

July 1988

ADP MANAGEMENT CONTROLS

Farmers Home Administration Can Improve Reporting of Weaknesses



042790



Information Management and
Technology Division

B-230549

July 25, 1988

The Honorable Richard E. Lyng
Secretary of Agriculture

Dear Mr. Lyng:

We recently completed a review to determine whether the Farmers Home Administration's (FmHA) identification, reporting, and correction of automated data processing (ADP) weaknesses complies with the Federal Managers' Financial Integrity Act of 1982. The Financial Integrity Act requires that agencies annually (1) perform internal control evaluations and (2) report to the President and Congress any material¹ weaknesses identified, along with plans for correcting the weaknesses (31 U.S.C. 3512(b) and (c)). In carrying out its reporting responsibilities under this Act, the Department of Agriculture designates and reports broad categories of material weaknesses and lists various specific management control weaknesses under those categories.

We found several areas, however, where FmHA had not adequately identified, reported, and corrected its specific management control weaknesses. Specifically, we found that:

- FmHA did not submit for inclusion in Agriculture's annual Financial Integrity Act reports the specific ADP management weaknesses identified in Department of Agriculture and Treasury management reviews (see appendix I for a listing of these unreported weaknesses).
- Results of FmHA management control reviews of field offices could be analyzed to identify widespread patterns of weaknesses occurring among states.
- FmHA determined that it had corrected 16 of its 41 ADP weaknesses included in Agriculture's 1983-1987 Financial Integrity Act reports. However, subsequent reports by Agriculture's Office of Finance and Management and Office of Inspector General indicated that 2 of the 16 weaknesses remained uncorrected as of March 1988.

¹ Factors considered by Agriculture when determining a material weakness include whether the weakness could impair the fulfillment of an agency mission; deprive the public of needed government services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use, or misappropriation of funds, property, or other assets; or result in a conflict of interest.

This report contains recommendations to strengthen FmHA's process for identifying, reporting, and correcting material and other specific ADP weaknesses (See p. 7.)

Agriculture agreed with three of our recommendations and identified corrective actions for two of them. Because of differences as to what constitutes a reportable weakness, Agriculture did not agree with two other recommendations to include certain FmHA ADP weaknesses and planned corrective actions in Agriculture's Financial Integrity Act report. We have maintained our position because of the potential impact these weaknesses could have on FmHA ADP system development and operations. Agriculture's response to our draft report and our evaluation is provided in appendix II and is summarized in the report. (See pp. 7 and 8.)

Our results are based on interviews with FmHA managers and a comparison of FmHA weaknesses included in Financial Integrity Act reports with those identified through various studies of FmHA by other agencies. Our review was performed between November 1987 and April 1988. (See p. 8 for a detailed discussion of the objectives, scope, and methodology of our work.)

Departmental Studies Identified Unreported Weaknesses in FmHA ADP Management

Studies conducted in 1986 and 1987 by Agriculture's Automated Management Assessment Team² and Office of Finance and Management,³ and the Department of the Treasury's Financial Management Services⁴ identified ADP management weaknesses that were not included in Agriculture's 1983-1987 Financial Integrity Act reports. These studies were conducted because FmHA had encountered a number of difficulties in its automation efforts, including unsuccessful system development attempts. Some examples of the weaknesses identified in FmHA's ADP management are:

- Lack of overall direction for ADP. According to the Office of Finance and Management review team:

²Management of Automation in the Farmers Home Administration, Department of Agriculture's Automated Management Assessment Team, November 1986.

³Review of FmHA's Current Accounting System Data Base Structure and Related ADP Activities, Department of Agriculture's Office of Finance and Management, March 1987.

⁴Review of Farmers Home Administration Loan Accounting and Reporting Systems, Department of the Treasury's Financial Management Service, August 1987.

“FmHA does not have a broad view of information as an agency asset, nor does it see its ADP systems as a component that can serve the whole organization in carrying out its mission.

“It is this lack of vision that has resulted in an agency focus on only one part of the wider picture. ADP expenditures and activities have been driven by accounting requirements rather than by program management needs.

“Lack of overall direction has also permitted the destiny of ADP to be controlled by the exigencies of crisis handling rather than by agency management officials executing carefully made plans.”

- Inadequate involvement in automation by national and state offices. Agriculture’s automated management assessment team concluded that:

“The program personnel of FmHA at both the National and State level have little feeling of ownership in the automation activities of the agency. There are several reasons for this situation: (1) initial application development is for district and county offices, (2) minimal involvement of National and State personnel during initial development activities, (3) State program people have minimal hardware available to them, and (4) the perception at the National and State levels is that program personnel will not receive benefits from the automation activities. Even though the team found instances where National and State program people had been consulted, the perception of the program people is that their involvement was inadequate.”

- Improper data base design. The Office of Finance and Management team also found that:

“Although FmHA has converted from a batch system to an online database system, many of the philosophies of the old batch system are evident. Direct user access to data in the database and timely response to database queries are not possible in the converted system even though the database system has the potential to provide them.

“When the database was developed, no methodical database design method was used to take into account natural data relationships, application relationships of data, and user reporting needs. Consequently, users do not know what data is available to them, and the data is not easy to use. Access paths to retrieve the data are limited, and anticipated and unanticipated requests cannot be handled quickly.”

We believe that, in keeping with Agriculture’s reporting practices, FmHA should have identified such management control weaknesses and associated corrective actions and made sure they were submitted for inclusion in Agriculture’s Financial Integrity Act reports.

According to Agriculture Departmental Regulation 1110-2, Internal/Management Controls, dated August 27, 1985, and related guidance, Agriculture agencies should (1) verify that general controls applying to the overall ADP function in the agency (for example, the type of controls that were evaluated in the above studies) are working as intended; and (2) report to the Department for inclusion in Agriculture's annual Financial Integrity Act report general controls that need improvement.

The weaknesses identified by these studies (see appendix I for a complete list) were not included in FmHA's Financial Integrity Act reports. According to the FmHA Management Control Officer, who is FmHA's primary focal point for complying with the Financial Integrity Act, these weaknesses were not included in the 1986 and 1987 reports because of an FmHA oversight. The Control Officer acknowledged that these weaknesses should be submitted for inclusion in Agriculture's Financial Integrity Act report.

Results From FmHA's Management Control Reviews of Field Offices Could Be Analyzed to Identify Widespread Patterns of Weaknesses

Since 1983, FmHA has been implementing modern microcomputer technology in state, district, and county field offices. Early this year, FmHA completed its computer hardware installation at each of its approximately 2,300 field offices and plans to complete installing field automation software by 1989, at which time field offices will be able to use automation to fully process loan origination and payment cycles.

Currently, there are three different management control reviews of FmHA field offices: vulnerability assessments, coordinated assessment reviews, and state evaluation reviews. Vulnerability assessments are self-evaluations by managers of the risk of fraud, waste, unauthorized use, or mismanagement in programs and functions they manage. Coordinated assessment reviews are evaluations by a team of FmHA specialists of program management in state, district, and county offices. State evaluation reviews are conducted by state and district office personnel of program and administrative areas in district and county offices. In addition to management control reviews, the FmHA Security Officer started a series of state security reviews in 1987 to ensure that field offices comply with the criteria set forth in the FmHA security handbook and other FmHA security directives. Field offices were also tasked with conducting self-assessments of their security practices.

These reviews are intended to provide an extensive analysis of field ADP management controls and security and should help to identify and report additional Financial Integrity Act weaknesses. However, our

judgmental sample of management control reviews conducted in eight states between 1985 and 1987 showed that the results of reviews need to be further analyzed. Currently, FmHA provides states with lists of weaknesses identified during the reviews and the number of times that each weakness was identified, but does not identify widespread patterns of weaknesses occurring among states, which should be included in Agriculture's annual Financial Integrity Act report.

For example, our sample showed that the reviews contained little information on field office ADP operations because field automation was not completed, but did highlight a general control weakness that was not included in the 1985-1987 annual reports. Specifically, all three types of management control reviews indicated a widespread pattern of weaknesses among states that field office internal controls (including the separation of duties) over loan servicing and collection activities were inadequate. This general control weakness could be a national problem that affects future ADP operations, but it was not included in Agriculture's 1985-1987 Financial Integrity Act reports. The FmHA Management Control Officer agreed that this weakness existed and that there could be widespread patterns among states of other weaknesses as well. FmHA is in the process of analyzing weaknesses among states that were identified during its management control reviews. This analysis should make it easier to determine patterns of widespread ADP weaknesses.

Two ADP Weaknesses Continued to Exist After Being Reported as Corrected

Our analysis of Agriculture's Financial Integrity Act reports from 1983 to 1987 showed that FmHA had reported as corrected 16 of 41 ADP weaknesses included in those reports. However, according to Office of Finance and Management and Office of Inspector General reports, 2 of the 16 weaknesses remained uncorrected as of March 1988.

FmHA reported in the 1984 Financial Integrity Act report that it had corrected an ADP weakness involving a large backlog of system change requests by establishing a review board in 1984 to set priorities for these requests. However, FmHA did not verify the effectiveness of this corrective action. According to an Office of Finance and Management study, FmHA's priority-setting process has been ineffective because the review board has inconsistently applied priority-ranking criteria and additional change requests required attention over previously set priorities. In an April 1988 memorandum, the FmHA Acting Deputy Administrator for Management pointed out that the FmHA ADP staff was exploring ways to make future system changes more quickly and easily because the current manner of making "crisis" changes has a disruptive

impact on FmHA staff and customers. This official told us FmHA plans to better set priorities for changes during 1988.

In Agriculture's 1985 Financial Integrity Act report, FmHA reported that access control weaknesses existed in its use of a system software security package, which would be corrected in 1986. Subsequently, FmHA determined that these weaknesses were corrected in September 1986, but did not verify the effectiveness of the corrective actions. An Office of Inspector General report,⁵ issued in September 1986, showed that FmHA was improperly using the access control features provided by this same security software package and that access control weaknesses still existed. Although these access control weaknesses continued to exist through 1986 and 1987, they were not included in Agriculture's 1986 and 1987 Financial Integrity Act reports. FmHA considered them corrected through its use of the system software security package. Also, the Inspector General report was overlooked. According to an Inspector General official, the Office of Inspector General did not consider these weaknesses corrected until April 1988, when the Office concluded that FmHA had adequately improved the access control procedures for its software security package.

Conclusions

FmHA can improve its process in carrying out the Financial Integrity Act. Studies conducted by Agriculture and the Department of the Treasury show that unreported ADP management weaknesses exist which, according to Agriculture's practice of reporting specific weaknesses, should have been submitted by FmHA for inclusion in Agriculture's annual report, along with planned corrective actions.

Also, the results of management control reviews of FmHA field offices were not analyzed to identify widespread patterns of weaknesses among states. As a result, widespread weakness, such as inadequate internal controls over loan servicing and collection, were not included in the Financial Integrity Act report. Finally, subsequent reports indicated that two weaknesses reported as corrected concerning FmHA's priority-setting process for system design requests and access controls were uncorrected at the time of the Financial Integrity Act reports. Neither of the corrective actions for the weaknesses were verified before the weaknesses

⁵Monitoring the Implementation of ACF2 by the Farmers Home Administration, Office of Inspector General Report 04530-22-FM, September 26, 1986. (Note: ACF2 is a software security package called Access Control Facility 2.)

were concluded to be corrected, and the weakness concerning the priority-setting process still exists.

Recommendations

To ensure that FmHA's Financial Integrity Act process identifies, corrects, and reports all FmHA ADP management weaknesses, as called for by Agriculture's implementation of that act, we recommend that the Secretary of Agriculture:

- Include in Agriculture's Financial Integrity Act annual report specific ADP management weaknesses identified by the 1986 and 1987 Agriculture and Treasury studies, along with planned corrective actions.
- Ensure that field office evaluations are an integral part of FmHA's Financial Integrity Act process by requiring that evaluation results be fully analyzed so that widespread patterns of weaknesses are properly identified and included in Agriculture's Financial Integrity Act reports.
- Include in Agriculture's future Financial Integrity Act reports the specific weakness that FmHA field office internal controls over loan servicing and processing are inadequate until the weakness is corrected.
- Ensure that proposed actions to correct weaknesses are adequate, by verifying their implementation and effectiveness before reporting that the weaknesses are corrected.
- Include in future Agriculture Financial Integrity Act reports the weakness and planned corrective actions concerning the ineffective priority-setting process for reducing the backlog of system change requests until the weakness is corrected.

Agency Comments and Our Evaluation

Agriculture's response together with our evaluation are contained in appendix II. Agriculture did not agree with our recommendation to include in Agriculture's report specific ADP weaknesses identified by the 1986 and 1987 Agriculture and Treasury studies, along with planned corrective actions. Agriculture responded that these weaknesses were too immaterial to be reported separately, because they had already been reported as part of a more general weakness and significant progress had been made to correct them. However, these ADP management weaknesses differed from those already reported, could have an adverse impact on FmHA's system development, and, according to Agriculture's

regulations, should have been included in Agriculture's annual report until completely corrected.

Agriculture agreed to analyze weaknesses identified during field office reviews and consider the appropriateness of including these weaknesses in the Financial Integrity Act. Also, Agriculture agreed with our recommendation to report the specific weakness that FmHA field office internal controls are inadequate. In addition, Agriculture agreed with our recommendation to verify corrective actions before reporting them as corrected and offered an acceptable approach that should meet the intent of our recommendation.

Agriculture disagreed with our recommendation that the weakness and planned corrective actions concerning the backlog of system change requests be included in future Financial Integrity Act reports until corrected. According to Agriculture, the backlog is not a weakness unless it has an impact on operations, in which case the specific operational weaknesses would be reported. We have modified our report and our recommendation to clarify that our concern is not with the existence of the backlog, but with the disruptive impact on FmHA's operations caused by the ineffective priority-setting process for reducing the backlog.

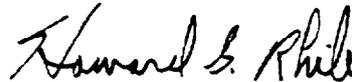
Objectives, Scope, and Methodology

We conducted our review to determine whether FmHA is identifying, reporting, and correcting its ADP weaknesses in accordance with the Financial Integrity Act. To accomplish our objective, we reviewed Agriculture's Financial Integrity Act reports from 1983 to 1987, selected Inspector General audit reports from 1985 to 1987, and Department of Agriculture and Treasury studies of FmHA ADP management controls conducted in 1986 and 1987. We compared the FmHA weaknesses included in Agriculture's Financial Integrity Act reports with weaknesses identified in the above reports and studies and discussed differences with key FmHA officials, including the FmHA Acting Deputy Administrator for Management and the FmHA Management Control Officer. We further discussed FmHA's Financial Integrity Act process with FmHA's Management Control Officer. Our review was performed at the Department of Agriculture in Washington, D.C., between November 1987 and April 1988 in accordance with generally accepted government auditing standards.

This report contains recommendations to you on page 7. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and on Agriculture; House Committee on Government Operations; and Senate Committee on Governmental Affairs; and the Director, Office of Management and Budget. We will make copies available to other interested parties upon request.

Sincerely yours,



Howard G. Rhile
Associate Director

FmHA ADP Management Weaknesses Identified by Studies

Note: Sentences after weakness categories are quoted verbatim, except for spelling out abbreviations.

Management of Automation in the Farmers Home Administration, Department of Agriculture's Automated Assessment Team, November 1986.

- **Equipment.** Concern was expressed by various levels of USDA management and oversight agencies on the increasing expenditures of funds for field office workstations.
- **State ADP coordinators.** The position of ADP coordinator was not adequately established in all states to provide a user focal point for hardware and software expertise.
- **End-user training.** Training was directed toward specific applications rather than getting the field offices "up and running."
- **Program ownership.** The program personnel of FmHA at both the National and State levels have little feeling of ownership in the automation activities of the agency.
- **Communications.** FmHA did not have a strategy for promoting the successes associated with the agency's automation effort.
- **Automated Program Delivery System.** FmHA probably could not meet the planned goals and objectives for this "state-of-the-art financial system."
- **Standards for internally developed software.** There was improper coordination and clearance of software applications developed by FmHA employees.
- **Security.** The then existing security awareness plan restricted the use of equipment and applications to the point that it was not feasible to function effectively with the applicants and borrowers.
- **Monitoring and feedback.** There was no system or technique of feedback and monitoring to "keep a pulse on [field automation] activities and bring problem areas to the surface."

Review of FmHA's Current Accounting System Data Base Structure and Related ADP Activities, Department of Agriculture's Office of Financial Management, March 1987.

- FmHA's vision of ADP. Agency lacks vision of the full potential of its ADP systems.
- Managers' need to understand ADP. FmHA policy officials do not have sufficient technical expertise to make best use of automation resources. ADP experts are not fully able to communicate technical capabilities and limitations in terms management can work with.
- ADP organization. Current structure of FmHA's ADP organization does not appear to promote effective management or respond to agency needs.
- Decision making and priority-setting. Current automated accounting system cannot provide all needed accounting and management information, but can meet the most important needs once they are identified. However, FmHA has problems deciding what is important and determining how to get the most out of its limited resources.
- Contracting for ADP services. Contracting has not produced adequate results for FmHA.
- ADP system design. Design of current FmHA accounting systems emphasizes the accounting function to the detriment of all others. The accounting systems, especially the Program Loan Delivery System, are antiquated from a design viewpoint—use of a batch-system philosophy for on-line systems—and are tremendous consumers of scarce resources.

Review of Farmers Home Administration Loan Accounting and Reporting Systems, Department of the Treasury's Financial Management Service, August 1987.

- Data base. The newly designed data base system is not adequate.
- System information. Systems cannot provide needed accounting and management information.
- Priorities. The agency has problems deciding what is important and determining how to get the most out of its limited resources.

Appendix I
FmHA ADP Management Weaknesses
Identified by Studies

- ADP contracts. ADP services contracting has not produced adequate results for FmHA.
- Private sector. FmHA can improve the effectiveness of the loan accounting and reporting systems by increasing the use of existing private-sector financial services.

Comments From the Farmers Home Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D. C.
20250

JUN 03 1988

Mr. Howard Rhile
Associate Director
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Rhile:

This is the official Departmental response to the GAO report entitled "ADP MANAGEMENT CONTROLS: Farmers Home Administration Can Improve Reporting of Weaknesses." Our response to your recommendations are as follows:

1. GAO Recommendation:

Include in Agriculture's Financial Integrity Act annual report specific ADP management weaknesses identified by the 1986 and 1987 Agriculture and Treasury studies, along with planned corrective actions.

Response: We do not concur with Recommendation 1. We believe the agency and Department have already complied with the intent of this recommendation in the agency section 4 report on accounting system compliance and in the Department's consolidated report dated December 31, 1987. Both reports indicated FmHA's present accounting system was inadequate to meet agency needs and required a redesign. Since this general weakness summarizes the concerns raised by agency managers as well as the Department and Treasury study groups, we did not present each detail weakness and corrective action in the FMFIA report based on management's judgment of materiality.

The Department defines materiality to be a weakness that adversely impacts external reporting or results in the waste, loss, or abuse of substantial agency resources. Using this definition, we believe that the study groups' individual findings are not material. Rather, they have been addressed in the broader scope which constitutes a material weakness identified in the FMFIA reports. Furthermore, two of the three cited reports called for a reply which has been made and which reflect significant progress to achieve corrective actions. The third report cited did not require a reply and has been considered by management in determining action to be taken regarding the item cited.

See comment 1.



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**Appendix II
Comments From the Farmers
Home Administration**

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2. GAO Recommendation:

Ensure that field office evaluations are an integral part of FmHA's Financial Integrity Act process by requiring that evaluation results be fully analyzed so that widespread patterns of weaknesses are properly identified and included in Agriculture's Financial Integrity Act reports.

See comment 2.

Response: We concur with Recommendation 2. The agency is currently summarizing the Vulnerability Assessments and Coordinated Assessment Reviews and sharing the findings with agency employees. After we complete the revision to FmHA Instruction 2006-M, thereby creating consistency among States we plan to prepare an annual summary of State Evaluation Reviews. The agency will consider the appropriateness of including material weaknesses contained in these reviews in section 2 and consolidated reports.

3. GAO Recommendation:

Until corrected, include in Agriculture's future Financial Integrity Act reports the specific weakness that FmHA field office internal controls over loan servicing and processing are inadequate.

See comment 3.

Response: We concur with Recommendation 3. The agency has reported weaknesses in field office operations in FMFIA reports together with a description of corrective actions taken. For example, FmHA identified a lack of separation of duties in the field offices for collecting, recording, depositing, and balancing collection items as an internal control weakness in Report Number FmHA 07-86-1, Internal Control Review Report on the Concentration Banking System (CBS), dated February 27, 1986. The recommended corrective action included issuance of an administrative notice (AN) to field offices emphasizing the need for separation of key duties and responsibilities in performing CBS tasks whenever possible and expanding the coordinated assessment review process to address separation of duties FmHA AN Number 1327(1951), dated January 21, 1986, which emphasized the need for separation of CBS duties, was issued to the field offices. Also, the coordinated assessment review of field offices was expanded to include questions relating to the need for separation of CBS duties.

Appendix II
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4. GAO Recommendation:

Ensure that proposed actions to correct weakness are adequate, by verifying their implementation and effectiveness before reporting that the weaknesses are corrected.

See comment 4.

Response: We concur with Recommendation 4. When the agency has implemented corrective actions to resolve a significant weakness, the item will be removed from the next FMFIA report. However, if the corrective action is determined to be less than successful in eliminating the weakness, the item will continue to be reported on the next FMFIA report.

5. GAO Recommendation:

Include the weakness and planned corrective actions concerning the backlog of system change requests in future Agriculture Financial Integrity Act reports until the weakness is corrected.

See comment 5.

Response: We do not concur with Recommendation 5. A backlog of program application changes or additions is not in its own right a significant weakness. Rather, the operational impact of an item awaiting que for development or revision could result in a significant weakness while awaiting further system modification or programming changes. Where this is the case, the specific operational weakness is reported in the FMFIA report.

The following comments are provided in addition to the cited recommendations/responses:

Now on p.4.

See comment 6.

- On page 7 of the subject draft report the following statement appears: "State evaluation reviews are self-assessments by State managers of ways to reduce or eliminate the risks of fraud, waste, unauthorized use, and mismanagement." This is not a self-assessment. The State Evaluation Review process consists of structured reviews by State Office and District Office personnel of both the program and administrative areas in the County and District Offices.

See comment 1.

- It appears that the General Accounting Office personnel are concentrating their assessment more on the aspect of whether a "weakness" was reported or not, more than the more important aspect of whether the "weakness" was really corrected or not. It is probably true that according to Departmental Regulations, the weaknesses found in previous studies of FmHA should have been

Appendix II
Comments From the Farmers
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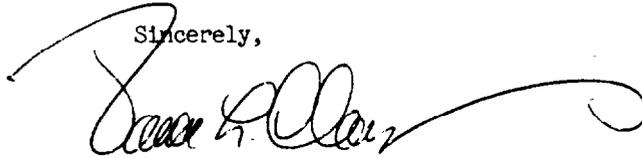
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reported as part of the Internal Control Evaluation. However, rather than dwell on the "reporting" aspect, it would be more beneficial to the agency and positive on GAO's part to have pointed out that FmHA had published its "Vision" statement back in November 1987. This was well within the time of GAO's survey of FmHA. The FmHA Vision Statement, "The Future of Information Resources Management." goes a long way to show that the agency does have a broad view of information as an asset and that it can serve the entire agency in carrying out its mission.

See comment 1.

- Inadequate involvement of National and State Offices -- This "weakness" and another "End User Training" have both been addressed at the highest levels of FmHA. The top management of FmHA were all brought together for extensive involvement and training in the FmHA systems. This training was explicitly undertaken to instill in these managers a sense of ownership in the FmHA implementation. Once again, it seems that GAO is concentrating on the "reporting" aspects rather than real assessment of the situation.

Sincerely,



VANCE L. CLARK
Administrator

The following are GAO's comments on the Farmers Home Administration's letter dated June 3, 1988.

GAO Comments

1. Agriculture did not agree with our recommendation to include in its Financial Integrity Act report specific ADP weaknesses identified by the 1986 and 1987 Agriculture and Treasury studies, along with planned corrective actions. Agriculture believed that the ADP management weaknesses contained in the management studies were too detailed and immaterial to be included in the Agriculture Financial Integrity Act report, because a more general weakness—that FmHA's accounting system was inadequate to meet the agency's needs and required redesign—had been reported, summarizing the concerns raised by these studies. Also, Agriculture said it believed that FmHA has made significant progress in achieving the corrective actions recommended in these studies. To support its point, Agriculture cited actions that had been taken to correct three of the management weaknesses, including two of the examples in our report. Finally, Agriculture stated that GAO had concentrated on the reporting aspects of these weaknesses rather than whether these weaknesses had been corrected or not.

We disagree that FmHA had reported these ADP management weaknesses. Agriculture had reported that (1) FmHA had an inadequate accounting system design to meet agency needs and planned to redesign its accounting system, and (2) other specific ADP weaknesses require enhancements in FmHA's accounting systems, such as inadequate balancing controls. However, we determined that the weaknesses reported pertain to system limitations rather than the management weaknesses identified in the above studies, based on our analysis of the general system design weakness referred to in Agriculture's comments and other specific FmHA ADP weaknesses included in Agriculture's Financial Integrity Act reports.

Furthermore, Agriculture's practice is to report all specific weaknesses under broad categories of material weaknesses. We believe specific ADP management weaknesses should be reported because, if not properly corrected, they could affect the future system's development, as occurred in previous unsuccessful development attempts. In fact, in its comments, Agriculture acknowledged that: "It is probably true that according to Departmental Regulations, the weaknesses found in the previous studies of FmHA should have been reported as part of the Internal Control Evaluation [the agency evaluation conducted to identify, report and correct management control weaknesses]."

We are not taking issue with the progress FmHA has made in correcting these weaknesses; however, progress is not a substitute for completion. For example, in an April 1988 memorandum to FmHA managers, the FmHA Acting Deputy Administrator for Management pointed out concerns which are closely related to the management studies, such as the need for greater ADP training, software development standards, and ADP expertise. In our opinion, Agriculture needs to carefully evaluate each of the weaknesses identified in the management studies and report in Agriculture's Financial Integrity Act report the weaknesses and the status of any corrective actions until the weaknesses are corrected.

2. As we recommended, Agriculture commented that it will consider the appropriateness of including in the Financial Integrity Act report weaknesses identified during field office reviews. To facilitate this process, Agriculture plans to summarize the findings from vulnerability assessments and coordinated assessments reviews and to revise FmHA Instruction 2006-M to require an annual summary of state evaluation reviews as well.

3. In concurring with our recommendation to report the specific weakness that FmHA field office internal controls over loan servicing and processing are inadequate, Agriculture mentioned that it had identified and reported a similar weakness while conducting internal control reviews of one of its accounting subsystems.

4. Agriculture concurred with our recommendation and said that although it intends to discontinue reporting a weakness after it has implemented corrective action, it will restate the weakness if the corrective action is later determined to be less than successful. As long as a timely verification is made of all completed corrective actions, this procedure should meet the intent of our recommendation—to verify the effectiveness of weaknesses before reporting them as corrected.

5. Agriculture disagreed with our final recommendation that the weakness and planned corrective actions concerning the backlog of system change requests be included in future Financial Integrity Act reports until corrected. Agriculture stated that a backlog is not a significant weakness, unless it causes an adverse impact on operations. In that case, the specific operational weakness would be reported. Our concern is not with the existence of a backlog of system change requests, but with the disruptive impact of FmHA's priority-setting process on this backlog. As pointed out in our report, Agriculture had reported a weakness in 1984 of a backlog of system change requests and had established a review

board to set priorities for system change requests. However, this board has not established an effective priority-setting process. Furthermore, in an April 1988 memorandum, the FmHA Acting Deputy Administrator for Management pointed out that the FmHA ADP staff was exploring ways to make future system changes more quickly and more easily because the current manner of making "crises" changes has a disruptive impact on FmHA staff and customers. To make our position clearer, we have clarified our recommendation to indicate that the weakness needing correction is FmHA's process for setting system change request priorities, rather than simply the elimination of the change request backlog.

6. Language revised.

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