principal methodologies used to examine management control systems are the management control evaluations or alternative management control evaluations. We are interested in collecting information on these evaluations and your perceptions on their effectiveness as evaluation tools.

As used in this questionnaire, an **internal/management control evaluation** (i.e., an **internal control review** or **alternative internal control review**) is a detailed evaluation of a program or administrative activity to determine whether adequate safeguards exist to reasonably ensure compliance with applicable laws; protection against waste, loss, unauthorized use, and misappropriation; and preparation and maintenance of reliable financial and statistical reports and accountability over assets.

21. How many **management control evaluations** within your Department (i.e., Energy, Interior, etc.) did *you* conduct or participate in since 1983? **(Enter number in spaces provided.)**

	YEAR	NUMBER	% -0-	% 1 or More	
1.	1983	______	64	36	(18-22)
2.	1984	______	59	41	(23-27)
3.	1985	______	50	50	(28-32)
4.	1986	______	43	57	(33-37)
5.	1987	______	38	62	(38-42)

22. Indicate the years in which a **management control evaluation** was conducted on the program and/or activity identified earlier. **(Check all that apply.)**

1. ☐ None — Go to question 29. 23 (43)
2. ☐ 1987 — CONTINUE 61 (44)
3. ☐ 1986 — CONTINUE 57 (45)
4. ☐ 1985 — CONTINUE 50 (46)
5. ☐ 1984 — CONTINUE 46 (47)
6. ☐ 1983 — CONTINUE 38 (48)

23. Who completed the most recent **management control evaluation** of the program and/or activity? **(Check all that apply.)**

1. ☐ Me (or the prior program and/or activity manager) or a member of my (or the prior manager's) staff 68 (49)
2. ☐ Agency Inspector General or audit organization personnel 16 (50)
3. ☐ Other agency management officials/personnel 41 (51)
4. ☐ Consultant/contractor 2 (52)
5. ☐ Other (Specify.) ______ 4 (53)
6. ☐ Unknown 1 (54)

24. How adequate or inadequate is the condition of the **management control systems** in the program and/or activity reflected by the results of the **management control evaluations** conducted? (**Check one.**) (55)

1. ☐ More than adequate — Go to question 26. 32
2. ☐ Adequate — Go to question 26. 62
3. ☐ Marginally adequate 5
4. ☐ Inadequate 1
5. ☐ Very inadequate 0

25. If less than "adequate," why? (**Check all that apply.**)

1. ☐ Guidance for performing **management control evaluations** is vague and/or procedures are poorly defined (56) 47
2. ☐ Evaluation process is too judgmental and lacks objective valid criteria (57) 38
3. ☐ Evaluation based on factors that are not relevant to control over the operation of the function/activity evaluated (58) 43
4. ☐ Personnel/organization performing evaluation did not adequately understand the activity/function evaluated (59) 32
5. ☐ Other (Specify.) ______ (60) 15

26. To what extent, if at all, did the **management control evaluation** identify **management control weaknesses** in the program and/or activity? (**Enter response number in the space provided.**)

RESPONSE SCALE	MW	NMW
1 = To a very great extent	3	3
2 = To a great extent	7	9
3 = To a moderate extent	8	13
4 = To some extent	12	21
5 = To little or no extent	35	25
6 = No basis to judge	6	4
N/A / Missing	29	25

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(61)
2. Nonmaterial Weakness	______	(62)

27. To what extent, if at all, were you aware of program and/or activity **management control weaknesses** before a **management control evaluation** was conducted? (**Enter response number in the space provided.**)

RESPONSE SCALE	MW	NMW
1 = To a very great extent	6	6
2 = To a great extent	11	12
3 = To a moderate extent	8	16
4 = To some extent	12	16
5 = To little or no extent	10	11
6 = No basis to judge	6	4
7 = No material/nonmaterial weaknesses exist	19	9
N/A / Missing	28	26

ACTION	RESPONSE NUMBER	
1. Material Weakness	______	(63)
2. Nonmaterial Weakness	______	(64)

28. To what extent, if at all, have the **management control evaluations** identified **material management control weaknesses** in ADP systems that generate data used by your program and/or activity? (**Check one.**) (65)

1. ☐ Unknown	16
2. ☐ To a very great extent	2
3. ☐ To a great extent	2
4. ☐ To a moderate extent	6
5. ☐ To some extent	12
6. ☐ To little or no extent	32
7. ☐ Not applicable — data from ADP system not used by program and/or activity	29
Missing	1

29. Does your agency offer internal and/or external training or other direct assistance in conducting **management control evaluations**? (**Check one.**) (66)

1. ☐ Yes — Continue	69
2. ☐ No — Go to question 35.	31

30. Have you received internal and/or external training in understanding and conducting **management control evaluations**? (**Check one.**) (67)

1. ☐ Yes — Continue	75
2. ☐ No — Go to question 35.	25

31. What types of training have you had? (**Check all that apply.**)

1. ☐ Internal classroom	53
2. ☐ External classroom	16
3. ☐ Private consultant	8
4. ☐ On the job training	71
5. ☐ Other (Specify.)	10

32. Have you conducted or worked on a **management control evaluation**? (**Check one.**)

1. ☐ Yes — Continue	87
2. ☐ No — Go to question 35.	14

33. How adequate or inadequate is your agency's training in meeting your needs in conducting **management control evaluations**? (**Check one.**)

1. ☐ More than adequate	22
2. ☐ Adequate	61
3. ☐ Marginally adequate	15
4. ☐ Inadequate	1
5. ☐ Very inadequate	1

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CD4 | | | | | | | 0 | 4 |

34. In what areas, if any, does your agency's **management control evaluation** training need major improvement? **(Check all that apply.)**

1. ☐ No major improvements needed (9-10) 52
2. ☐ Defining terms (11-12) 14
3. ☐ Defining the purpose and objectives of the evaluations (13-14) 15
4. ☐ Identifying the procedures required to perform a **management control evaluation** (15-16) 17
5. ☐ Explaining how to analyze and evaluate the results of the **management control evaluation** (17-18) 19
6. ☐ Identifying the documentation needed to support the **management control evaluation** conclusions (19-20) 18
7. ☐ Identifying methodology to be used in evaluating **management controls** of ADP systems (21-22) 16
8. ☐ Identifying methodology to be used in evaluating **management controls** of accounting/financial management systems (23-24) 13
9. ☐ Quality of the presentation and training materials (25-26) 9
10. ☐ Quality of the institutions providing the training (27-28) 2
11. ☐ Other (Specify.) ______________ (29-30) 6

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V. ACTIONS TO CORRECT MANAGEMENT CONTROL SYSTEMS

We are interested in collecting program and/or activity manager perceptions of the effectiveness of agency efforts to eliminate management control system weaknesses and the level of agency support for improvement activities.

35. To what extent, if at all, have actions been implemented to correct management control system weaknesses identified, by whatever means, during the past 3 years? (Enter response number in the space provided.)

RESPONSE SCALE

	MW	NMW
1 = To a very great extent	14	14
2 = To a great extent	18	23
3 = To a moderate extent	11	16
4 = To some extent	7	11
5 = To little or no extent	4	5
6 = This type of weakness not identified in the program and/or activity	24	13
7 = No basis to judge	17	16
Missing	5	4

ACTION	RESPONSE NUMBER	
1. Material Weakness	________	(31)
2. Nonmaterial Weakness	________	(32)

36. To what extent, if at all, have the corrective actions taken eliminated the management control system weaknesses identified, by whatever means, during the past 3 years? (Enter response number in the space provided.)

RESPONSE SCALE

	MW	NMW
1 = To a very great extent	11	13
2 = To a great extent	21	25
3 = To a moderate extent	11	15
4 = To some extent	7	10
5 = To little or no extent	4	4
6 = This type of weakness not identified in the program and/or activity	23	12
7 = No basis to judge	19	18
Missing	5	4

ACTION	RESPONSE NUMBER	
1. Material Weakness	________	(33)
2. Nonmaterial Weakness	________	(34)

GO TO NEXT PAGE

37. To what extent, if at all, has your agency followed up to determine that planned corrective actions were taken. (Specify response number.)

RESPONSE SCALE

1 =	Not applicable — weaknesses were not identified in the program and/or activity	13
2 =	To a very great extent	24
3 =	To a great extent	22
4 =	To a moderate extent	12
5 =	To some extent	8
6 =	To little or no extent	4
7 =	No basis to judge	16
	Missing	2

ACTION	RESPONSE NUMBER
Corrective Action	______

(36)

38. Does your program and/or activity use ADP generated data? (Check one.) (36)

1. ☐ Yes — Continue 80
2. ☐ No — Go to question 40. 12
3. ☐ Unknown — Go to question 40. 8

39. To what extent, if at all, have the corrective actions taken eliminated the weaknesses in ADP systems that generate data used by the program and/or activity? (Check one.) (37)

1. ☐ Not applicable — ADP system contained no known weaknesses 39
2. ☐ To a very great extent 7
3. ☐ To a great extent 14
4. ☐ To a moderate extent 10
5. ☐ To some extent 9
6. ☐ To little or no extent 5
7. ☐ No basis to judge 18

40. To what extent, if at all, does your agency support actions to correct management control system weaknesses? (Check one.) (38)

1. ☐ To a very great extent 33
2. ☐ To a great extent 32
3. ☐ To a moderate extent 12
4. ☐ To some extent 7
5. ☐ To little or no extent 2
6. ☐ Unknown 12

Missing 2

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41. How, if at all, has your agency demonstrated its support for correcting **management control system weaknesses** in the program and/or activity? **(Check all that apply.)**

1. ☐ Not applicable — program and/or activity has no **management control systems** needing corrective action (39-40) 16
2. ☐ Agency shows no support for correcting **management control system weaknesses** (41-42) 2
3. ☐ Increased funds to make the needed changes (43-44) 10
4. ☐ Increased staffing to implement and maintain improved **management control systems** (45-46) 10
5. ☐ Memo/letter from agency head discussing the importance of agency efforts to strengthen **management controls** (47-48) 42
6. ☐ Direct high-level agency management involvement in determining corrective actions needed (49-50) 35
7. ☐ Direct high-level agency management involvement in implementing corrective actions identified (51-52) 33
8. ☐ Agency management involved in follow-up procedures to determine the timeliness and effectiveness of corrective actions (53-54) 50
9. ☐ Required training in **management control system evaluations** and methods to improve weaknesses identified (55-56) 19
10. ☐ Other (Specify.) ____________ (57-58) 8

42. What agency actions and/or inactions indicate lack of support for correcting **management control system weaknesses**? **(Check all that apply.)**

1. ☐ Not applicable — agency actively supports corrections 69 (59)
2. ☐ Verbal support for improvements only 5 (60)
3. ☐ Inadequate increase in funds to make needed changes 9 (61)
4. ☐ Inadequate increase in staff to make needed improvements 14 (62)
5. ☐ Agency priorities higher in improving control systems in other areas or activities within the agency 8 (63)
6. ☐ Agency appears willing to accept the risk of fraud, waste, abuse, or mismanagement that exists under the current **management control systems** 2 (64)
7. ☐ Agency omits important **management control systems** from the evaluation process 1 (65)
8. ☐ Lack of meaningful training 9 (66)
9. ☐ Other (Specify.) ____________ 5 (67)

43. How adequate or inadequate were the results of the **management control evaluations** of the program and/or activity reflected in your agency's annual report to the President and the Congress (as required by the Federal Manager's Financial Integrity Act)? (Check one.)

1. ☐ More than adequate	11
2. ☐ Adequate	31
3. ☐ Marginally adequate	2
4. ☐ Inadequate	0
5. ☐ Very inadequate	0
6. ☐ No basis to judge — did not see the report	55
Missing	1

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CD5 | | | | | | | 0 | 5

VI. COST EFFECTIVENESS OF PROCESS OF EVALUATING AND STRENGTHENING MANAGEMENT CONTROL SYSTEMS

We are interested in collecting program and/or activity manager perspectives of the costs and benefits resulting from agency efforts to review and evaluate the management control systems within its programs, activities, organizations, and functions.

44. In your opinion to what extent, if at all, did the improvements that resulted from the work performed to evaluate and strengthen **management control systems (risk assessments and management control evaluations)** justify the costs to conduct that work? [Please consider all costs incurred (personnel, paperwork, etc.) and your knowledge of the **management control systems** in the program and/or activity.] **(Enter response number in the space provided.)**

RESPONSE SCALE	RA	MCE
1 = To a very great extent	5	5
2 = To a great extent	10	12
3 = To a moderate extent	21	21
4 = To some extent	18	18
5 = To little or no extent	22	22
6 = No basis to judge	21	21
Missing	2	3

ACTION	RESPONSE NUMBER	
1. Risk Assessment	________	(69)
2. Management Control Evaluation	________	(70)

45. If less than "to a moderate extent," why? **(Check all that apply in each column.)**

	Risk Asst.	Mgt. Cont. Eval.	
1. Work required participation of too many staff	37	41	(9-10)
2. Length of time (calendar days) excessive	32	34	(11-12)
3. Work required too much paperwork (documentation and reports)	59	60	(13-14)
4. Program controls considered adequate before the process	55	55	(15-16)
5. Process did not identify any weaknesses not already known	58	55	(17-18)
6. Only insignificant weaknesses identified	52	53	(19-20)
7. Duplicated assessment or evaluation efforts already conducted by other organizations (i.e., Inspector General, GAO, etc.)	26	24	(21-22)
8. Other (Specify.) ________	8	7	(23-24)

CD6 | | | | | | | 0 | 6 |

46. What are the most significant benefits, if any, to the program and/or activity as a result of the **risk assessments** and/or **management control evaluations** conducted? (**Check all that apply in each column.**)

	Risk Asst.	Mgt. Cont. Eval.	
1. No benefit	20	15	(9-12)
2. Helped better establish priorities within the program and/or activity	25	27	(13-16)
3. Identified activities/functions which caused inefficient or ineffective operations	28	34	(17-20)
4. Helped identify actions that could improve the efficiency and effectiveness of the program and/or activity	39	48	(21-24)
5. Better control over operations	33	37	(25-28)
6. Better allocation of staff resources	9	13	(29-32)
7. More accurate and timely information provided by ADP systems	7	10	(33-36)
8. More accurate and timely information provided by accounting/financial management systems	7	10	(37-40)
9. Program and/or activity personnel more aware of importance of strong **management control systems**	41	50	(41-44)
10. Identified material problems for top management consideration	14	17	(45-48)
11. Program and/or activity personnel actively attempt to identify and improve **management control system weaknesses**	21	28	(49-52)
12. Improved efficiency/effectiveness in accomplishing the program and/or activity's mission	22	31	(53-56)
13. Focused attention on solving long-standing problems	19	24	(57-60)
14. More effective or better controlled ADP or accounting/financial management systems were developed and implemented	7	9	(61-64)
15. Other (Specify.)	6	6	(65-68)

CD7 | | | | | | | 0 | 7 |

47. What, if any, are the most significant problems occurring in the program and/or activity as a result of the implementation of the Integrity Act? (**Check all that apply in each column.**)

	Risk Asst.	Mgt. Cont. Eval.	
1. No significant problems observed	63	61	(69-70)
2. Program slippage	3	3	(71-72)
3. New management control systems priorities inconsistent with meeting program objectives	6	5	(73-74)
4. Control procedures too time consuming/burdensome	23	24	(75-76)
5. Budget cuts hinder implementation of control improvements	16	19	(77-78)
6. Other (Specify.)	8	8	(79-80)

48. To what extent, if at all, does the process used in your agency to conduct reviews of **management control systems** assess the adequacy of the controls in effect in your program and/or activity? (**Check one.**) (9)

1. ☐ To a very great extent 12
2. ☐ To a great extent 31
3. ☐ To a moderate extent 24
4. ☐ To some extent 13
5. ☐ To little or no extent 4
6. ☐ No basis to judge 14

Missing 2

49. To what extent, if at all, have **management controls** in your program and/or activity improved as a result of the Integrity Act? (**Check one.**) (10)

1. ☐ To a very great extent 2
2. ☐ To a great extent 12
3. ☐ To a moderate extent 21
4. ☐ To some extent 21
5. ☐ To little or no extent 15
6. ☐ No basis to judge 26

Missing 3

50. What is your overall opinion of the **Federal Managers' Financial Integrity Act** program in your Agency/Department? (**Check one.**) (11)

1. ☐	Very successful	4
2. ☐	Successful	35
3. ☐	Marginally successful	23
4. ☐	Unsuccessful	3
5. ☐	Very unsuccessful	1
6. ☐	No basis to judge	33
	Missing	1

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CD8 | | | | | | | 0 | 8 |

VII. ADDITIONAL COMMENTS

51. If you have any additional comments on any of the items in this questionnaire or related topics, please express your views in the space below. **(Attach additional sheets, if necessary.) Thank you for your cooperation.** (1-80)

No Comments	78
Comments	22

(WMC, PEMD, May 1988)

Excerpts of Issues and Recommendations From the Internal Control Interagency Coordination Council Report

1. LINKING THE FMFIA MANAGEMENT CONTROL REVIEW AND REPORTING PROCESS WITH THE BUDGET

ISSUE

The FMFIA management control review and reporting process provides agencies with the opportunity to identify material weaknesses in the management controls of program, administrative and financial functions and to establish corrective actions. This should assist them in meeting their goals and objectives in an effective and efficient manner. The Annual Report provides agencies with the opportunity to disclose these material weaknesses and their progress in correcting them. Correction of some material weaknesses may have considerable budget implications. However, the current FMFIA reporting process does not link corrective actions and their funding requirements with the budget process. As a result, certain corrective actions may go unfunded or funds earmarked for their correction may be reprogrammed before the corrective is accomplished.

For each material weakness presently reported in the Annual Report, agencies identify the appropriation, component, program and decision unit to which it pertains. However, there are no provisions for reporting base or incremental funding requirements for corrective actions. Agency budget requests to OMB do not identify corrective actions and their funding requirements so policy officials in the agency, OMB, and Congress cannot identify or assess the magnitude of the cost of corrective actions.

RECOMMENDATION

Agencies should be required to identify and disclose the funding implications of material weaknesses and their corrective actions in the formal budget process controlled by OMB Circular A-11. We understand OMB is considering a revision to Circular A-11 which would accomplish this objective. The revision to Circular A-11 should provide for disclosure of corrective action funding identifying those corrective actions that require incremental funding and/or major reprogramming in the agency budget. For example, this disclosure should identify the material weakness and the fiscal year it was first reported, the related corrective action, the total incremental funding and/or reprogramming required, and a breakdown of the incremental funding and reprogramming by budget years until the weakness is corrected. Disclosure of corrective actions that do not require incremental funding or reprogramming or the anticipated savings from corrective actions should be left to the discretion of the agency.

ANTICIPATED BENEFITS

Disclosing corrective action funding requirements in annual budget requests should assist the President and Congressional decision-makers in analyzing the impact of corrective actions on agency resources. In linking the FMFIA management control process with the budget process, agencies must recognize the timing difference in submitting the annual agency budget request to OMB, conducting the management control review process, and issuing the Annual Report, in addition to the difference in fiscal years between the annual budget request and Annual Report.

2. EMPHASIZING EARLY WARNING CAPABILITIES

ISSUE

The Administration has emphasized that more effective use should be made of existing management processes and mechanisms that anticipate, identify and resolve mission critical issues. The management control review and reporting process is one of the more important "early warning" systems available to agency management to identify and gauge potential mission critical issues. The review and reporting processes are separate processes. The review process is a continuing assessment during the year while the reporting process is tied to the Annual Report. For early warning purposes, whenever a review identifies a weakness that warrants the attention of senior management, internal management processes should provide for immediate notification instead of waiting for the normal reporting of the weakness in the Annual Reporting process. This early warning capability has not been encompassed or effectively utilized by senior agency management on a governmentwide basis.

RECOMMENDATION

Agency management directives on the management control review and reporting process and FMFIA implementing guidance should emphasize the inherent early warning capabilities of this process. Agency management should effectively incorporate the results of the management control review and reporting process into the agency decision-making process, if they have not already done so, in order to ensure that mission critical issues are identified and elevated to senior agency management in a timely manner.

Agency management control review and reporting processes and FMFIA related training curriculums should emphasize the early warning capability and the actual and potential uses of the results of management control assessments and evaluations.

ANTICIPATED BENEFITS

This will greatly improve the overall effectiveness of the FMFIA program by ensuring that the results of the management control review and reporting process are effectively utilized. It will enhance agency management's understanding of the purpose and usefulness of the management control review and reporting process and increase senior management awareness of, and attention to, management control weaknesses (material and otherwise) discovered.

3. CONSOLIDATING REVIEW PROCESSES OF OMB CIRCULARS

ISSUE

Most agencies do not employ a consolidated review approach to fulfill the review requirements of OMB A-123, A-127 and A-130. There are several instances where the subject matter and methodologies used for these reviews are virtually identical. Adopting a consolidated review approach could eliminate duplicative and overlapping procedures, reduce the paper-flow associated with agency review guidance and documentation, and provide for more effective utilization of agency review resources. The Department of Agriculture has piloted and implemented a consolidated review program which has resulted in more cost-effective, less paper intensive, and more meaningful reviews processes under OMB A-123, A-127 and A-130.

RECOMMENDATION

Agencies should be referred to the consolidated review pilot program at the Department of Agriculture to determine if they want to implement a similar process. If so, agencies should be encouraged to develop or adopt appropriate implementing guidelines. This recommendation only pertains to the consolidation of review processes and not agency organizational components responsible for the review processes. In the next revision to these circulars, OMB should eliminate overlapping and repetitive review requirements and encourage agencies to adopt a consolidated review approach.

ANTICIPATED BENEFITS

Adopting a consolidated review approach for these circulars should result in a more streamlined review process. It should eliminate overlapping review requirements and provide for improved utilization of personnel involved in the review processes. It should facilitate the targeting of limited resources and improve the overall quality and utility of the reviews. It should also result in a less "paper intensive" review process by enabling agencies to consolidate annual review guidance and documentation.

4. ENHANCING SENIOR MANAGEMENT INVOLVEMENT

ISSUE

In recent testimony before Congress and pronouncements from OMB, it has been stated that the participation of senior-level management officials in the FMFIA management control review and reporting process is essential. It is extremely difficult to implement management control programs in those instances where senior-level management support is lacking, or is perceived to be lacking.

It is often difficult to get senior-level management involved in the FMFIA management control review and reporting process on a regular basis. Some agencies have resolved this dilemma by establishing policy committees composed of senior ranking officials within the agency to review and provide oversight on the management control process and the preparation of the Annual Report. Other agencies have resolved this dilemma through more informal management processes. The policy committee concept has proven to be successful in stimulating senior-level management participation and has been widely credited for improving the scope and quality of agency FMFIA management control review and reporting processes and related FMFIA activities.

RECOMMENDATION

Agencies not currently having senior-level management involvement in the FMFIA management control review and reporting process should be encouraged to establish senior-level policy committees to provide oversight on this process and related FMFIA activities. In addition, the PCMI, CFOC, and PCIE should actively promote senior-level management participation in this process.

ANTICIPATED BENEFITS

The establishment of senior-level management policy committees is consistent with the goal of providing for more effective administration of the FMFIA management control review and reporting process. It should provide for more consistent and lasting oversight and accountability in this process and related FMFIA activities. It should also enhance senior-level management awareness of the interrelationship of and support provided by this process to essential management functions like long-range planning, accounting and budget formulation.

5. <u>HIGHLIGHTING CRITICAL WEAKNESSES</u>

<u>ISSUE</u>

The Administration has expressed a desire to better utilize existing management processes and reporting mechanisms to improve strategic planning and better anticipate mission critical issues and problems. The Annual Report has the potential to function in this capacity, but the reporting requirements are not structured to specifically identify the most critical weaknesses or areas of weakness detected in the FMFIA management control review and reporting process. Presently, all material weaknesses are listed individually in Section 2 of the Annual Report without regard to their significance or priority. Weaknesses that may be most critical and warrant the special consideration of OMB, the President and Congress are not identified in this manner in the Annual Report. They remain buried along with other material weaknesses in Section 2.

<u>RECOMMENDATION</u>

Agencies should be required to specifically identify to OMB, the President and Congress the most critical internal control weaknesses or areas of weakness affecting their missions. Agencies should highlight those weaknesses which, in the opinion of agency management, warrants the special attention of the President and Congress. The agency head should have discretion in determining how to best accomplish this objective. Three options are (1) highlighting the most critical weaknesses in the annual FMFIA assurance letter, (2) prioritizing the material weaknesses listed in Section 2 of the Annual Report, and (3) banding the most critical weaknesses in the Annual Report.

<u>ANTICIPATED BENEFITS</u>

Highlighting or prioritizing the most critical weaknesses in the assurance letter or Annual Report should improve the overall effectiveness of the FMFIA reporting process with little, if any, additional reporting burden on agencies. It should provide senior-level management with flexibility in the identification and reporting the most critical weaknesses affecting their missions. It should also emphasize to cognizant agency managers which issues are of primary concern to senior-level management and identify the need for special funding requirements for corrective actions.

6. VALIDATING CORRECTIVE ACTIONS

ISSUE

The Administration has indicated that it is focusing on the "results" to be obtained from programs and management processes. It is essential that management controls be in place, appropriate, and functioning as intended. Therefore, the results an agency expects from the corrective actions it proposes should be clearly defined. This involves going beyond the reporting of milestones for corrective actions to a clear and definitive statement of expected results. Once corrective actions are completed, they should be reviewed to ascertain that the desired results were achieved. The Annual Report does not address the validation by management that corrective actions were taken as reported and were effective.

RECOMMENDATION

Agencies should be encouraged to include a narrative statement in the Annual Report explaining what processes were used to assure themselves that completed corrective actions were effective. Agencies should maintain appropriate documentation that indicates that corrective actions have been accomplished and were effective. The participation of the agency Inspector General in validating that corrective actions have been taken and were effective should also be strongly encouraged.

ANTICIPATED BENEFITS

Validating corrective actions in the Annual Report will not significantly increase the FMFIA reporting burden of agencies. It should increase agency awareness of the importance of having systems in place to validate corrective actions, thereby reducing the likelihood of repeated occurrences of the same weakness. It should also establish a system that can be reviewed by audit organizations both within and outside the agency.

7. TRAINING AND INTERPRETING THE SCOPE OF THE FMFIA

ISSUE

The requirements of the FMFIA are designed to assist Federal management in protecting Federal assets and funds from waste, loss, fraud and misappropriation and to assist in achieving program objectives. These requirements are intended to apply to both administrative and financial programs and functions. There have been several communications from the Comptroller General and the Director of OMB which have stated clearly that the internal control process applies to program, administrative and financial management areas. However, some Federal managers still perceive and interpret the internal control aspects of the FMFIA and related OMB and GAO guidelines as being restricted to administrative and financial management areas. The resources allocated to programmatic functions constitute the dominant part of the Federal budget; thus, it is imperative that program managers take a leading role in carrying out FMFIA responsibilities.

There are a number of possible causes for management perceptions and interpretations about the scope of the FMFIA; however, two primary causes appear to be the training provided Federal program managers and the terminology used in the FMFIA and related OMB and GAO implementation guidance.

RECOMMENDATION

A. OMB should request that the Office of Personnel Management establish cost-effective FMFIA training aimed at improving program management awareness and acceptance of FMFIA responsibilities. Other providers of FMFIA training (USDA Graduate School, individual departments, contractors, etc.) should be fully aware of evolving activities and policy in this area and effectively communicate this information to trainees.

B. When OMB A-123 is next revised, it should provide for a more uniform and consistent interpretation of the scope and intent of the FMFIA by eliminating terminology like "internal controls", a term generally associated with accounting and fiscal functions, and substituting more all-encompassing terms like "management controls". Agencies should make a concentrated effort to revise their own guidance to emphasize that management controls encompass all aspects of the agency's operation, and not just the financial and administrative management functions.

ANTICIPATED BENEFITS

This should provide for more consistent interpretation and acceptance of FMFIA responsibilities on the part of Federal program managers. It should also provide a more cost-effective and efficient means of providing comprehensive FMFIA training.

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