

INDEPENDENT AUDITOR'S REPORT





United States Department of State

Washington, D.C. 20520

INFORMATION MEMORANDUM
S/S

March 1, 2001

UNCLASSIFIED

TO: The Secretary

FROM: OIG  Anne M. Sigmund, Acting

SUBJECT: Audit of the Department of State's 2000 Principal
Financial Statements - Audit Report 01-FMA-R-013

SUMMARY

The Government Management Reform Act (GMRA) requires that the Department's overall financial statements be audited and submitted to the head of the Department. The opinion on the Department's 2000 Principal Financial Statements is unqualified. However, the report brings to management's attention three significant internal control weaknesses and several instances of noncompliance with laws and regulations.

DISCUSSION

Consistent with GMRA requirements, a copy of our audit opinion on the Department's 2000 Principal Financial Statements is attached. At the direction of my office, Leonard G. Birnbaum and Company performed the audit.

The audit objective was to report on whether the financial statements fairly present the Department's financial position and results of financial operations in accordance with generally accepted accounting principles. Leonard G. Birnbaum and Company issued an unqualified opinion on the 2000 Principal Financial Statements.

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The report brings to management's attention concerns with security over the unclassified network and the Paris Accounting and Disbursing System; the inadequacy of internal controls over the management of unliquidated obligations; the implementation of managerial cost accounting standards; and the inadequacy of the Department's financial and accounting system. The financial and accounting system is also noncompliant with several laws and regulations, including the Budget and Accounting Act of 1950, the Federal Managers' Financial Integrity Act, the Chief Financial Officers Act of 1990, and the Federal Financial Management Improvement Act.

The Bureau of Financial Management and Policy (FMP) agreed with our findings and conclusions, and its comments are included as Appendix A to the report. In addition to this report, we will be sending a separate management letter, prepared by our contractor, to FMP discussing several minor matters that were identified during the audit.

We are pleased with the improvements that the Department has made in financial management since the CFO Act was passed in 1990. In fact, this is the first year the Department met the mandated deadline of March 1. However, a number of improvements still need to be made, as described in the report.

We appreciate the cooperation extended to us by the Department's managers and staff during the audit.

Attachments:

Audit Report 01-FMA-R-013

cc: FMP - Mr. Larry J. Eisenhart, Acting

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INDEPENDENT AUDITOR'S REPORT

To the Secretary, Department of State:

We have audited the Department of State's (Department) Consolidated Balance Sheet, Consolidating Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statements of Budgetary Resources, and Statement of Financing (Principal Financial Statements) as of and for the year ended September 30, 2000, and have examined internal control over financial reporting in place as of September 30, 2000.

In our opinion, the Department's 2000 Principal Financial Statements are presented fairly in all material respects.

We found:

- a material weakness initially reported in our audit of the Department's 1997 financial statements was not included in the Department's 2000 review of management controls, required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).
- instances of noncompliance with selected provisions of applicable laws and regulations.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

MEMBER OF THE DIVISION FOR CPA FIRMS, PRIVATE COMPANIES PRACTICE SECTION
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPAL FINANCIAL STATEMENTS

In our opinion, the Department's 2000 Principal Financial Statements, including the notes thereto, present fairly, in all material respects, the Department's financial position as of September 30, 2000, and the net cost of operations, the changes in net position, the use of budgetary resources, and the use of financing resources for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the Principal Financial Statements, certain functions of the United States Information Agency were transferred to the Department effective October 1, 1999, resulting in a change in the reporting entity.

As discussed in Note 1 to the Principal Financial Statements, for FY 2000, the Department changed its method for computing fiscal yearend balance for accrued annual leave and accounts payable.

This report incorporates the results of our separate audits of the financial statements of the Foreign Service Retirement and Disability Fund (FSRDF) which, as of September 30, 2000, comprised 47 percent of the Department's assets and 80 percent of its liabilities, and the financial statements of the International Cooperative Administrative Support Services program.

INTERNAL CONTROL

We considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Principal Financial Statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on

the financial statements and other laws and regulations that OMB, Department management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated; and

- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matter that we considered to be a material weakness as defined above.

We have identified significant weaknesses related to information system security that we believe could be exploited to have a detrimental affect to the information used to prepare the financial statements. We believe that the information system networks for domestic operations are vulnerable to unauthorized access. Consequently, other systems, including the Department's financial management systems, which process data using these networks, may also be vulnerable. This weakness was first reported based on penetration tests performed by the General Accounting Office (GAO) and reported in *Computer Security: Pervasive, Serious Weaknesses Jeopardize State Department Operations* (GAO/AIMD-98-145) and was then reported in our opinion of the 1997 financial statements.

The Department was able to close the recommendations related to this GAO report in FY 2000. However, we did not believe that the closure of the GAO report demonstrated that the previously cited material weakness had necessarily been corrected. Therefore, we asked the Department to perform tests of access controls in this area. However, this work was not performed before our fieldwork ended and we were unable to assure ourselves that this condition no longer existed. We hope the Department's work will support the removal of this material weakness from next year's opinion.

In addition, we identified significant weaknesses with the Paris Financial Service Center's Accounting and Disbursing System. These included access vulnerabilities, issues with the internal control environment, concerns with physical security, and environmental issues. We first reported these weaknesses in our opinion on the 1998 financial statements. A separate report detailed these concerns and recommended action (Computer Security Reviews of Paris Accounting & Disbursement System and Consolidated American Payroll Processing System, 00-FM-014, issued June 2000). The Department has made significant progress in addressing these weaknesses.

We are required to review the Department's current FMFIA report and disclose differences with the material weaknesses in our report. The Department's 2000 FMFIA report indicated that a previously reported material weakness in information security had been closed. That material weakness focused primarily on organization structure and procedures which, if implemented as intended, should provide adequate access controls. Currently, the Department is soliciting proposals for tests of access controls in this area. Until such time as the Department can demonstrate the effectiveness of its revised structure and procedures, this matter will be considered to be a material weakness as defined above.

We noted three matters, discussed in the following paragraphs, involving internal control that we consider to be reportable conditions.

- The Department's financial and accounting system, as of September 30, 2000, was inadequate. The principal areas of inadequacy were:
 - Certain elements of the financial statements including, but not limited to, personal property and capital leases are developed from sources other than the general ledger. OMB Circular A-127 requires that transaction processing be applied consistently throughout the Department's financial management system. The use of sources other than the general ledger to generate elements of the financial statements increases the potential for omission of significant transactions.
 - Some fund balances with Treasury, as reported on the Department ledgers, were not reconcilable with balances reported by Treasury. The absolute, as opposed to net, difference between the Department ledgers and Treasury balances as of September 30, 2000, approximated \$162 million. While the Department has made progress in reducing the net difference between the Department ledger and Treasury balances, the weaknesses in the reconciliation processes currently in place remain, particularly with respect to older fund balances. The Department should reexamine its reconciliation processes and assess whether adjustments should be made to some of its fund balances in order to correct these weaknesses.

- The Department’s internal control process related to the management of undelivered orders was inadequate. The Department has made significant improvements in this area over the past 2 years. The Department has actively worked with bureaus to validate undelivered orders and has successfully cleared up a large number of travel obligations that were outstanding from past years. However, we still believe that the Department has additional work to do in order to correct this weakness. For instance, we found unsupported obligations and a lack of a structured process to reconcile and deobligate funds in a timely manner. Our tests indicated that over \$200 million of undelivered orders should have been deobligated. Also, we noted that the balance of undelivered orders has grown from \$1.7 billion as of September 30, 1998, to \$3.5 billion as of September 30, 2000. The Budget and Accounting Procedures Act requires that the Department’s accounting system provide effective control over funds. Failure to deobligate funds in a timely manner may result in the loss of availability of those funds.

The above two reportable conditions were cited in our audits of the Department’s 1997 Principal Financial Statements and subsequent audits.

- While the Department complied with certain aspects of Statement of Federal Financial Accounting Standards #4, *Managerial Cost Accounting Standards*, for instance, it chose reasonable responsibility segments, recognized the cost of goods and services that it receives from other entities, and used an appropriate allocation methodology, it did not implement an effective process to routinely collect managerial cost accounting information, establish outputs for each responsibility segment, or allocate all support costs. Until this is done, we do not believe the information will be useful as a management decisionmaking tool.

We are not aware of any other known but uncorrected material findings or recommendations from prior audits that affect the current audit objectives.

While the Department has characterized its financial and accounting systems as a material weakness for purposes of the reporting required by FMFIA, the weaknesses discussed above do not meet the criteria of material weaknesses as defined by the AICPA. OMB Circular A–123, which implements FMFIA, notes that the use of the term “material weakness” for purposes of FMFIA is different from the use of that term in relation to audits of entities.

In addition, we considered the Department’s internal control over Required Supplementary Stewardship Information and Required Supplementary Information by obtaining an understanding of the Department’s internal control, determined whether those internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01–02 and not to provide assurance on those internal controls. Accordingly, we do not provide an opinion on those controls.

Finally, with respect to internal control related to performance measures reported in Management Discussion and Analysis, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions, as required by OMB Bulletin 01–02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted certain other internal control issues that we have reported to the Department’s management in a separate letter dated February 23, 2001.

COMPLIANCE WITH LAWS AND REGULATIONS

The Department’s management is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department’s compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01–02, *Audit Requirements for Federal Financial Statements*, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Department. The objective of our audit of the Principal Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in statutes and regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01–02.

Overall, we found that the Department’s financial management system did not comply with a number of laws and regulations, as follows:

- the Budget and Accounting Procedures Act of 1950 — This Act requires an accounting system to provide full disclosure of the results of financial operations, adequate financial information needed in the management of operations, and the formulation and execution of the budget, and effective control over income,

expenditures, funds, property, and other assets. However, we found that the financial systems: (1) did not manage undelivered orders obligations effectively and (2) did not issue interim financial statements that are necessary for effective management of operations.

- the Federal Managers' Financial Integrity Act (FMFIA) of 1982. — This Act requires the implementation of internal accounting and administrative controls that provide reasonable assurance that: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to Department operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. However, we found again that the financial systems did not manage undelivered orders obligations effectively. Hence, these funds are not adequately protected from waste or loss.
- the Chief Financial Officers Act of 1990 — This Act requires the development and maintenance of an integrated accounting and financial management system that: (1) complies with applicable accounting principles, standards and requirements, and internal control standards; (2) complies with such policies and requirements as may be prescribed by the Director of OMB; (3) complies with any other requirements applicable to such systems; and (4) provides for (i) complete, reliable, consistent, and timely information that is prepared on a uniform basis and that is responsive to the financial information needs of agency management, (ii) the development and reporting of cost information, (iii) the integration of accounting and budgeting information, and (iv) the systematic measurement of performance. However we found that the financial systems: (1) did not issue interim financial statements which are necessary for effective management; and (2) did not provide complete information in that certain elements of the financial statements are developed from sources other than the general ledger.
- OMB Circular A-127, *Financial Management Systems* — This Circular requires the Department to establish and maintain an accounting system that provides for: (1) complete disclosure of the financial results of the activities of the Department; (2) adequate financial information for Department management and for formulation and execution of the budget; and (3) effective control over revenue, expenditure, funds, property, and other assets. However, we found, again, that the financial systems did not maintain effective control over undelivered orders obligations.

The results of our tests of compliance with other laws and regulations disclosed no material instances of noncompliance. Compliance with the FFMIA is discussed below.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management system requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on January 4, 2001.

The results of our tests disclosed instances, described below, where the Department's financial management systems did not substantially comply with the requirement to follow the Federal financial management system requirements. OMB implementation guidance states that, to be in substantial compliance with this requirement, the Department must meet specific requirements of OMB Circular A-127, including the computer security controls required by OMB Circular A-130. We found instances of substantial noncompliance with these two requirements.

- Circular A-127 requires that the Department's systems support management's fiduciary role by providing complete, reliable, consistent, timely and useful financial management information. Based on the weaknesses related to financial management systems discussed in the report on internal controls and the preceding paragraphs in the report on compliance with laws and regulations, we determined that the Department was not substantially in compliance with this standard.
- Circular A-130, Appendix III, requires that the Department assure an adequate level of security for all agency automated information systems, specifically, the Department shall assure that automated information systems operate effectively and assure that there are appropriate safeguards in the automated information systems. Based on our concerns related to the financial management systems discussed in the report on internal control and the preceding paragraphs in the report on compliance with laws and regulations, we determined that the Department was not substantially in compliance with this standard.

The Department's Bureau of Financial Management and Policy (FMP) has overall responsibility for the Department's financial management systems. The foregoing noncompliance has its roots in the lack of organization and integration of the Department's financial management systems. This issue has been highlighted in the Department's annual FMFIA report since 1983. In our audits of the Department's 1997, 1998 and 1999 Principal Financial Statements, we observed that the Department's financial management systems were not in compliance with FFMIA. FMP has reduced the degree of noncompliance since the issuance of the report on the Department's 1999 Principal Financial Statements. Specifically, FMP has: (1) reduced the number of elements on the financial statements which are developed from sources other than the trial balance; (2) implemented controls to ensure that accounts payable general ledger balances are reconcilable with accounts payable detail; (3) implemented procedures to ensure that undelivered orders general ledger balances are

reconcilable with detail maintained in related databases; and (4) enabled the issuance of audited financial statements on a timely basis.

We noted certain other instances of noncompliance that we reported to the Department's management in a separate letter dated February 23, 2001.

RESPONSIBILITIES AND METHODOLOGY

Department management has the responsibility for:

- preparing the Principal Financial Statements and required supplementary stewardship information, required supplementary information, and other accompanying information in conformity with generally accepted accounting principles;
- establishing and maintaining effective internal control; and
- complying with applicable laws and regulations.

Our responsibility is to express an opinion on the Principal Financial Statements based on our audit. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misrepresentation and presented fairly in accordance with generally accepted accounting principles. We considered the Department's internal control for the purpose of expressing our opinion on the Principal Financial Statements referred to above and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Principal Financial Statements;
- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;
- obtained an understanding of the internal controls relevant to performance measures included in *Management Discussion and Analysis*, including obtaining an understanding

of the design of internal controls relating to the existence and completeness assertions, and determined whether they had been placed in operation;

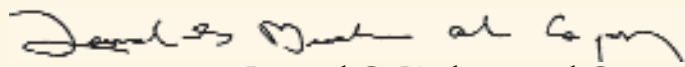
- obtained an understanding of the process by which the agency identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures;
- tested compliance with selected provisions of laws and regulations that may have a direct and material effect on the financial statements;
- obtained written representation from management; and
- performed other procedures as we considered necessary in the circumstances.

Our audits were conducted in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin 01-02. We believe that our audits provide a reasonable basis for our opinion.

The Management Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information is not a required part of the Principal Financial Statements but is supplementary information required by GAAP. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no comment on it.

This report is intended for the information of the Inspector General of the U.S. Department of State and the Department's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Comments by the Department's management on this report are presented as Appendix A.


Leonard G. Birnbaum and Company

Alexandria, Virginia
February 23, 2001

Appendix A



United States Department of State

Chief Financial Officer

Washington D.C. 20520-7427

MEMORANDUM

FEB 27 2001

TO: OIG/FMA - Mr. J. Richard Berman
FROM: FMP - Larry J. Eisenhart, Acting
SUBJECT: Draft Audit Report on the Department of State's
2000 Principal Financial Statements

This is in response to your request for comments on the draft report titled "Audit of the U.S. Department of State 2000 Principal Financial Statements" (Report). In relation to internal control, the Report cites the Department's information systems security for networks for domestic operations as a material weakness. In addition, the Report cites three reportable conditions: (1) the inadequacy of the Department's financial management systems, (2) the management of the unliquidated obligations, and (3) the implementation of Managerial Cost Accounting Standards. The Department's financial management systems are also reported as noncompliant with laws and regulations, including the Federal Financial Management Improvement Act of 1996 (FFMIA).

Since the GAO review of the Department's computer security, the Department has implemented a number of mainframe and other information system security measures. The Department's Management Control Steering Committee (MCSC), with the concurrence of the Inspector General, approved the closure of the material weakness for Information Systems Security for the FY 2000 Federal Managers' Financial Integrity Act (FMFIA) Report. This was based on the fact that the processes, controls and administration of the Department's information systems security program have been significantly enhanced since this problem was identified in 1997. These measures are discussed in the Management Controls and Financial Systems section of the Management's Discussion and Analysis that accompanies the FY 2000 Principal Financial Statements. However, whether these improvements prevent unauthorized access and abuse of the Department's information systems network for domestic operations needs to be independently validated. We recognize that until this independent validation is performed, the Auditor's Report on the Department's annual financial statements will continue to report this area as a material weakness. The Department, working with the OIG and the General Accounting Office (GAO), will have an independent review of system security vulnerabilities performed in FY 2001. The independent validation will serve as a Corrective Action Review (CAR). The Department requires that a CAR be conducted in the year immediately following the closure of any material weaknesses. Future steps regarding this issue will depend on the results of the independent validation.

In addition to the improvements made for the Department's network and mainframe systems, the Bureau of Financial Management and Policy (FMP) initiated a number of actions to address the security of the Central Financial Management System (CFMS), the Paris Financial Service Center's (FSC) Accounting and Disbursing (A&D) System, and the Bangkok FSC's information system. For CFMS, FMP developed and implemented new policies, procedures and security profiles with the help of a local CPA firm with expertise in the area of computer security. Also, FMP developed and conducted CFMS security awareness training to over 900 CFMS users. These items comprise fundamental elements required for establishing and implementing a security program that is compliant with Federal requirements. The local CPA firm also provided a risk assessment evaluation workplan for conducting on-going evaluations of CFMS general controls. Through these documents and efforts, FMP has established an initial basis for conducting periodic risk assessments for CFMS. As noted in the Report, the Department has made significant progress in addressing weaknesses identified with the Paris FSC's A&D System. In regards to the Bangkok FSC information systems, your review of these systems (Audit Report 01-FM-004 issued January 2001) identified five (5) recommendations, several of which we have already implemented. We were very pleased that your contractor was unable to compromise the Bangkok FSC information systems' mainframe security and that, overall, physical security is excellent.

The weaknesses in the Department's financial management systems are a long-standing problem. Substantial compliance with FFMIA is a top priority of the Department, and improvement initiatives to achieve that goal are under way. As required by FFMIA, the Department submitted a remediation plan (Plan) to the Office of Management and Budget (OMB) in March 2000. The Plan was approved by OMB as submitted. During FY 2000, the first year of the Plan, the Department completed seven of the twelve initiatives identified in the plan. The Plan, which includes the establishment of a worldwide financial management system by replacing our overseas financial systems, calls for the Department to achieve substantial compliance by the end of FY 2003.

Strengthening the management of unliquidated obligations is an important financial management initiative. As mentioned in the Report, the Department has made significant improvements in this area. The Unliquidated Obligation System was implemented in FY 2000. The system is updated periodically for detailed unliquidated obligation data and serves to facilitate the reconciliation, monitoring, reporting and oversight of unliquidated obligations worldwide. Data in the system is analyzed in various strata and reports to facilitate the review and management of open items. For example, based on an analysis and review of data, over 50,000 items were deobligated for FY 2000. We continue to develop reports and procedures to use in working with offices to improve the management of unliquidated obligations.

Implementation of Managerial Cost Accounting Standards (MCAS) is also an important financial management initiative. The Department is making reasonable progress in implementing MCAS, but acknowledges that additional work is needed to fully comply with these standards. To address MCAS requirements and account for expenditure information necessary for budgeting information and performance measurement, the Department is

developing a Central Financial Planning System (CFPS). CFPS, which is included in our FFMIA Remediation Plan, will enable the timely and accurate reporting of cost information and associate that information with budget, strategic goals and program outputs. We anticipate completing the functional requirements phase of this project in May 2001.

We thank you for the opportunity to comment on the draft report and for working with us in a collaborative manner on the FY 2000 financial statements. We believe that our offices have made considerable progress over the past several years. Achieving an unqualified opinion by the March 1 due date is an important accomplishment for both of our offices. We would also like to extend our appreciation to your contractor, Leonard G. Birnbaum and Company, for the professional and cooperative manner in which they have conducted the audit for FY 2000 and prior years. The Department is committed to continuing its efforts to improve management of its programs and the quality of its financial reporting. If you have any questions concerning our response to the audit report, please contact Christopher H. Flaggs, Managing Director, Financial Policy, Reporting and Analysis, on (202) 261-8625.



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