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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Agriculture

Agriculture's First-Year Implementation Of The Federal Managers' Financial Integrity Act

GAO reviewed the processes used by 22 federal departments and agencies to implement the Federal Managers' Financial Integrity Act of 1982. The act was intended to help reduce fraud, waste, and abuse across the spectrum of federal government operations by requiring agencies to assess and annually report on the adequacy of their internal controls and accounting systems.

This report highlights the progress made and problems encountered by the Department of Agriculture in its first year of experience with the act. The report focuses on Agriculture's evaluation of internal controls and reviews of accounting systems and the improvements it is making as a result of identified problems.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

B-202205

The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Secretary:

This report presents the results of our review of the process used by the Department of Agriculture to implement the Federal Managers' Financial Integrity Act of 1982. Our review was part of GAO's governmentwide assessment of the act's first-year implementation by 22 executive agencies.

We believe Agriculture has made a concerted effort to comply with the act's basic requirements and has made progress toward creating a framework for improving internal controls. Your required year-end statement to the President and to the Congress of December 29, 1983, on internal controls describes efforts to meet the act's requirements and notes that Agriculture's internal control evaluation and improvement program has not yet progressed to the point that positive assurance can be provided that internal control objectives have been met. Your statement also included an identification of material internal control weaknesses and plans for corrective action. Your separate December 29, 1983, statement on accounting system compliance with the act also cites limitations in Agriculture's first-year effort and concludes that compliance evaluations were inadequate to determine if Agriculture's systems comply with the Comptroller General's Accounting Principles and Standards. Both statements, in our view, accurately represented the positive yet unfinished work by Agriculture.

As you are aware, section 2 of the act requires federal agencies to establish systems of internal accounting and administrative controls that can provide reasonable assurance that (1) obligations and costs comply with applicable law, (2) funds, property, and other assets are safeguarded from waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures are properly recorded, accounted for, and reported.

In addition, the act requires agencies to conduct their evaluation of internal controls based on Office of Management and Budget (OMB) guidelines. These guidelines provide guidance to agencies on how to (1) organize the internal control evaluation

process, (2) segment the agency to create an inventory of assessable units, comprised of programs and administrative functions, (3) conduct vulnerability assessments to determine the risk of waste, loss, unauthorized use, or misappropriation, (4) review internal controls, (5) correct deficiencies, and (6) report on the adequacy of internal controls and plans for corrective actions.

Section 4 of the act requires agencies to report annually on whether their accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

Our observations based on Agriculture's first-year efforts to comply with the act are summarized below. The details of our review are presented in appendix I. Appendix II summarizes the internal control and accounting systems' material weaknesses as reported by the Department of Agriculture.

Given the size and complexity of its programs and responsibilities, Agriculture has made progress toward creating a framework for improving internal controls. Thirty-eight agencies and offices within the Department have completed vulnerability assessments and have taken steps to improve internal controls by correcting weaknesses and conducting internal control reviews and other evaluation efforts. The Department has created a centralized activity within the Office of Finance and Management (OFM) which is providing guidance and technical assistance and establishing policies and procedures for reporting and follow-up. Agencies are generally aware of the importance of internal controls, and top management has given its support. The Inspector General has been involved throughout the process.

Notwithstanding the above progress, we found several weaknesses in Agriculture's internal control program. For example, Agriculture did not have a systematic approach for assuring the overall quality of the products produced from its internal control program. Agency reports from vulnerability assessments and internal control evaluations were generally not critically reviewed for accuracy and adherence to OMB guidelines. Vulnerability assessments and internal control evaluations we examined did not always follow OMB guidelines. In addition, Agriculture segmented many of its programs and functions too broadly to facilitate meaningful assessments and reviews. Agriculture also did not adequately address automatic data processing (ADP) control problems. Several agencies segmented ADP incompletely. Agencies varied considerably in the extent and quality of their documentation of vulnerability assessments and internal control reviews. Although the Office of Inspector General (OIG) has participated in Agriculture's internal control program, the various OIG roles and responsibilities described in agency directives and guidelines need clarification.

We also found that most agencies did not perform in-depth accounting system compliance evaluations. Agencies did not test to determine if accounting systems were operating in accordance with established policies and procedures.

Agriculture has produced a comprehensive set of guidelines for segmenting and for performing vulnerability assessments and internal control reviews. Agriculture has also produced a quality assurance plan for its agencies. Agencies are not, however, required to follow the guidelines or the quality assurance plan.

Accordingly, in a draft of this report, we proposed that the Assistant Secretary for Administration:

- Issue the quality assurance plan as a departmental directive. The directive should require that all agencies adhere to its provisions in order to assure that the agencies are achieving the act's objectives.
- Issue as a departmental directive, guidelines requiring minimum standards for segmenting and for performing vulnerability assessments and internal control reviews.
- Establish requirements for agency documentation of internal control evaluation and improvement processes.
- Establish a methodology for considering ADP general and application controls and criteria for segmenting ADP into its functional components. Guidelines should stress the program managers' responsibility to consider ADP controls.
- Monitor agency accounting system compliance evaluation plans and progress.
- Incorporate testing requirements into the Department's accounting systems compliance evaluation procedures.

We also proposed that the Secretary request the Inspector General to formally define his office's role in the Department's internal control program and to develop a plan for carrying out that role.

Agriculture has modified its internal control guidelines to include guidance for evaluating ADP which is consistent with our proposal. Agriculture also agreed with our proposals for improving accounting system compliance evaluations. Although Agriculture disagreed with our proposal to have the Inspector General define his office's role in the Department's internal control program, Agriculture officials stated that they will work with the OIG to issue a comprehensive role statement.

Agriculture disagreed with our proposals to issue OFM's recommended quality assurance plan as a directive and to establish a clear specification of minimum standards for segmenting and for performing vulnerability assessments and internal control reviews. Agriculture believes such actions are not necessary or appropriate because of the need to allow individual agencies the flexibility to develop approaches consistent with their unique structures and programs. In addition, Agriculture believes that while quality assurance was a problem in 1983, it has already implemented an effective quality assurance process for 1984. Agriculture describes its process as including the assignment of agency responsibility for quality assurance to OFM staff, frequent contact between OFM and individual agencies to discuss progress and expectations, audit roles of OIG and GAO, and the quality assurance plan itself. Agriculture also believes its recently prepared guidance adequately stresses the importance of documentation.

Our proposals were based on our opinion that Department-wide minimum performance standards, documentation requirements, and a required quality assurance plan are needed to help Agriculture's agencies and offices achieve a more consistent level of performance in 1984. Because of Agriculture's recent progress and planned actions, we have not included any recommendations in this report. We plan, however, to monitor Agriculture's performance to improve internal controls as part of our continuing review of federal agencies' implementation of the Financial Integrity Act.

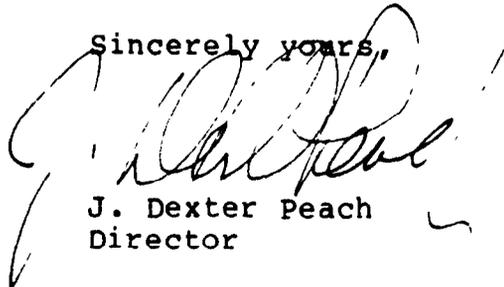
Agriculture's comments on our draft report are presented as appendix III.

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We appreciate the cooperation extended to our staff during our work and look forward to the same spirit of cooperation on our follow-on review efforts.

We are sending copies of this report to the House Committee on Government Operations and the Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, and the Director of the Office of Management and Budget.

Sincerely yours,



J. Dexter Peach
Director

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ABBREVIATIONS

ADP	automatic data processing
ASCS	Agricultural Stabilization and Conservation Service
FCIC	Federal Crop Insurance Corporation
FGIS	Federal Grain Inspection Service
FMFIA	Federal Managers' Financial Integrity Act
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
GAO	General Accounting Office
NFC	National Finance Center
OFM	Office of Finance and Management
OIG	Office of Inspector General
OIRM	Office of Information Resources Management
OMB	Office of Management and Budget
REA	Rural Electrification Administration
USDA	U.S. Department of Agriculture

AGRICULTURE'S FIRST YEAR
IMPLEMENTATION OF THE FEDERAL
MANAGERS' FINANCIAL INTEGRITY ACT

INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse across a wide spectrum of government operations, which were largely attributable to serious weaknesses in agencies' internal controls, the Congress in 1982 enacted the Federal Managers' Financial Integrity Act (31 U.S.C. 3512(b) and (c)). The act strengthens the existing requirement of the Accounting and Auditing Act of 1950 that executive agencies establish and maintain systems of accounting and internal control in order to provide effective control over, and accountability for, all funds, property, and other assets for which the agency is responsible (31 U.S.C. 3512(a)(3)).

GAO believes that full implementation of the Federal Managers' Financial Integrity Act (FMFIA) will enable the heads of federal departments and agencies to more effectively identify their major internal control and accounting problems and improve controls essential to the development of an effective internal control system and a sound financial management structure for their agencies. The act requires that:

- Each agency establish and maintain its internal controls in accordance with the standards prescribed by the Comptroller General,¹ so as to reasonably assure that (1) obligations and costs comply with applicable law, (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are recorded and properly accounted for.

- Each agency evaluate and report annually on its internal control systems. The report is to state whether agency systems of internal control comply with the objectives of internal controls set forth in the act and with the standards prescribed by the Comptroller General. The act also provides for agency statements to identify its material weaknesses and describe the plans for corrective action.²

¹The Comptroller General issued Standards for Internal Controls in the Federal Government in June 1983.

²OMB guidelines define a material weakness as a situation in which procedures or the degree of operational compliance therewith does not provide reasonable assurance that the objectives of internal control specified in the act are being accomplished.

- Each agency prepare a separate report on whether the agency's accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General.
- The Office of Management and Budget (OMB) issue guidelines for federal departments and agencies to use in evaluating their internal control systems. These guidelines were issued in December 1982.

OMB's guidelines recommend that agencies follow a multiphase approach to evaluate their internal control systems. As a first step, OMB recommends that agencies assign responsibilities for planning, directing, and controlling the evaluation process. Agencies should then identify assessable units by dividing their organizations, programs, and administrative functions into segments or units. Each unit should then be assessed for its vulnerability to fraud, waste, abuse, or mismanagement. Determining a unit's vulnerability entails identifying factors creating risk, such as size, budget, past audit findings, operating environment, and a preliminary evaluation of the adequacy of existing internal controls.

After completing assessments, OMB guidelines recommend that agencies should develop plans to review controls in various units in detail based on their degree of vulnerability and the agencies' priorities and resources. Reviews of controls should determine if internal control objectives have been written and whether controls are in place and working as intended. The guidelines also require agencies to take corrective actions for weaknesses noted during the reviews. Finally, agency heads are to prepare an annual statement to the President and the Congress on the status of internal controls in their agencies.

This report on the Department of Agriculture is one of 22 reports by us on federal agencies' efforts to implement the act during the first year. We are also issuing a report summarizing the results of the 22 reviews.

BACKGROUND ON AGRICULTURE

The Department of Agriculture comprises 45 agencies and offices which administer about 300 widely varying programs. To illustrate, some of the many diverse activities carried out by the Department are farm income stabilization, agricultural research, food stamps for lower income Americans, rural housing, economic development assistance for rural areas, national forests management, and soil conservation. The Department's broad range of activities aim to (1) improve farm income, (2) expand overseas markets for farm products, (3) assure consumers of an adequate food supply at reasonable prices, (4) safeguard the wholesomeness and quality of food, (5) educate consumers as to food nutrition and costs, (6) provide food assistance to the less fortunate, (7) improve plant and animal production, (8) protect the rural

environment, (9) assist rural housing and development, and (10) help developing countries improve their food production.

The Department carries out most of these activities in a decentralized manner. The Soil Conservation Service, Agricultural Stabilization and Conservation Service, Farmers Home Administration, and Cooperative Extension Service alone have well over 10,000 county offices. In addition, there are many state and district offices.

For fiscal year 1983, the Department's budget authority was \$56.4 billion. As of June 30, 1983, over \$124 billion was owed to the Department, including over \$62 billion owed to the Farmers Home Administration and almost \$33 billion to the Rural Electrification Administration. The fiscal year 1984 estimated employment by the Department is 108,900 full-time equivalent positions.

AGRICULTURE'S INTERNAL CONTROL PROGRAM

Agriculture initiated its internal control program in March 1982 when the Secretary assigned internal control oversight responsibility jointly to two policy committees:³ the Investigations and Auditing Committee, chaired by the Inspector General, and the Administration Committee, chaired by the Assistant Secretary for Administration. These committees were created partly in response to OMB Circular A-123 (October 28, 1981), which prescribed policies and standards for establishing and maintaining internal controls. The Inspector General's committee was responsible for "coordinating and monitoring" the conduct of vulnerability assessments. The Assistant Secretary's committee was responsible for coordinating and implementing internal control evaluations and improvements based on vulnerability assessment results. Committee work is accomplished by working groups comprised of representatives from agencies throughout the Department. In October 1983, a central coordinating office was created under the Assistant Secretary for Administration's Office of Finance and Management (OFM) to oversee the act's implementation.

Consistent with Agriculture's decentralization and managerial flexibility, individual agencies were given considerable latitude in implementing internal control requirements. As a result, agencies used a diversity of approaches to segment, conduct, and report vulnerability assessments and evaluate internal controls. According to Agriculture, the lack of timely OMB direction contributed to the diversity of approaches.

³These committees are part of the Secretary's Policy and Coordinating Council, which was created to provide "policy determination and issue resolution" for top management.

Segmentation process

Agriculture generally segmented organizationally into programs and administrative functions, according to February 1982 draft OMB guidelines. Department-wide, 1,361 assessable units were identified from the segmentation process. Considerable differences exist among the agencies with respect to the size, number, and characteristics of assessable units. Some agencies intend to resegment as part of their 1984 assessments.

Vulnerability assessments

Thirty-eight agencies and offices reported vulnerability assessments conducted on the 1,361 assessable units. Seventy-six units were ranked highly vulnerable, 218 moderately vulnerable, and 1,067 low in vulnerability. Although most agencies used the draft OMB guidelines as their principal source of guidance, a few developed their own guidelines as a supplement to OMB guidance.

A variety of approaches was used to conduct vulnerability assessments. For example, about half of the agencies used some form of questionnaire or checklist for determining the relative risk of assessable units to fraud, waste, and mismanagement. The remaining agencies followed an approach in which a committee or group of individuals prepared assessments based on their understanding of OMB guidelines.

Agencies also delegated responsibility for performing vulnerability assessments in a variety of ways. For example, for those agencies we examined, some assigned responsibility to various levels of managers throughout the organization. Others used program analysts, and several formed special task forces to perform and coordinate vulnerability assessments. Regardless of approach used, most agencies did not involve their field offices in the assessment process.

Internal control reviews

Agriculture reported 47 internal control reviews conducted in 1983. An additional 72 reviews are scheduled for completion in 1984. Although many agencies plan to conduct internal control reviews on their most vulnerable areas, several agencies intend to modify their existing internal management reviews as a substitute for internal control reviews.

Agencies conducting internal control reviews in 1983 used a variety of approaches, ranging from documenting and testing controls to summarizing internal control findings developed from prior audit reports and internal management reviews. Most internal control review work we examined was performed in headquarters.

Follow-up systems

OFM is developing a system to track vulnerability assessment and internal control review results and reported material

weaknesses. The system will operate centrally and is designed to support OFM's primary follow-up methods which are meetings between OFM and agencies to review progress and work products.

Accounting system compliance evaluations

For 1983, Agriculture agencies used a variety of approaches to evaluate their accounting systems, ranging from discussions with accounting and financial officials to use of GAO's Review Guide for Federal Agency Accounting Systems. The guide provides a basis for determining if an agency's accounting system design meets GAO's accounting principles and standards. Most Agriculture agencies inventoried their accounting systems and, based on reviews of GAO and Inspector General (IG) reports, reported deviations from GAO accounting principles and standards.

AGRICULTURE'S YEAR-END STATEMENTS

The Secretary's year-end statement on internal controls states that Agriculture's fiscal year 1983 effort followed OMB guidelines and that on the basis of evaluations and corrective actions taken, the Department has "not yet progressed to the point that positive assurance can be provided" that all of the basic internal control objectives embodied in the act were achieved in 1983. The Secretary also noted that the Department "as a whole has made a conscientious effort to meet the requirements of the Act" and "significant improvements are expected in the Department's 1984 program." While the Secretary did not state definitively whether or not Agriculture's internal control systems comply with the three statutory objectives and the Comptroller General's standards, we believe the year-end statement was an accurate representation of Agriculture's positive efforts as well as its yet unfinished work. The results of the Inspector General's review of Agriculture's compliance with the act is consistent with the Secretary's year-end statement on internal controls.

Supporting the Secretary's statement were individual agency reports and various analyses, prepared by OFM, designed to inform the Secretary of Department-wide progress.

The Secretary's statement included:

- A listing of material weaknesses along with plans for corrective actions. Appendix II summarizes the reported material weaknesses. Weaknesses were identified through a variety of sources, including information from GAO and Inspector General audit reports. Some agencies included as a material weakness the lack of an effective internal control evaluation process.

- A description of Agriculture's system of internal management reviews, which include multi-agency reviews as well as those regularly conducted by several agencies. Agriculture reported that in many cases such reviews are adequate substitutes for internal control reviews.

--A statement that significant improvements will occur in the Department's 1984 programs. Agencies described their planned 1984 changes and listed actions taken or scheduled for correcting material weaknesses.

The Secretary's statement on accounting systems concluded that the first-year evaluations were inadequate to determine whether the Department's accounting systems conform to the Comptroller General's Accounting Principles and Standards. Included in the Secretary's statement were descriptions of accounting systems and system deviations identified from individual agency reports. Several agencies included in their reports to the Secretary a description of their evaluation processes and system enhancement projects underway.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess Agriculture's processes for evaluating its internal control and accounting systems for purposes of reporting under the act. We also examined the Department's year-end statements required by the act for accuracy and completeness. Because our first-year review was limited to evaluating Agriculture's implementation process, we did not independently determine the status of its internal control system or the extent to which its accounting systems comply with the Comptroller General's Accounting Principles and Standards. Our review started in July 1983 and ended in January 1984.

We did work at the following Agriculture agencies which collectively accounted for over \$43 billion in fiscal year 1983 outlays, representing over 95 percent of Agriculture's total budget:

- Agricultural Stabilization and Conservation Service
- Animal and Plant Health Inspection Service
- Farmers Home Administration
- Federal Crop Insurance Corporation
- Federal Grain Inspection Service
- Food and Nutrition Service
- Food Safety and Inspection Service
- Forest Service
- National Finance Center
- Rural Electrification Administration
- Soil Conservation Service

For each agency reviewed, we examined appropriate records and interviewed officials having general management and specific FMFIA responsibilities. We focused on agency documentation of its segmenting process, vulnerability assessments, internal control reviews, and year-end reporting. We examined these agencies' 507 vulnerability assessments and 27 internal control reviews for compliance with OMB guidelines. In 1983, Agriculture completed 1,361 vulnerability assessments and 47 internal control reviews. We held extensive discussions with and examined documents from the

Office of Finance and Management and the Office of Inspector General. We also reviewed Agriculture's efforts to evaluate controls relating to ADP operations because of ADP's integral role in Agriculture activities. Our ADP work also included evaluating the internal control evaluation efforts of the Office of Information and Resource Management.

We also examined the accounting system compliance evaluation efforts in the following seven agencies: Agricultural Marketing Service, Agricultural Stabilization and Conservation Service, Farmers Home Administration, Food and Nutrition Service, Forest Service, National Finance Center, and Rural Electrification Administration.

Our work was conducted in accordance with generally accepted government auditing standards.

NEED FOR INTERNAL CONTROL IMPROVEMENTS

Agriculture has made progress toward meeting the objectives of the act. Agencies are improving their internal control evaluation processes. In particular, a strong central office within OFM was created to provide guidance and direction. However, continued improvements will require agencies to upgrade the quality and consistency of their evaluation efforts, better document results, and expand their consideration of ADP issues. In addition, the Inspector General can assist in Agriculture's efforts by developing a plan for his involvement in the internal control program.

Strong central guidance has improved Agriculture's internal control program

Agriculture's Office of Finance and Management has played an important and much needed role in providing direction and oversight to the Department's internal control program. The office's presence should help guide internal control activities of Agriculture's individual agencies and offices.

OFM established a central office in October 1983 to provide oversight over Agriculture's implementation of the Financial Integrity Act. The Inspector General and OMB both reported, in their mid-1983 reviews of Agriculture, that the Department's slow progress in implementing internal control improvements stemmed from lack of central direction and oversight. Between December 1982 when assessments were completed and late 1983 when the centralized activity was established, very little departmental action on internal control occurred. Guidance for performing internal control reviews or other subsequent actions was not available, and agencies were not made aware of the requirement to prepare year-end reports in support of the Secretary's report to the President and the Congress.

Since the creation of the central office, OFM has moved to correct many of the weaknesses in the Department's internal control program. For example:

- Requirements for agency year-end reporting have been established and coordinated.
- Internal control officers have been designated for each agency to improve and coordinate agency activities.
- Regularly scheduled meetings of internal control officers are held to provide training and to review progress.
- Proposed systems for tracking key elements of agencies' processes have been developed.
- Technical assistance and critical reviews of agencies' progress have been provided on an on-going basis.

In addition, OFM has prepared guidelines for segmentation, vulnerability assessments, internal control reviews, and quality assurance. These guidelines are consistent with OMB guidelines.

Quality assurance strategy needed

Agriculture needs a systematic approach for assuring the overall quality of the products produced from its internal control program. OMB's guidelines state that it is critical for agencies to provide for quality control over the entire internal control evaluation process. Quality assurance is especially important in Agriculture, because of its size and diversity. As discussed later in this report, we found that vulnerability assessments and internal control reviews did not always follow the OMB guidelines, thereby providing little assurance that GAO standards have been addressed.

Our review disclosed that agency reports from vulnerability assessments and internal control reviews were not critically reviewed for accuracy and adherence to OMB guidelines. Although most agencies required their work products to be reviewed by various levels of management, this was not always done. In cases where management did review the results of a vulnerability assessment or internal control review, we could not determine if the review considered compliance with OMB guidelines. Also, several agency officials expressed a low level of confidence in their vulnerability assessments and internal control reviews and recognized the need to conduct more accurate and meaningful evaluations in the future.

Recognizing the need for a quality assurance process within Agriculture, OFM prepared the Internal Controls Quality Assurance Plan. Although not yet implemented, the plan contains several checklists that agencies can use to help ensure that critical criteria are met when carrying out FIA activities.

The checklists cover segmentation, vulnerability assessments, internal control reviews, planning for subsequent actions, conducting alternative reviews, identifying material weaknesses, taking corrective actions, and year-end reporting. Negative

responses to checklist items require further explanation, thus providing a basis for independent reviews and evaluation. The checklists can be used by the individual conducting the process, by internal control officers, or by upper management to review the work of others. Although the quality assurance plan provides a framework for improving agency internal control processes, adherence to the plan is voluntary. Agencies will not be required to adopt the plan. The plan instead stresses that "fundamental responsibility for the quality assurance of the products of the agencies and offices rests with the heads of those organizations."

Guidelines with performance standards needed to improve internal control program

We found weaknesses in Agriculture's segmentation, vulnerability assessment, and internal control review processes. Agriculture generally segmented too broadly and excluded its field offices from the process. Vulnerability assessments and internal control reviews did not always follow OMB guidelines and were not performed and reported on a consistent or timely basis. OFM guidelines should provide a sound basis for improving these conditions. To assure that the guidelines are adopted by Agriculture's many agencies and offices, minimum standards of compliance with the guidelines may be necessary.

Segmentation weaknesses need attention

Agriculture's 1982 segmentation process contained several weaknesses. These weaknesses were (1) an excessively broad identification of assessable units, (2) inadequate consideration of field office program delivery systems, and (3) inconsistent and deficient segmentation for ADP issues (ADP segmentation problems are discussed later in the report).

OMB guidelines state that assessable units should be of an appropriate nature and size to facilitate meaningful vulnerability assessments. However, many Agriculture agencies segmented into units which were too broad to facilitate meaningful assessments and follow-on internal control reviews. For example, the Agricultural Stabilization and Conservation Service (ASCS) identified commodity loans as one assessable unit, although these loans encompass several multi-billion-dollar programs. Farmers Home Administration's (FmHA's) "loan servicing" assessable unit spans over 25 separate programs in over 2,000 locations. Only 2 of 11 agencies we examined further segmented programs and functions into more manageable units as recommended by OMB. Excessively broad assessable units led to identification of vulnerable areas which were not as precise as they could have been. Without the needed precision, it is difficult to schedule and properly scope follow-on internal control reviews or other alternative actions.

A cause of segmentation weaknesses was that the agencies were provided minimal guidance, primarily draft OMB guidelines which were subsequently revised. OMB draft guidelines suggested agencies needed only to identify "programs and functions." Final

guidelines, which were published after Agriculture completed its segmentation and vulnerability assessments, provided more detailed guidance and introduced the concept of assessable units.

Improving vulnerability assessments

Agriculture's 1982 vulnerability assessments varied substantially in quality and consistency. Although most agencies we reviewed attempted to follow OMB guidelines for vulnerability assessments, several agencies' efforts were limited. Because agency approaches to determine the vulnerability of their programs and functions varied widely, results were not reported consistently, making comparisons difficult and an accurate departmental perspective impossible.

OMB guidelines state that vulnerability assessments should identify the relative risk of each agency's assessable units to fraud, waste, and mismanagement. The results of assessments should provide the support for a plan of action to address vulnerable areas. Such action could include taking corrective measures, conducting an internal control review, or making some other type of evaluation. Some of the problems of vulnerability assessments we found in the agencies we reviewed included the following:

- Vulnerability assessment approaches varied substantially. For example, less than half the agencies developed questionnaires or checklists to analyze and rank the vulnerability of segments. Some agency assessments were administered by task forces and committees, others had line managers complete the forms. Some agencies involved many individuals in the process, others only a few. Three agencies used an identical form but each established different criteria for their rankings of high, medium, and low. Less than half the agencies identified segments as high, medium, or low vulnerability, and a few did not rank their segments in terms of vulnerability.
- Conformance with OMB guidelines varied by agency. Agencies which used checklists and questionnaires to collect data for their assessments gave more consideration to factors that OMB suggested be used in assessing vulnerability. Agencies employing a more subjective approach were usually unable to describe or support the extent to which OMB factors were considered. We also found that most agencies did not adequately consider the impact of ADP controls in their assessments.
- Vulnerable areas may not have been ranked accurately. For example, the Agricultural Stabilization and Conservation Service, which administers multi-billion-dollar price support programs, ranked its 12 segments all low vulnerability although many unresolved Office of Inspector General audit findings existed. Unresolved OIG audit findings

suggest that higher than reported vulnerability rankings would have been appropriate.

Problems associated with first-year implementation of a complex process, and the difficulty of coordinating the efforts of many agencies and offices, all contributed to the problems Agriculture encountered in vulnerability assessments.

Another problem was that Agriculture's field offices were largely excluded from participating in the assessment process. The many thousands of field offices play a significant role in administering Agriculture's programs. Important differences in the administration of a program or function exist between geographic areas or even between field offices in the same area. As a result, vulnerability assessments may not accurately represent all of Agriculture's vulnerabilities.

OFM guidelines on conducting vulnerability assessments could provide the groundwork for more accurate and consistent assessments. The guidelines provide comments, suggestions, and forms for selecting assessable units, conducting vulnerability assessments, and evaluating subsequent action. The guidelines state that the forms and other material are not required; neither do the guidelines provide for a minimum level of performance.

In commenting on our draft report, Agriculture said our statements describing the wide diversity of vulnerability assessment approaches taken by agencies are misleading. It also cited OMB's approval of a task force or committee in performing assessments and that OMB did not require rankings of high, moderate and low vulnerability.

We believe that the diversity of approaches taken by Agriculture also reflected a range of compliance with draft OMB guidelines. Regarding the requirement for ranking high, medium, and low vulnerability, draft OMB guidelines stated, "The assessment should be documented and a conclusion reached as to overall vulnerability, e.g., highly vulnerable, moderately vulnerable . . . absence of vulnerability, etc." Several agencies did follow draft OMB guidance fairly closely on this issue, others identified only highly ranked areas, and still others gave no indication of ranking.

Agriculture also commented that our statements relating to the lack of field office involvement in Agriculture's internal control process are misleading and inaccurate. Agriculture cited the many field review and audit results used by agencies to define weaknesses and corrective action. Agriculture made reference to the Agricultural Stabilization and Conservation Service, Farmers Home Administration, and the Forest Service as having extensive field involvement.

While we agree that analyzing audits and reviews takes into account field office problems, such an approach is not a substitute for field office participation. We found that field offices were generally not consulted for their observations and insights, nor did vulnerability assessments reflect the substantial differences in vulnerability of programs and functions from location to location. The same agencies cited by Agriculture as having extensive field involvement have all told us that they need to involve their field offices to a much greater extent during the next round of assessments.

Improving internal control evaluation efforts

Agriculture agencies have chosen many approaches to evaluate internal controls, not all of which meet OMB guidelines. OMB guidelines suggest that when vulnerability assessments are completed, agencies develop a plan for subsequent action. Such a plan should show actions to be taken for those areas judged highly or moderately vulnerable. Depending on the nature of the vulnerability and other factors, agencies can schedule internal control reviews and other actions designed to evaluate and improve internal control in the area under review. OMB states that the timely completion of reviews is important but the primary focus is on the quality of the effort.

Our review disclosed the following:

--Agencies are addressing highly vulnerable areas in many different ways. For example, five agencies intend to perform modified versions of internal management reviews rather than internal control reviews. Internal management reviews typically involve on-site reviews of field office compliance with procedures, regulations, and policy. They are not designed to focus on determining the effectiveness of internal controls. In commenting on a draft of our report, Agriculture said that because management reviews determine compliance with existing policies, procedures, and regulations, they are therefore evaluating controls. We agree but point out that such reviews would be limited to evaluating compliance with existing controls and not areas where controls are absent.

--Of the 27 internal control reviews completed by our 11-agency sample, only 4 reviews, 2 each by the Food Safety and Inspection Service and the National Finance Center, substantially addressed all OMB criteria. Most did not adequately evaluate or test internal controls in place.

Several factors may have inhibited Agriculture's progress. The Department's internal control review guides were issued in draft form in June 1983, which was too late to be useful. Further, guidelines were issued as "draft" and did not impose any requirement for their use. The limitations of several agencies' vulnerability assessments as discussed above may also have hampered the scheduling of reviews.

OFM guidelines provide a better basis for evaluating internal controls. A companion self-instructional training guide provides a comprehensive series of steps and aids for conducting internal control reviews. A similar set of draft guidelines exists for conducting vulnerability assessments and includes suggestions for determining when alternatives to internal control reviews can be conducted. However, as with guidelines for vulnerability assessments discussed earlier, the internal control guidelines are not required to be followed, nor do they establish minimum levels of performance.

Need for improved documentation

Agencies we examined varied considerably in the extent and quality of documentation of their vulnerability assessments and internal control reviews. The Department needs to stress the importance of maintaining adequate supporting documentation in its guidance to the agencies.

OMB guidelines state that agencies should keep adequate written documentation of vulnerability assessments, internal control reviews, and follow-up actions to provide a permanent record of methods used, personnel involved and their roles, the key factors considered, and the conclusions reached. OMB pointed out that the documentation would be useful for reviewing the validity of conclusions reached, evaluating the performance of individuals involved in the process, and performing subsequent assessments and reviews.

Six of the agencies we reviewed used questionnaires or checklists to prepare their vulnerability assessments. For these agencies, we were usually able to determine the methods used and support for conclusions reached. The remaining five agencies used a more subjective evaluation process which usually resulted in less documentation and support for conclusions reached. Similarly, there were weaknesses in documentation for the internal control reviews we examined. We found instances in which the criteria for findings and conclusions were not always described, and it was not always clear how the review results were to be used. Therefore, the accuracy and completeness of the assessments and reviews cannot be easily evaluated by departmental officials or independent reviewers.

Inadequately documented assessments may have been caused by the agencies' having to rely on the draft OMB guidelines, which, although requiring that "adequate written documentation" be maintained, were not as explicit as the final guidelines as to the meaning of "adequate." For example, the draft guidelines called for a permanent record of "the work performed." The final guidelines clarified this by stating that the permanent record should include (1) the methods used, (2) the personnel involved and their roles, and (3) the key factors considered. In addition, when the assessments were done in 1982, Agriculture had not yet developed documentation guidance for the agencies. We believe that this was a contributing factor in the inadequate documentation of the

assessments. Similarly, when the agencies did their internal control reviews in late 1983, OFM was developing some documentation guidelines, but they were not available in time for the agencies' use. We believe that this also contributed to the internal control review documentation weaknesses.

Insufficient documentation prevents the agencies and others from properly evaluating the quality of the vulnerability assessments and internal control reviews and the performance of individuals involved. It also detracts from the agencies' efforts to identify internal control weaknesses and recommend improvements. Finally, it impedes future assessments and reviews.

OFM guidelines are designed to improve the quality and extent of documentation. For example, the guide for vulnerability assessments calls for documentation of the assessable units, the method of selection, and the thought processes followed. It also calls for the use of a questionnaire which allows for a variety of responses to questions. In addition, OFM's guide for internal control reviews contains instructions to describe the reasons for responses to various steps. The guide also provides for worksheets to be used for certain steps. We believe that the guides, if implemented by the agencies, will produce assessments and reviews which are documented in accordance with the final OMB guidelines.

The Inspector General needs to define his role

The Office of Inspector General has participated in Agriculture's internal control program but could be of greater assistance if the Inspector General defined his role and developed a plan showing how his office will help the Department carry out the FMFIA process.

OMB guidelines, while stating that the primary responsibility for internal control improvement rests with agency management, encourage Inspectors General to provide technical assistance. More importantly, the guidelines call for Inspectors General to coordinate with their agencies in order to assist the agency and avoid duplication of work. The guidelines also allow for agencies to rely on internal control reviews performed by Inspectors General.

Although Agriculture's OIG has not defined its FMFIA role, it has been involved in the internal control improvement process. It provided early guidance on the vulnerability assessment compliance effort under OMB Circular A-123;⁴ summarized unresolved OIG audit

⁴In October 1981, OMB Circular A-123 established, among other things, a requirement that vulnerability assessments covering all agency components be accomplished by December 31, 1982, and not less frequently than biennially thereafter.

findings for agency use in the FMFIA process; reviewed agency internal control reviews; and advised the Secretary in December 1983 on the compliance of Agriculture's internal control evaluation process with OMB guidelines. In addition, the Inspector General chaired the Investigations and Auditing Committee, which was responsible for implementing the early stages of the FMFIA process.

There are numerous scattered references to the OIG's various FMFIA responsibilities in the OFM guides for conducting vulnerability assessments, internal control reviews, and quality assurance, as well as in the revised departmental regulation on internal control. OIG has reviewed these guides and the regulation and has basically agreed to its responsibilities as shown therein. However, OIG's role as described in the revised regulation is not as broad as the role indicated in the OFM guides.

The revised regulation states that the OIG shall advise the Secretary as to whether the Department's internal control evaluation process has been conducted in a reasonable and prudent manner and in accordance with OMB's guidelines. The regulation also states that OIG shall conduct reviews of internal control systems and documentation and issue reports on these reviews.

The OFM guide on vulnerability assessments, however, includes the following additional OIG responsibilities in the assessment process: (1) provide technical assistance and support to the Assistant Secretary for Administration and the agencies and (2) chair the Investigations and Auditing Committee. In addition, the OFM guide on quality assurance states that the OIG and the agency should come to an agreement on whether the reported material weaknesses represent the situation in the agency.

These OIG responsibilities are not mentioned in the regulation. The OIG responsibility to provide technical assistance and support as stated in the OFM guide, for example, goes beyond advising the Secretary as to how well the Department carried out its internal control evaluation process, as called for in the regulation. The apparent inconsistencies should be clarified, and the scattered references to OIG's role should be consolidated into one document.

While the OMB guidelines by themselves do not specifically require OIG to do anything in the FIA process except coordinate its efforts with the agencies, we believe that a defined OIG role and plan of action would make coordination more effective. Although coordination can occur without a defined role and plan, problems are more likely to occur if the parties involved do not agree and plan in advance what each will do. Areas in which OIG's assistance would be especially valuable include providing technical assistance to the agencies; assisting in the development of methodologies; and working with the central office to improve quality assurance in the internal control evaluation process.

ADP guidance needed

Because of ADP's importance to agency programs, Agriculture needs to thoroughly evaluate ADP internal controls. We found Agriculture's ADP vulnerability assessments were inadequately documented and did not specifically address ADP control issues. Several agencies segmented ADP incompletely or too broadly. In addition, program managers who conducted vulnerability assessments and internal control reviews generally did not adequately consider their program's vulnerability to ADP weaknesses. Additional guidance could help alleviate these problems by providing a complete and consistent framework for addressing ADP control issues.

Agriculture operates four regional computer centers, and many agencies maintain separate minicomputers. Most agencies generally have their own software development and ADP management staffs. The Office of Information Resources Management (OIRM) has Department-wide responsibility for ADP policy and ADP security. Each agency and computer facility is required to designate an ADP security officer.

ADP controls

The quality of ADP controls affects Agriculture's ability to give reasonable assurance that its systems of internal controls are effective and operating as intended. ADP software application and hardware systems are extremely complex and highly technical. ADP controls are generally composed of two types:

--ADP general controls govern overall functions, such as organization and management, application systems development, and computer operations, and affect the quality of services rendered to ADP users. The scope of general controls is quite broad, affecting most ADP hardware and application software systems.

--ADP application controls are part of individual software application systems and control the quality of data input, processing, and output. Application controls are narrower in scope than general controls, because such controls are tailored to meet the specific control objectives established for each software system.

ADP managers are usually responsible for evaluating general controls. Application controls, however, should be included as part of the program managers' vulnerability assessment process.

Guidance needed for conducting ADP control evaluations

Most agencies did not evaluate ADP controls in sufficient detail to determine their relative vulnerability. Program managers generally did not consider ADP controls when doing vulnerability assessments and internal control reviews. We believe that

the absence of detailed departmental guidance was a major cause of Agriculture's limited ADP evaluations.

Agriculture relied on OMB's February 1982 guidelines for conducting vulnerability assessments. The guidelines did not define the specific ADP general and application control categories that should be considered. Also, the guidelines were oriented to users of ADP services rather than ADP managers.

Agriculture evaluated ADP using methodologies in which ADP was only incidental to general program management considerations. This approach usually involved completing a questionnaire containing several questions designed to characterize program vulnerability and only one question specifically on ADP, such as ADP Considerations--"satisfactory or other." ADP managers responded to such questions without compiling supporting documentation on the specific general and application controls considered.

Due to the general way in which ADP was addressed and the lack of supporting documentation, we could not, in most cases, determine the extent to which agencies and the four computer centers considered ADP general controls. The ADP managers we talked to who completed the questionnaires were generally uncertain about the specific ADP controls they considered.

Segmentation guidance needed

The absence of ADP guidance resulted in a variety of segmentation approaches. For example, 5 of the 12 agencies we examined (for ADP purposes) identified ADP as one broad assessable unit. ASCS identified only ADP procurement as an assessable unit, while the Food Safety and Inspection Service excluded ADP organizational components from its segmenting process with the result that its vulnerability assessments excluded several important ADP functions. The remaining seven agencies segmented ADP into functional assessable units such as systems development, systems enhancement, ADP security, and ADP operations.

While segmenting ADP incompletely is a problem, segmenting ADP as one broad component can also lead to problems in the vulnerability assessment process. We believe evaluating the entire range of ADP general control activities with one assessment does not focus on the potential weaknesses within each ADP function and does not facilitate effective ADP vulnerability assessments.

As a component, ADP contains several well-defined functions, including, for example, organization and management (standards and procedures, long range planning), application systems development (software design, project management), and computer operations (service delivery, physical security), which are managed in very different ways. Each function has potential risks which should be evaluated. Functional segmentation would promote thorough coverage of ADP by requiring a vulnerability assessment on each critical ADP functional area, thereby increasing the likelihood of identifying potential ADP weaknesses.

Agriculture issued draft guidelines for conducting vulnerability assessments in December 1983. We found that the guidelines did not establish a separate process for evaluating ADP general controls and lacked clear provisions for integrating the work of ADP managers, ADP technical assistance staffs, and program managers, who collectively address the ADP area. In addition, the guides lacked clear policy on segmenting ADP operations.

In commenting on a draft of our report, Agriculture objected to our observation that the agencies did not compile supporting documentation for their ADP internal controls evaluation and improvement process. The Department stated that supporting documentation is not and should not be required to support vulnerability assessments because at this point in the process, potential and not actual vulnerability was being evaluated.

We believe that supporting documentation is necessary to illustrate which of the diverse ADP control areas were considered and the extent to which they were considered. We note that the ADP appendix to the Department's assessment guide, when completed as part of an assessment, provides supporting documentation.

Proposals, agency comments,
and our evaluation

In a draft of our report, we proposed that the Assistant Secretary for Administration:

- Issue the quality assurance plan as a departmental directive. The directive should require that all agencies adhere to its provisions in order to assure that the agencies are achieving the act's objectives.
- Issue as a departmental directive, guidelines requiring minimum standards for segmenting and for performing vulnerability assessments and internal control reviews.
- Establish requirements for agency documentation of internal control evaluation and improvement processes.
- Establish a methodology for considering ADP general and application controls and criteria for segmenting ADP into its functional components. Guidelines should stress the program manager's responsibility to consider ADP controls.

We also proposed that the Secretary request the Inspector General to formally define his office's role in the Department's internal control program and to develop a plan for carrying out that role.

Agriculture provided comments on our draft report on April 26, 1984 (see app. III). In commenting on our proposal that Agriculture modify its ADP guidance, Agriculture agreed with our conclusion that ADP needs more attention but asked that we recognize actions taken by the Department to provide guidance in this

area. Agriculture pointed out that it had modified the vulnerability assessment guide to include more ADP-related questions, and included a recommended scheme for segmenting ADP and a methodology for evaluating ADP safeguards.

Agriculture also stated that guidance for ADP general controls was detailed in several departmental directives which established policies, procedures, and requirements for Agriculture ADP managers. The Department stated that it plans to cross-reference the OFM guidelines on internal controls to these directives.

We believe the recent actions taken by the Department to implement our proposals substantially enhance the guidance for considering ADP controls in its 1984 assessment cycle.

In commenting on our proposal that the Inspector General define his role in Agriculture's internal control process, Agriculture stated that a formal role has been established. However, OFM and the OIG intend to develop a consolidated statement on the Inspector General's role in Agriculture's internal control program in response to our proposal.

Agriculture disagreed with our proposal to issue its Internal Controls Quality Assurance Plan as a departmental directive. Agriculture said it would find it inappropriate to issue the plan as a requirement due to the need to give its agencies flexibility to implement internal control processes consistent with their unique structures and programs. In addition, Agriculture believes that, while quality assurance was a problem in 1983, it has already implemented an effective quality assurance process for 1984. Agriculture describes its process as including the assignment of agency responsibility for quality assurance to OFM staff, frequent contact between OFM and individual agencies to discuss progress and expectations, OIG and GAO audit roles, and the plan itself. Agriculture also noted that although its quality assurance plan is not required to be used, agencies "are put on notice that a formal process is required."

We made our proposal because we are concerned about quality assurance within Agriculture's 45 agencies and offices. Since these agencies are not required to use the quality assurance plan, we do not believe quality assurance has yet been implemented. In our continuing review of Agriculture's implementation of the act, we plan to monitor quality assurance processes used by Agriculture's agencies and offices.

Regarding our proposal to establish minimum standards for segmenting and performing vulnerability assessments and internal control reviews, Agriculture believes that such action ". . . will result in a lack of applicability to some of the agencies' activities and a lowering of 1984 performance." Agriculture also commented that its existing guidelines already contain some minimum performance standards.

We believe that minimum standards are important because agencies need to know what is expected of them, and Agriculture needs a more consistent level of performance in its internal control processes. The minimum standards Agriculture said are implied in its guidelines are not clearly identified as requirements. In addition, agencies which limit their internal control evaluation activities to these minimums would not, in our opinion, significantly improve over past performance.

We are not suggesting that Agriculture establish unreasonable standards or that requirements be imposed which will cause agencies undue hardship. We believe that Agriculture now has the experience and knowledge to set minimum levels of performance to support the Secretary's goal that Agriculture's 1984 internal control evaluation program will be significantly improved. We agree that the guidelines developed by OFM are quite good. We will monitor Agriculture's implementation of these guidelines.

Regarding our proposal that Agriculture establish documentation requirements for internal control evaluation and improvement processes, Agriculture stated that it has already accomplished this action. Agriculture believes that policies, procedures, and guides have adequately emphasized the need for documentation and that documentation requirements have already been established.

We agree that Agriculture has significantly improved its documentation guidance. However, Agriculture does not require its agencies to follow its guidelines on documentation. Therefore, agencies may not fully address documentation needs. We plan to monitor the quality and extent of documentation in Agriculture's future work products produced in compliance with the act.

NEED FOR ACCOUNTING SYSTEM COMPLIANCE EVALUATIONS

In his year-end statement, the Secretary reported that Agriculture's accounting system compliance evaluation effort was inadequate to determine if its systems comply with the Comptroller General's Accounting Principles and Standards. Our review reached the same conclusion.

Most agencies did not perform in-depth accounting system compliance evaluations. For example, the Farmers Home Administration and Agricultural Marketing Service limited their efforts to discussions and meetings with accounting officials. The Food and Nutrition Service compared its statement of principles and standards against GAO's Review Guide for Federal Agency Accounting Systems. The Agricultural Stabilization and Conservation Service used GAO's Review Guide to check against system changes since GAO's last approval of the agency's accounting system. The Forest Service used the draft OMB guidelines to conduct a cursory review. Two agencies, the Rural Electrification Administration and the Soil Conservation Service, did not perform accounting system compliance evaluations.

In contrast however, the National Finance Center (NFC) did more. It formed a 26-member task force which reviewed specific control objectives, sampled control techniques identified from GAO's Review Guide, examined procedures manuals, and interviewed appropriate officials.

Agencies told us that they generally considered the late receipt of guidance as contributing to the lack of in-depth evaluations. OFM initially delayed its guidance because it was waiting for OMB guidelines. However, on August 24, 1983, OFM issued departmental guidance for agency accounting systems compliance evaluations. The guidance provided basic steps for performing the evaluation and a copy of GAO's Review Guide. OMB guidance was subsequently distributed to agencies in draft form on September 29, 1983.

Accounting systems should be tested

The compliance evaluation effort at the agencies we reviewed did not include testing to determine if accounting systems were operating in accordance with established policies and procedures. In our audit work at other federal agencies, we have frequently noted accounting systems operating differently from the manner specified in their design and even differently from the manner responsible officials believed them to be operating. Accordingly, we believe Agriculture's future section 4 process should require the testing of systems operations to assure that they are functioning as intended.

Over time, accounting system operations change from their original design for various reasons. Some of the factors contributing to this are

- changes in ADP equipment used to prove transactions within systems,
- turnover in personnel operating systems,
- control features being by-passed to save time, and
- changes in program activities serviced by the systems.

Such changes are often gradual and can be overlooked by managers, especially when systems documentation is not kept up to date.

An effective testing program can show whether systems are operating consistently, effectively, and in accordance with established policies and procedures. Generally, specific testing methods are developed based upon a system's particular design and features. To be economically feasible, the tests employed should be designed to focus on a system's key controls and features. For this reason, good systems documentation greatly simplifies the process of designing tests, because it clearly identifies the key features and operations.

Compliance efforts should be monitored

Neither OFM, which directed Agriculture's agency compliance process, nor the Office of Inspector General monitored agency accounting system compliance evaluation efforts. Because of time constraints, OFM and OIG reviewed the agency year-end reports, instead of monitoring agency efforts.

OFM issued guidance to agencies on October 14, 1983, for the year-end report on accounting systems. The guidance contained a suggested report format providing for the ranking and scheduling of systems compliance evaluations. Information provided in the reports indicated that some agency plans either were not yet finalized or may be inadequate. Agency plans and progress should be monitored to enable management to appraise agency efforts in a timely manner.

In the Department's year-end report, OFM indicated that it was in the process of planning for further development of the review process for 1984 and subsequent years. OFM also is developing a tracking system to follow up on accounting system deviations.

Proposals, agency comments, and our evaluation

Agriculture agreed with our proposal that the Secretary should direct agencies to conduct compliance evaluations to determine if their accounting systems comply with the Comptroller General's Principles and Standards.

Agriculture also agreed with our proposal that the Assistant Secretary for Administration should monitor agency accounting system compliance evaluation plans and progress and incorporate testing requirements into the Department's accounting systems compliance evaluation procedures.

MATERIAL WEAKNESSES, ACCOUNTING SYSTEMS DEVIATIONS,
AND CORRECTIVE ACTIONS REPORTED IN AGRICULTURE'S
YEAR-END STATEMENTS TO THE PRESIDENT AND THE CONGRESS

The Secretary's year-end statement on internal controls disclosed a large number of material weaknesses and plans for correction. The Secretary's year-end statement on accounting systems also disclosed many deviations from our principles and standards. Examples of reported material weaknesses and system deviations are presented below.

MATERIAL WEAKNESSES BEING CORRECTED

Various problems have been detected and corrected in departmental systems for payments and collections (National Finance Center).

In October 1982, the National Finance Center implemented its Cash Management Program which resulted in targeting payments for due dates most beneficial to the U.S. government.

NFC issued and implemented a revised Debt Management Policy in January 1983.

Inappropriate taxes were being paid on telephone and utility accounts, and telephone bills were being paid in advance of service (National Finance Center).

The tax status of accounts will be determined by NFC rather than the agencies. Taxes will not be paid in tax-exempt states. A program edit will be added to assure that only payable taxes are paid.

Specific technical skills required for adequate monitoring and servicing of certain Business and Industry Loan Program projects were lacking (Farmers Home Administration).

The program was curtailed and combined with Community Program Staff to broaden skill base for program management. Training was provided field staff on servicing business and industry loans.

The loan file and servicing actions were inadequately documented (Farmers Home Administration).

Loanmaking and servicing decisions were being made without fully documenting in the loan file the basis for the decisions and actions. Adequate documentation was emphasized in field reviews, consolidated financial statements, training, and performance element/standards. The Administrator also emphasized adequate documentation in 1983 state directors' conferences and training programs.

Revenues could be lost as a result of underbilling industry for reimbursable services performed (Food Safety Inspection Service).

An automated system designed to identify discrepancies between reimbursable overtime hours rendered and hours for which inspectors have been paid will be implemented in the first quarter of fiscal year 1984. The output generated from this system will enable the regional office to initiate action to correct these discrepancies resulting in recovery of lost revenues.

Recent reviews found that imprest funds were not adequately controlled or safeguarded (Forest Service).

We developed a self-review and certification procedure for imprest fund cashiers.

A complete Information Resources Management (IRM) plan for the future of information resources was lacking (Rural Electrification Agency).

REA currently has a 5-year IRM plan which was submitted to OIRM on September 1, 1983.

MATERIAL WEAKNESSES REQUIRING ACTION

An OIG audit revealed that internal controls over grading of certain commodities in storage were inadequate (Agricultural Marketing Service).

The audit recommendations are under active consideration and improvements will be implemented in fiscal year 1984.

The FmHA Finance Office's procedures and controls were inadequate to prevent the over-obligation and/or over-disbursement of administrative funds and, in some cases, were inadequate to prevent the over-obligation and over-disbursement of loan and grant funds (Farmers Home Administration).

FmHA needs to implement additional manual controls on an interim basis and, after the mainframe conversion, implement enhancements to the converted system to correct weaknesses in fund control for loan and grant programs. The manual controls will be implemented during fiscal year 1984. The enhancements will be made after the conversion scheduled for the spring of 1984.

Appropriate internal control performance elements and standards for middle and lower level managers throughout the agency were lacking (Farmers Home Administration).

Draft performance elements and standards have been prepared. Guidance is to be issued by the Administrator by December 1983 throughout the agency.

Computer technology regarding weighing systems subjects the official weighing program to possible manipulation unless adequate security controls are implemented (Federal Grain Inspection Service).

FGIS will work with the Department and OIG to determine whether adequate security controls currently exist. If additional controls are necessary, develop a plan to utilize internal expertise and, if necessary, external resources under contract.

Detection and collection of overissuance of food coupons need to be increased in many states. Also, where intentional program violations are detected, a further increase in household prosecutions is needed (Food and Nutrition Service).

States are encouraged to increase their detection, prosecution, and collection activities through the following regulations which become effective February 15, 1983:

- (a) States are allowed to retain 25 percent for nonfraud recipient error claims collected and 50 percent of claims involving intentional program violations.
- (b) States are reimbursed at the enhanced administrative funding level of 75 percent for activities involving the detection and prosecution of cases of intentional program violations.

Opportunities exist for ineligible persons to enter the school lunch program due to inadequate controls during the application process (Food and Nutrition Service).

FNS issued an interim rule that revised the application procedures in school nutrition programs. FNS is in the process of conducting a pilot study on the verification of information submitted on application for free and reduced-price meals (December 1983). FNS plans to issue a final rule after the results of the pilot study are available (March 1984).

FNS developed and disseminated a comprehensive guidance package on the application/verification process for school year 1983-84 as well as a prototype free and reduced-price meal application which was specifically designed to minimize reporting errors. FNS headquarters is reviewing the use of this guidance during school year 1983-84 and will revise the guidance accordingly (May 1984).

During meetings with state agencies, regional offices provided training/guidance and survey materials to states on the revised application procedures. FNS will review materials developed by regional offices for possible inclusion in guidance packages (May 1984).

There is no system in place to prevent state agencies from withdrawing cash from the U.S. Treasury in excess of their actual need to pay state agency bills (Food and Nutrition Service).

FNS is expected to participate in a pilot test scheduled to begin in January 1984. The U.S. Treasury has developed a policy that would eliminate interest savings as an issue related to utilization of federal funds. Excess cash drawn by states would result in interest payments to the federal government. Utilization of state funds to pay for federal programs would result in interest paid to the states.

ACCOUNTING SYSTEM DEVIATIONS

The National Finance Center identified 24 areas where the system did not fully comply with the Comptroller General's principles, standards, and related requirements.

The areas listed are more appropriately categorized as internal control weaknesses rather than noncompliance with the principles and standards. However, because of the existence of the internal control weaknesses listed, the system did not fully comply with the principles and standards. Deviations from the Comptroller General's principles and standards were as follows:

- The system did not comply with certain applicable laws.
- The system produced unreliable and untimely reports.
- Reports generated by the system contained inadequate and inaccurate cost data.
- Reports generated by the system contained inadequate obligation data.

NFC has claimed corrective action on 12 of the 24 internal control weaknesses which were identified. The remaining weaknesses have been addressed by NFC, but no corrective action had been taken when the review was conducted. The following is a list of weaknesses identified:

- (1) Deviations for which corrective actions have been taken:
- Bills were paid as received with no consideration to the due date on the bill, resulting in lost interest on money held in the Treasury.
 - The system provided inadequate assurance that Miscellaneous Payments System vouchers were from authorized sources.
 - Dated purchase orders remained obligated at the end of accounting periods.

- A risk analysis was not performed on electronic transmission of payment vouchers.
- Information was not being provided to field offices to verify gasoline credit card charges.
- NFC's debt management policy did not provide a clear, specific, and appropriate assignment of responsibilities.
- NFC did not provide sufficient information for reconciliation of payroll schedules in the redesigned Payroll/Personnel System.
- The controls for detection of erroneous overtime payments needed strengthening.
- Safekeeping and processing controls for collections needed to be improved.
- There were no written procedures for time and attendance clerks concerning recording of overtime.
- The procedures for capitalizing ADP costs needed improvement.
- Improved procedures were needed to follow up with agencies that did not submit their accrual estimates timely.

(2) Deviations that require corrective action:

- Improvements were needed in document control.
- Procedures to preclude duplication or omission of accrual amounts for transactions such as transportation requests needed strengthening.
- The user cost distribution system did not fully comply with requirements of OMB Circular A-121.
- No long-term Disaster Recovery Plan existed.
- There was no control or edit to assure that items included in the Personal Property Subsystem were above the minimum costs.
- Control on changes to payee name of any reentered miscellaneous payments system vouchers were inadequate.
- Inappropriate taxes were paid on telephone and utility accounts.
- Telephone bills were paid in advance of service.

--NFC continued to run payroll/personnel programs from the test library rather than the production library.

[GAO NOTE: These are all the deviations reported by Agriculture in this section.]

Actions taken to correct the deviations listed in part (1) above and plans for corrective actions on the deviations listed in part (2) are discussed in our internal control report.

The Agricultural Stabilization and Conservation Service listed the following deviations:

- Controls over program payments and collections were inadequate.
- Controls in the county office Automated Administrative Expense System for payroll transactions were inadequate.
- Controls over automated data processing at the Kansas City Management Office were inadequate.
- Controls over interest charges and storage payments in the Commodity Loan Program were inadequate.
- Advances from the Food and Nutrition Service for the purchase and maintenance of processed commodity inventories were not reconciled.
- Subsidiary account data in the General Ledger Accounting and Reporting System were not reconciled timely.
- Capitalized property in the county office was not established in ASCS inventory files.

ASCS has corrected or is in the process of correcting all of the deviations listed above.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON D C 20250

APR 26 1984

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Peach:

Enclosed are our comments on the General Accounting Office's (GAO) draft report on "Department of Agriculture's First Year Implementation of the Federal Managers' Financial Integrity Act."

The GAO review was conducted during a period in which we were reviewing our internal control process and implementing numerous improvements. As a result, many of the actions recommended in the report have already been carried out. We hope that your final draft will recognize these additional accomplishments, which we believe are substantial.

Because of the diversity and decentralized nature of USDA agencies, we would find it counterproductive to meet your recommendations that we issue certain materials as Departmental directives. Our agencies need flexibility to implement the internal control process consistent with their unique structures and programs.

Thank you for the opportunity to comment.

Sincerely,


for
JOHN J. FRANKE, JR.
Assistant Secretary for
Administration

Enclosure

COMMENTS ON "DEPARTMENT OF AGRICULTURE'S FIRST YEAR
IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT"

I. General Comments

- A. References to the "Financial Systems Division" will cause confusion and should be deleted from the report and references should be changed to read "centralized activity within the Office of Finance and Management" or just "Office of Finance and Management" or "OFM" depending on the context. The reason for this change is that a realignment of functions within OFM was completed on April 1, 1984, and the Internal Control Team now resides in the Financial Management Division, OFM.
- B. References to "draft" quality assurance, vulnerability assessment, and internal control guidance should be deleted since all of these materials were issued in final form in March 1984. If this change is not possible, then credit should be given for the issuances in final form.
- C. The lack of timely Office of Management and Budget (OMB) direction should be noted for both section 2 (internal controls) and section 4 (accounting systems) of the Act. The final version of the OMB Guidelines related to internal controls underwent substantial revision and was not issued until after the deadlines for completing the segmentation and vulnerability assessments. Therefore, it is not surprising that some diversity of approach occurred.

The OMB Guidelines related to certification of the accounting systems is still in draft form today and needs substantial revision. The lack of progress in 1983 and 1984 on certifying the accounting systems can be directly related to the lack of guidance from OMB.

- D. It should be noted throughout this document that the shortcomings of our 1983 effort were shortcomings displayed Government-wide, i.e., quality assurance, need to improve guidance, involvement of the Inspector General, adequacy of ADP considerations, and need to increase accounting system compliance efforts.

[GAO NOTE: This comment dealt with matters beyond the scope of our review.]

II. Specific Comments

A. Cover Letter

1. Page 2, last paragraph. We believe that we have implemented an effective quality assurance (QA) program as follows:

- We have assigned responsibility for guiding and reviewing each of the agencies to specific individuals on the OFM staff, outlined their duties including QA, and notified the agencies.
 - We have developed and issued a QA plan for USDA which describes the QA responsibilities of the Assistant Secretary for Administration, the Office of Finance and Management, and the Office of the Inspector General (OIG); describes the recommended QA process for the agencies in detail; and provides detailed checklists to be used to assure the quality of each step in the internal control process. Although these particular checklists are not required in the published form, the agencies are put on notice that a formal quality assurance process is required. We do not agree that it is necessary or even appropriate to issue the 34 page document as a directive.
 - We have met with every agency's and office's internal control officer on at least two occasions: the first time was in the September through December 1983 time frame to discuss their progress and what was expected to be in their year-end report and the second time was in the January through March 1984 time frame to discuss their 1983 process, their 1983 report, and what must be accomplished in 1984. In actuality, we have met with all of the larger agencies and staff offices on numerous other occasions to evaluate their efforts and guide their progress. We believe this one-on-one approach is the most effective process for USDA. The substantial diversity of programs and agency missions has generally resulted in the "do it this way" approach being relatively ineffective.
 - The April through June time frame will be used to review agency products (vulnerability assessments, internal control reviews, and management reviews) as they are completed. We will then make recommendations to each agency on how to make its process/product better. We will use the QA instruments during this review process.
 - OIG and the General Accounting Office (GAO) also have an important role in the QA process. OIG will be reviewing internal controls as part of its audits, as appropriate.
2. Page 2, paragraph 4. Guidance and direction for segmenting, conducting vulnerability assessments, reviewing internal controls, and establishing a QA plan have been completed and distributed throughout USDA. We have been told by OMB and others that this guidance is probably the best available in the Federal Government today. In fact, the QA package is apparently the only QA process that is so extensive and is documented in detail.

We disagree with the concept of developing minimum standards of compliance for USDA in the detail required in this paragraph. Some minimums are implied in the narrative by such statements as "Segmentation . . . must include all parts of the organization . . .," "No organization or office can be completely exempt from the internal control process . . .," "An agency's system of internal controls must be established and maintained in accordance with the standards prescribed by the Comptroller General . . .," ". . . the choice of 'None' must be accompanied by an entry in the 'Comments' column . . .," etc. We believe that the clear specification of a "minimum" standard will result in a lack of applicability to some of the agencies' activities and a lowering of the level of performance in 1984.

We are carefully scrutinizing the "alternative approaches" as time and resources allow. Recently, one of our staff members accompanied a national review team from an agency and made recommendations on modifications needed to accomplish the needed level of reviews of controls. We have discussed various other agencies' review processes and made recommendations for improvement. These kinds of improvements obviously will take more than 1 year.

3. Page 2, paragraph 4. We disagree with these statements. A formal role has been established for OIG and both OIG and OFM are comfortable with the defined role. The additional roles recommended by GAO for OIG are actually being done informally in coordination with OFM as time and resources allow. OIG and OFM, however, will work together to issue a comprehensive role statement to satisfy this requirement.
4. Page 2, paragraph 4. We agree that ADP needs more attention in FY 1984 and thereafter. However, we believe that the mechanisms are already in place to accomplish what is needed. For example:
 - The questions specifically related to ADP in the general VA instrument have been expanded from one to seven questions and there are numerous other questions that relate to the output of ADP systems, such as tracking, budget and accounting, and other management data systems.
 - The VA Guide recommends a scheme for segmentation of the ADP activities.
 - For major ADP activities, a 23-page Evaluation of Safeguards instrument was issued as Appendix A of the VA Guide that will evaluate all aspects of ADP operations.

- An annual ADP security evaluation and plan is required of every ADP facility. The plan must detail how the agency or office will protect its facility and require a contingency plan and risk analysis which must be submitted to the Office of Information Resources Management (OIRM) for review.
- OIRM is conducting reviews of agencies' ADP activities. Several agencies will be reviewed annually.
- An annual ADP plan is required of each agency and of USDA.
- A recent Internal Control Officers' meeting was dedicated to ADP controls.
- Guidance for ADP general controls are detailed in several Departmental directives. These directives establish policies, procedures, and requirements for USDA ADP managers. Several examples can be cited: DR 3110-1 (USDA Long Range IRM Planning) requires an agency to develop and submit a Long-Range IRM plan; DR 3130-1 (Technical Approvals) establishes a review process for ADP acquisitions; DR 3150-1 (IRM Review Program) provides policy and specific responsibilities and procedures for establishing reviews of the effectiveness of IRM programs; DR 3100-1 (Departmental Systems Review Board) provides operational procedures for a Departmentwide automated systems; and DR 3100-2 (Agency Information Resources Management Review Board) requires agencies to establish an IRM Review Board with a supporting Technical Review Committee to assure that IRM activities reflect the goals and priorities of agency programs.

In order to stress the importance of ADP controls, we will cross-reference the OFM directive on internal control with proper references to the Departmental directives on ADP general controls.

We believe these actions are sufficient at this time and should be addressed in this report.

5. Page 3, paragraph 1. We agree that USDA needs to step up efforts to certify its accounting systems as required by section 4 of the Act. However, it should be noted that OMB did not provide direction until October 1983 and that material is still in draft form today.

B. Appendix I

1. Page 3, paragraph 4. It should be noted that OMB specifically approved, through a "Q and A" issuance, the use of ad hoc committees composed of knowledgeable managers to evaluate vulnerabilities. That issuance has never been rescinded.
2. Page 5, paragraph 1. It should be noted that the one-on-one evaluation meetings between OFM and the agencies and the direct review of agency products by OFM are the primary means of follow-up and the tracking system described just supports that effort. We do not visualize the computer system ever being an important part of the follow-up effort.
3. Page 7, paragraph 3, sentence 2. Add "within OFM" after "created."
4. Page 7, paragraph 3, sentence 1. Rewrite beginning of sentence to read "OFM established a central office in October, 1983"
5. Page 7, paragraph 6, sentence 1. Rewrite beginning of sentence to read "Since the creation of the central office, OFM has"
6. Page 8, top of page. Suggest adding the following to the listing:
 - Policy guidance and step-by-step procedures have been established for the entire internal control process.
 - Monthly meetings of internal control officers have been established to provide ongoing training.
 - Formal quarterly meetings are being held with the internal control officers and their staffs to review progress and products.
 - Other meetings and review sessions are being held with the internal control officers, as needed.
7. Page 8, paragraph 1. We believe that we have implemented a systematic QA process. (See earlier discussion of cover letter.)
8. Page 8, paragraph 4. The QA checklists also cover planning for subsequent actions, conducting alternative reviews identifying material weaknesses and taking corrective actions. These QA checklists also will be used by OFM to evaluate the agencies' efforts.

Since the internal control process is a management program and controls are a basic management responsibility, we believe it is appropriate to hold the managers (heads of the agencies) responsible for the quality of their products. We believe this whole section needs a rewrite using the theme that "although the QA process was a problem in 1983, an extensive QA process has been implemented for 1984."

9. Page 11, paragraph 2. There was much more involvement of USDA's "many thousands of field offices" in the 1983 process than a superficial view first reveals. Consider the following:
 - GAO and OIG audit recommendations, management reviews, and Departmental Administration reviews, covering field activities, were used by all agencies in defining weaknesses and corrective actions. In some agencies, these activities were extensive, i.e., OIG field audits of the Agricultural Stabilization and Conservation Service and the Farmers Home Administration (FmHA) were extensive; management reviews of the Forest Service (FS) and FmHA were extensive and in depth; and the Food and Nutrition Service directly involved its field structure in its internal control reviews. Other agencies involved their field offices in the vulnerability assessment process.
 - Vulnerability assessments done at headquarters do not just cover what is done at headquarters but include field delivery of the programs.

If this paragraph means that our field offices were not assessable units, that statement is true and will continue to be true. Each delivery point for each program/agency could not be and should not be assessed independently. They should be assessed as part of the program they deliver. The programs and activities are assessable units and the field office activities are event cycles within those assessable units. Therefore, we believe this paragraph to be both inaccurate and misleading. The statement should be that "USDA should ensure that the field offices in all agencies are included appropriately in the assessment process."

10. Page 10, 1st bullet. This paragraph is misleading. It should be noted that the task force or committee approach had received OMB's approval at that time. It also should be noted that the rankings of high, moderate, and low vulnerability were not required by OMB.

The implication that each agency using the same form should use the same numerical scoring process is inappropriate because of the significant diversities between agencies as noted earlier. Certainly, highly vulnerable has a different meaning for FS than it does for the National Agricultural Library.

Essentially, this paragraph implies criticism of USDA for following OMB guidance.

11. Page 10, 3rd bullet, sentence 1. Preface the sentence with "In some cases."
12. Page 10. Whether the USDA actions are timely or not is a very subjective opinion since the cycle is not to be completed until September 30, 1984.

[GAO NOTE: This comment refers to a section in our draft report which was deleted from the final version.]

13. Page 12, paragraph 2. The internal control process must be kept in perspective. The intent of the process is to assure that managers are fulfilling their control responsibilities, not to establish another layer of activities called internal control reviews. It is and will continue to be our intent to upgrade and modify, as appropriate, our management review processes to achieve the objectives of internal control. Within 5 years, the term "internal control review" should no longer be part of USDA's working vocabulary.

Footnote 5 implies that management reviews typically do not determine the effectiveness of internal controls. This is incorrect. Controls are established through policies, regulations, and procedures and become part of the printed documentation of all government agencies. Therefore, when the management review determines compliance with these issuances, the compliance with specified controls is being evaluated. The statement should instead indicate that "management review instruments and reports should have a section(s) dealing specifically with controls to better facilitate the follow-up process."

[GAO NOTE: The footnote became part of the text in the final version.]

The reference to a small agency already being aware of its problems and not needing in-depth reviews could be true. We believe that an internal control review is not necessary if the problems are known and the corrective actions are known. In these circumstances, a manager would be guilty of misuse of resources if he or she delayed taking the appropriate corrective actions.

14. Page 12, 2nd bullet. What about the internal control reviews conducted by the National Finance Center?

15. Page 12. We do not understand the relevance of this paragraph since we have until September 30, 1984, to complete the first cycle of activity.

[GAO NOTE: This comment refers to a section in our draft report which was deleted from the final version.]

16. Page 13, paragraph 5. Note also that USDA, as is true for other departments, was hampered by a lack of timely guidance from OMB.
17. Page 13, paragraph 1. As stated earlier, we believe that certain minimum requirements are specified in the referenced materials.
18. Page 14, paragraph 2. The policy, procedures, and guides in place adequately emphasize the need for documentation and provide suggested forms to accomplish the documentation. This should be indicated.
19. Page 15, paragraphs 2, 3, 4 and 5
The OIG role has been defined in much more detail than exists in other departments. While the role of OIG in USDA is not what OMB and GAO recommends, it is one that is appropriate for USDA and that is the important issue.
20. Page 15, paragraph 4. We do not believe an inconsistency exists in the various statements on the role of OIG, rather it is a difference of level. The regulation describes the role of OIG in general terms while the various guides describes the role of OIG with respect to the details of the process. OFM and OIG will work together to issue a single statement on the role of OIG in the internal control process.
21. Page 15, paragraph 5. OIG presently is performing these actions as resources permit and we feel no need to further define OIG's role.
22. Page 16, 17 and 18. We believe adequate guidance on ADP now exists and should be noted in this report. See discussion of cover letter.
23. Page 17, paragraph 3. Supporting documentation is not and should not be required to support VA's. At this point in the process, potential not actual vulnerability is being evaluated.
24. Page 17, paragraph 6. Policy development or existing policy for ADP or any other functional area is not covered by the internal control process.

25. Page 18. We have already addressed the conclusions reached and have substantial disagreement with several of them. Others already have been accomplished and these accomplishments should be addressed in this report.

[GAO NOTE: Conclusions were deleted in the final version of the report.]

26. Page 18, first recommendation. We disagree with issuing the QA plan as a directive for the reasons stated earlier.
27. Page 18, second recommendation. We disagree with issuing guidelines as a directive and with establishing "minimum standards" for the reasons stated earlier. We believe the direction being taken is the most effective for USDA.
28. Page 18, third recommendation. Documentation requirements have already been established and the accomplishments should be noted in this report.
29. Page 18, fourth recommendation. Sufficient policy, procedures, direction, methodology, and guidelines have been established for ADP and the accomplishments should be noted in this report.
30. Page 18, 5th paragraph. We disagree with the need to further define the role of OIG as discussed earlier, but we will issue a description of all of OIG's responsibilities in order to meet this requirement.
31. Page 20, 21, and 22. We have no significant differences with the material presented. All agencies have submitted schedules to complete the reviews of their accounting systems. We expect to have major accomplishments in 1984 and to be able to report which systems do and do not meet the Comptroller General's principles and standards. If the systems do not adhere to the principles and standards, we will report what actions will be taken.

The point needs to be emphasized that the lack of progress in evaluating the accounting systems can be related directly to the lack of timely guidance from OMB.

[GAO NOTE: Page numbers have been changed to correspond with the final version of the report.]



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