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BY THE U.S. GENERAL ACCOUNTING OFFICE

## Report To The Secretary Of Agriculture

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

GAO reviewed the processes used by 23 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 to the President and the Congress 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 second-year implementation of 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 internal control weaknesses. GAO makes recommendations in areas where Agriculture could further enhance its efforts to implement the act.



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

RESOURCES, COMMUNITY,  
AND ECONOMIC DEVELOPMENT  
DIVISION

B-216946

The Honorable John R. Block  
The Secretary of Agriculture

Dear Mr. Secretary:

This is our second report on the Department of Agriculture's implementation of the Federal Managers' Financial Integrity Act of 1982. Our review was part of GAO's government-wide assessment of the act's second-year implementation. This report describes the progress made by Agriculture to improve its internal controls under the act.

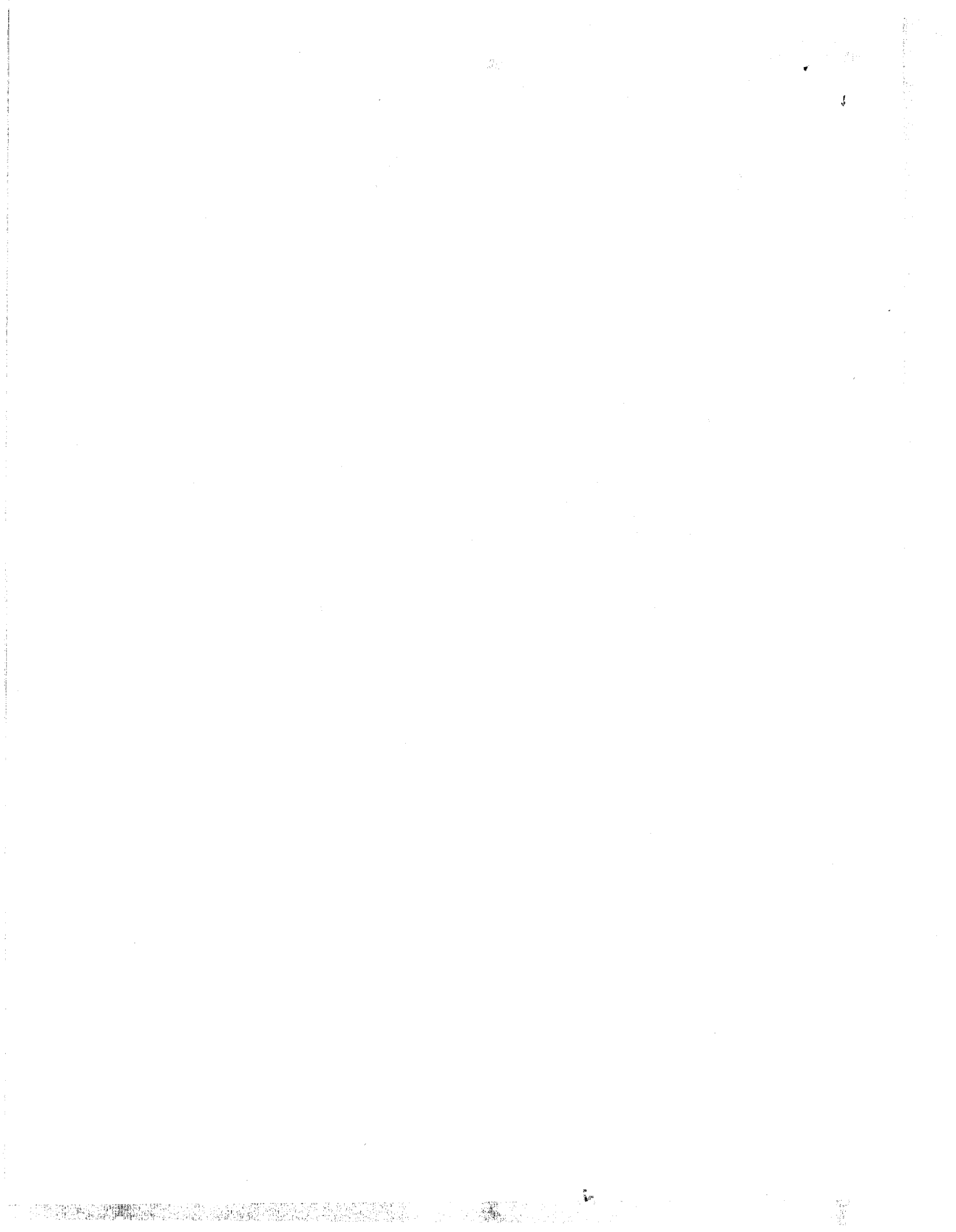
The report makes recommendations to you on pages 11, 27, and 36. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not 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 House Committee on Government Operations, 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,

A large, stylized handwritten signature in black ink, appearing to read "J. Dexter Peach".

J. Dexter Peach  
Director



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**EXECUTIVE SUMMARY**

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Responding to continuing reports of fraud, waste, and mismanagement in federal programs, the Congress enacted the Federal Managers' Financial Integrity Act in 1982. By requiring agencies to annually evaluate and report on their internal controls and accounting systems, the act provides a discipline for agencies to identify, remedy, and report on internal control and accounting problems that hamper effectiveness, potentially cost taxpayers billions of dollars, and erode the public's confidence in government. Agriculture, which spends about \$37 billion annually, is implementing department-wide efforts to evaluate and improve internal controls as required by the act.

In evaluating Agriculture's second-year implementation, GAO examined

- improvements in internal controls and the process used by Agriculture to evaluate and correct control weaknesses,
- the status of Agriculture's major accounting systems and evaluations made to determine whether they conform to GAO requirements, and
- the accuracy and completeness of the Secretary's annual report on internal controls and accounting systems.

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**BACKGROUND**

The act requires all federal agencies to establish, in accordance with standards prescribed by the Comptroller General, controls to ensure that obligations and costs are in compliance with applicable law, assets are safeguarded against fraud, waste, and mismanagement, and revenues and expenditures are properly recorded and accounted for. (See pp. 1 and 2.)

Agency heads must annually evaluate and report to the President and the Congress on whether their internal control systems comply with the act's requirements. To the extent systems do not comply, the report must identify material weaknesses in their systems together with plans for corrective actions. They also must report on

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**EXECUTIVE SUMMARY**

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whether their agency's accounting systems conform to the Comptroller General's accounting principles, standards, and related requirements. (See p. 1.)

As prescribed by the act, GAO issued standards for agencies to meet in establishing their internal control systems. The Office of Management and Budget (OMB) also has published guidelines that require managers to analyze programs and functions to determine their vulnerability to waste, fraud, and mismanagement. Agriculture developed procedures that its component agencies are using to meet GAO standards and OMB guidelines. Activities found vulnerable must be further evaluated to determine how internal controls can be strengthened or, if the cause of vulnerability is known, corrective actions can be taken immediately. (See pp. 2 and 3.)

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**RESULTS IN BRIEF**

Although Agriculture is correcting known internal control problems and is improving its system for evaluating and correcting internal control weaknesses, it needs to strengthen several aspects of its program: techniques for measuring and reducing program vulnerability and monitoring the effectiveness of corrective actions.

Agriculture has made progress in evaluating accounting systems for conformance with GAO standards. Most large systems, however, have not been examined using evaluation techniques that test systems in operation. Several of these systems are undergoing redesign to correct long-standing deficiencies, a process that will take several years to complete.

The Secretary accurately reported, in GAO's opinion, that because of the large number of uncorrected internal control and accounting weaknesses, complete assurance cannot be given that Agriculture is meeting the act's requirements.

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**PRINCIPAL FINDINGS**

GAO agrees with the Secretary's assessment of the progress made by Agriculture that applies both to its internal control and accounting systems evaluations. Agriculture identified 174 internal

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**EXECUTIVE SUMMARY**

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**Improving  
Internal  
Controls**

control weaknesses in 1984, and reported that corrective actions for 125 have been completed or are nearly completed. Half of these weaknesses are concentrated in four large agencies--the Food and Nutrition Service, Farmers Home Administration, Agricultural Stabilization and Conservation Service, and Forest Service. These agencies have not yet implemented an internal control program consistent with OMB and Department guidelines. Two of these agencies restructured their entire program in 1984 and have not yet achieved full implementation. (See pp. 10 and 25.)

Agriculture reported it has corrected or has taken action to correct 61 of 66 weaknesses in the Secretary's 1983 annual report. However, because a number of agencies do not have an adequate system for monitoring and following up on corrective actions, Agriculture does not know whether internal control problems have been corrected. GAO found that in some instances reported actions had not corrected the problem and that some reports of corrective actions were misleading because the action only partially solved the problem. (See p. 8.)

**Evaluating  
Internal  
Controls**

Agencies have improved their vulnerability assessments, but the results are not always reliable. Agriculture's many field locations still are largely excluded from the assessment process despite the fact that programs are implemented in the field where internal control weaknesses are concentrated. In addition, the methods used by managers to examine program risk are not yielding consistent and reliable results. (See pp. 13 and 14.)

Actions taken to review vulnerable areas, especially in Agriculture's biggest agencies, are not always consistent with OMB and Agriculture guidelines. Internal control reviews, which are an intensive multistep evaluation technique, do not always include the most crucial step--evaluating and testing controls. This is the step that identifies where improvements are needed and is required by both OMB and Agriculture. Other evaluation approaches, such as internal management reviews, have the same

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**EXECUTIVE SUMMARY**

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limitation--inadequate evaluation and testing of controls. (See pp. 17 to 22.)

Departmental guidance in these areas exists but lacks the specificity needed to help agency managers develop and choose acceptable tools for evaluating and reducing internal control problems in their programs.

**Accounting System Status**

Although some agencies' managers have reviewed their accounting systems for conformance with GAO's principles and standards, most have not. None of the evaluations performed on the 13 major accounting systems subject to the act included testing of all critical aspects of the system in operation--a necessary step for a reliable and complete conformance check. Several large systems are undergoing major redesign that will require several years to complete. (See pp. 28 to 37.)

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**RECOMMENDATIONS**

To strengthen Agriculture's internal control program, GAO recommends, among other things, that the Secretary of Agriculture

--Revise Agriculture's guidelines to include minimum standards for vulnerability assessments and the conditions under which alternatives to internal control reviews are allowable. (See p. 27.)

--Issue guidelines for evaluating accounting systems, and test systems in operation. (See p. 36.)

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**AGENCY COMMENTS**

Agriculture agreed with GAO's recommendations concerning vulnerability assessments and alternatives to internal control review and said that actions have been taken in response to them. In this regard, Agriculture's revised guidelines contain minimum standards and guidance. GAO believes this guidance, if adopted by Agriculture's component agencies, will improve internal control systems. (See p. 27.)

Agriculture considers current OMB guidelines to be adequate for evaluating accounting systems. GAO believes OMB guidelines should be tailored by Agriculture to fit individual agency needs. (See p. 36.)



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ABBREVIATIONS

ADP	automatic data processing
ASCS	Agricultural Stabilization and Conservation Service
FMFIA	Federal Managers' Financial Integrity Act
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
FSIS	Food Safety Inspection Service
GAO	General Accounting Office
ICO	internal control officer
ICR	internal control review
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
SCOAP	State and County Office Automation Project
USDA	U.S. Department of Agriculture
VA	vulnerability assessment

## CHAPTER 1

### INTRODUCTION

The Congress enacted the Federal Managers' Financial Integrity Act of 1982 (FMFIA) in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets across a wide spectrum of government operations. The act reaffirms the concept first embodied in the Accounting and Auditing Act of 1950 that agency managers are primarily responsible for adequate systems of internal control and accounting within their agencies. The Congress has taken a major step forward by requiring for the first time that the agency heads report annually on the status of their internal control and accounting systems and by holding managers publicly accountable for correction of weaknesses. The act provides a discipline for agencies to identify, remedy, and report on internal control and accounting problems that hamper effectiveness, potentially cost taxpayers billions of dollars, and erode the public's confidence in government.

Our review of Agriculture is one of 23 federal agency reviews by GAO on agencies' efforts to implement the act during the second year. In 1984 we issued reports on 22 agencies' implementation of the act during the first year.

### REQUIREMENTS OF THE ACT

Under section 2 of the act, agency systems of internal accounting and administrative control must comply with internal control standards prescribed by the Comptroller General and must provide reasonable assurances that

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

Section 2 also requires agency heads to report to the President and the Congress annually on whether their internal control systems comply with the act's requirements and, to the extent systems do not comply, identify material weaknesses in their systems together with plans for corrective actions.

Under Section 4 of the act, agency heads must also report to the President and the Congress annually on whether the agency's accounting system conforms to the Comptroller General's accounting principles, standards, and related requirements.

GUIDANCE FOR IMPLEMENTING  
THE ACT'S REQUIREMENTS

To provide the framework for implementation, as prescribed by the law, the Comptroller General issued standards for agencies to meet in establishing their internal control systems. The standards apply to program management as well as to traditional financial management areas and encompass all operations and administrative functions.<sup>1</sup> In publishing the standards, the Comptroller General emphasized that

"The ultimate responsibility for good internal control rests with management. Internal controls should not be looked upon as separate, specialized systems within an agency. Rather, they should be recognized as an integral part of each system that management uses to regulate and guide its operations. In this sense, internal controls are management controls. Good internal controls are essential to achieving the proper conduct of government business with full accountability for the resources made available."

After passage of the act, the Office of Management and Budget (OMB) reissued Circular A-123 to prescribe policies and standards for executive branch agencies concerning internal controls. The circular requires agencies to set up an internal control system that meets GAO standards, determine whether internal controls are operating as intended, and ensure that necessary corrections are made. OMB, in consultation with GAO, also published guidelines for agencies to use in evaluating, improving, and reporting on their internal control systems.

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 by means of a vulnerability assessment (VA) entails identifying

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<sup>1</sup>GAO's internal control standards define minimum levels of quality acceptable for internal control systems and are of two types: general standards, which are reasonable assurance, supportive attitude, competent personnel, control objectives, and techniques; and specific standards, which are documentation, recording and execution of transactions and events, separation of duties, supervision, and access to and accountability for resources. An additional standard is prompt resolution of audit findings.

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 VAs, OMB recommends that agencies develop plans to review controls in various units in detail on the basis of their degree of vulnerability and the agencies' priorities and resources. Reviews of controls should determine whether 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.

#### BACKGROUND ON AGRICULTURE

The Department of Agriculture includes over 40 agencies and offices that 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 aims to (1) improve farm income, (2) expand overseas markets for farm products, (3) ensure an adequate food supply at reasonable prices for consumers, (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. Together, the Soil Conservation Service, Agricultural Stabilization and Conservation Service (ASCS), Farmers Home Administration (FmHA), and Cooperative Extension Service maintain hundreds of offices in counties throughout the country. Most other agencies within the Department also are decentralized in similar ways.

For fiscal year 1984 the Department's budget outlay was \$37.5 billion. Almost 90 percent of Agriculture's budget is concentrated in four agencies [ASCS (including the Commodity Credit Corporation), FmHA, Food and Nutrition Service (FNS), and the Forest Service]. The fiscal year 1984 estimated employment by the Department is 108,600 full-time equivalent positions.

Agriculture initiated its internal control program in March 1982 in response to OMB Circular A-123. Under guidance from a committee chaired by the Inspector General and the Assistant Secretary for Administration, individual agencies were given considerable latitude in implementing internal control requirements. VAs were completed in 1982, covering over 1300 assessable units. 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. OFM works closely with agency internal control officers (ICOs), who are responsible for coordinating their agencies' internal control evaluation and improvement activities. OFM has issued guidelines for implementing the act's requirements that are consistent with OMB's. Many agencies rely on OFM's guidelines, but others have developed their own procedures. To help agencies conduct their evaluations of internal controls, the Department has prepared detailed checklists covering OMB's recommended process and a separate quality assurance checklist for use by internal control officers and independent reviewers. The Department's guidelines, the use of which is voluntary, allow individual agencies considerable latitude in developing their own procedures for meeting the act's objectives. In 1984 Agriculture conducted its second round of VAs and internal control reviews in support of the act.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess Agriculture's second-year efforts to evaluate its internal control and accounting systems for purposes of reporting under the act. We also examined the Department's annual report required by the act for accuracy and completeness.

The methodology for our evaluation involved

- reviewing departmental guidance for conducting and reporting on evaluations of internal control systems in support of the act;
- reviewing guidance, instructions, VAs, ICRS, management reviews and other records to determine whether the department properly evaluated, documented, and reported on their internal control evaluation process;
- examining agency reports on the status of internal controls to evaluate whether the reports accurately described the process used to assess internal controls, identified internal control weaknesses, and provided plans for implementing corrective actions; and
- reviewing agencies' methods to identify, evaluate and review, and report on accounting systems and the material deficiencies in those systems to determine their compliance with the Comptroller General's accounting principles, standards, and related requirements.

Our work was concentrated in the following Agriculture agencies:

Agricultural Stabilization and Conservation Service  
Farmers Home Administration  
Food and Nutrition Service  
Food Safety and Inspection Service (FSIS) (Section 2 only)  
Forest Service  
National Finance Center  
Agriculture Marketing Service<sup>2</sup>  
Rural Electrification Administration<sup>2</sup>  
Soil Conservation Service<sup>2</sup>

For our internal control work, we examined appropriate records and interviewed officials having general management and specific internal control evaluation responsibilities. We focused on agency documentation of vulnerability assessments, internal control reviews, and year-end reporting. We examined these agencies' vulnerability assessments, internal control reviews, management reviews, and other reviews for comparison with OMB and Agriculture guidelines. We examined 25 separate vulnerability assessments in 4 agencies and interviewed officials performing and reviewing the assessments. We also examined vulnerability assessments covering 176 assessable units in the Forest Service and the approach used by the NFC to conduct their assessments. For these two agencies we interviewed officials responsible for coordinating and conducting the assessments, and other individuals participating in the process. In addition, we examined the reasonableness of corrective actions for 58 material weaknesses in our sampled agencies.<sup>3</sup> We also examined 14 internal control reviews and alternative approaches used by 3 agencies.

We held discussions with and examined documents from Agriculture's OFM and the Office of Inspector General (OIG). We also reviewed Agriculture's efforts to evaluate controls relating to automatic data processing (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 (OIRM).

For our accounting system review work, we examined appropriate records and interviewed officials responsible for conducting compliance evaluations on accounting systems to determine whether such systems comply with the Comptroller General's principles and standards. We reviewed for completeness Agriculture's reported inventory of accounting systems, reported deviations, and the reasonableness of corrective actions. We examined agency methodologies and

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<sup>2</sup>At these agencies we only evaluated Section 4 work.

<sup>3</sup>Material weaknesses are defined by the House Committee on Government Operations as those matters that could (1) impair fulfillment of an agency's mission, (2) deprive the public of needed government services, (3) violate statutory or regulatory requirements, or (4) result in a conflict of interest.

interviewed responsible officials in all eight agencies' operating accounting systems, and performed in-depth analysis on the results of the evaluations performed by the Forest Service and the ASCS.

We also examined Agriculture's annual report on internal controls to the President and the Congress for accuracy and reasonableness.

Our work was conducted in accordance with generally accepted government auditing standards and took place between July 1984 and February 1985.



## CHAPTER 2

### AGRICULTURE IS IMPROVING ITS INTERNAL CONTROLS

The Secretary of Agriculture stated that he could not provide complete assurance that the Department's internal controls are meeting the requirements of the act when he reported to the President and the Congress in January 1985.<sup>1</sup> The reasons he gave were the number and magnitude of existing weaknesses and the need to determine whether corrective actions taken are effective. However, the Department is improving its systems for evaluating internal controls. Agriculture reported that actions have been taken to correct most of its 1983 internal control weaknesses<sup>2</sup> and has plans for correcting most of its 1984 reported weaknesses. We found that while Agriculture is making progress to correct these weaknesses, the corrective actions were not always effective. Individual agencies need to follow up on corrective actions to ensure their effectiveness.

### AGRICULTURE'S ANNUAL REPORT ACCURATELY DESCRIBES THE CONDITION OF INTERNAL CONTROLS

The Secretary of Agriculture reported in his second annual report to the President and the Congress that Agriculture's internal control evaluations in fiscal year 1984 "are major improvements over those done in fiscal year 1983," and that Agriculture has made a "conscientious good faith effort to correct its problems." The Secretary concluded, however, that "the sum total of the control weaknesses and system deviations still existing, the magnitude of the corrective actions still planned, and the need to determine the effectiveness of the corrective actions already taken prevents us from providing complete assurance that all of the requirements of 31 U.S.C. 3512 have been achieved."<sup>3</sup> Agriculture's 1983 annual report was similarly qualified by stating that the Department had "not yet progressed to the point that positive assurance can be provided."

We believe that the Secretary's 1984 annual report accurately represents the Department's overall internal control status and that its list of internal control weaknesses and planned actions is a forthright demonstration of Agriculture's interest in complying with the objectives of the act.

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<sup>1</sup>Although issued in January 1985, the report covers Agriculture's 1984 activities.

<sup>2</sup>Agriculture's 1983 report to the President and the Congress on the status of internal controls.

<sup>3</sup>Although the act requires separate statements for internal controls and accounting systems, Agriculture combined these requirements into a single statement.

## CORRECTING WEAKNESSES

The Secretary reported that Agriculture has completed or has under way a substantial number of corrective actions (61 of 66) addressing internal control weaknesses reported in its 1983 annual report and that in 1984, 174 more weaknesses need corrective action. Corrective actions for 125 of these weaknesses have been reported as either completed or substantially completed. The Secretary further noted that many of Agriculture's problems are of long standing and will take several years to correct.

Agriculture's reported weaknesses cover a wide diversity of problems. Of the 174 weaknesses reported in 1984, the 4 largest agencies reported 89 of the weaknesses, or 51 percent. Of these 89, 13 were for FNS, 11 were for ASCS, 27 were for the Forest Service, and 38 were for FmHA. FNS reported that 3 of its 13 material weaknesses were in the Food Stamp program, which has recognized losses accounting for about \$1 billion per year. Many of the remaining FNS weaknesses reported were for state administration of nutrition programs. At FmHA, many of the 38 reported material weaknesses referred to field administration of its farm and other rural loan programs, which cover about 1.5 million active borrowers and a loan portfolio of about \$61.5 billion. Of the 11 reported weaknesses at ASCS, 3 were for cash management problems and 2 were for ADP control problems. According to the Forest Service, many of their reported weaknesses concerned costly and excessive controls. The experiences of these agencies in implementing an internal control evaluation and improvement program consistent with OMB and the Department's guidelines are further discussed in chapter 3.

The five agencies we reviewed were making progress in correcting their weaknesses. In some cases, however, agencies did not follow up to ensure the effectiveness of corrective actions. We also found reports of corrective actions that were misleading because the action taken was only a partial solution to the reported problem and because these actions were reported as completed even though additional action was necessary.

### Follow-up of corrective actions

As the following examples show, agencies did not always follow up to determine how well the corrective action addressed the weakness. In both cases agency officials took steps to implement corrective actions after our follow-up determined the limited effect of the initial corrective actions.

--The National Finance Center reported in 1983 that it had completed action to correct a weakness that led to advanced billing of telephone services. However, we found in 1984 that Center management was unaware that the

billing problem had not been corrected--Agriculture was still paying its bills in advance.

--The FSIS reported in 1983 underbilling of private industry for reimbursable overtime by Service employees as a weakness. The Service developed an automated pay-matching system, which was supposed to prevent underbilling, but our comparison of billing information with attendance records showed that the system has several problems, including the lack of necessary comparative information for some employees, lack of verification of social security numbers, improper input from Service employees, and mismatches caused by the computer program.

OMB requires agencies to have a formal system to track and follow up on corrective actions resulting from VAs, ICRs, and other studies. The system should record and track recommendations and projected action dates and monitor whether changes are made as scheduled. Agriculture has set up a tracking and follow-up system<sup>4</sup> at the departmental level, and expects its component agencies to have more extensive tracking and follow-up procedures.

We found that agencies did not have adequate systems for verifying that corrective actions corrected internal control problems. For example, the FmHA's current system to track and follow up on material weaknesses and corrective actions lists an action as completed when it is implemented; the system does not, however, consider whether an action has any actual effect on the weakness. FmHA personnel are aware of this shortcoming and advised us that they are seeking a solution. ASCS, for example, does not have a tracking and follow-up system but plans to set one up next year. The Forest Service planned to set up a central tracking and follow-up system, but then decided that such a system would not be feasible with its current staff resources, and believes its present systems meet the intent of OMB guidelines.

Some agencies are improving their systems for tracking and following up on corrective actions. FNS, for example, developed a system to track the status of action plans to correct weaknesses identified by VAs, ICRs, and other studies. In addition, the Animal and Plant Health Inspection Service has modified an existing system to include corrective actions resulting from the internal control process as well as recommendations resulting from audits and management reviews of field offices.

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<sup>4</sup>The Department intends to track only weaknesses reported in the Secretary's report and will not independently verify that individual agency actions correct the weaknesses.

Misleading reports on  
correcting weaknesses

Agriculture guidance on reporting actions to correct weaknesses does not require its agencies to evaluate the effectiveness of reported corrective actions. As a result, agency reports on weakness correction are misleading. For example, research projects and studies intended to provide better understanding of the weakness are being reported as corrective actions, and corrective actions are reported as completed when more action is needed to address the weakness.

We examined 73 corrective actions reported for 16 material weaknesses in FNS's 1983 year-end report. Six reported corrective actions either made changes at the delivery point or were incentives to states to do a better job. Of the remaining 67 corrective actions, 42 fell into three major categories-- research-type projects, management evaluation reviews, and legislative or regulatory changes. We found that 18 of these reported actions involved conducting and evaluating research-type projects, 15 actions were management evaluation reviews to identify weaknesses and possible corrective actions, and 9 involved developing a proposal or proposing legislation, regulations, or rules. In our opinion research projects and management evaluations are not truly corrective in nature. In addition, legislative or regulatory proposals are not corrective actions unless implemented. Rather, they are interim measures that may identify or lead to corrective action in the future.

Corrective actions in the following examples were reported as completed, even though additional action was needed to address the weakness fully.

- FmHA reported that it had corrected weaknesses concerning the approval of overtime, even though the instruction intended to address this problem had not yet been implemented.
- ASCS reported that it had completed action to correct weaknesses in cash management, but most recommendations contained in a study of cash management weaknesses had not yet been implemented.
- FNS listed corrective actions as completed as soon as studies were started on how to address a weakness.

Agriculture has recognized the need to follow up on corrective actions to ensure their effectiveness. In its annual report to the President and the Congress, the Department said that it needed to determine the effectiveness of corrective actions already taken before it could provide reasonable assurance that its internal controls are effective.

## CONCLUSIONS

Agriculture correctly reported that it is unable to provide complete assurance that its systems of internal control meet the requirements of the act because of the many outstanding internal control weaknesses and planned corrective actions. While the Department is making progress in correcting internal control problems, we found that past corrective actions are not always effective and that Agriculture does not follow up on actions taken to confirm that internal control problems are fully addressed.

## RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

To improve the Department's internal controls, we recommend that the Secretary of Agriculture direct the Assistant Secretary for Administration to revise the Department's internal control directive to include requirements for

- following up to confirm the effectiveness of corrective actions and
- reporting on the status of corrective actions.

## AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of our report (see app. II), Agriculture agreed to our recommendations and stated that it has taken action in response to them. In this regard the new USDA Guide for Management Control, which was issued in August 1985, states that agencies shall develop a follow-up system to track planned improvement actions and shall monitor the progress made in implementing the improvement actions. The Guide also states that deficiencies will remain in the tracking system until improvement actions are completed and agencies must annually report to the Secretary on the results of improvement actions already taken.

We believe that if agencies follow the Guide, the concerns that led to our recommendations will be satisfied.

### CHAPTER 3

#### OPPORTUNITIES FOR STRENGTHENING AGRICULTURE'S INTERNAL CONTROL EVALUATIONS

Agriculture has improved its processes for evaluating and improving internal controls. Departmental guidelines for meeting the act's objectives have been developed and individual agencies are overcoming their initial implementation problems. Despite this progress several weaknesses remain. Key improvements that can be made are the following:

- Vulnerability assessments need to be more reliable and better documented.
- Standards are needed for internal control reviews and alternatives to internal control reviews.
- Agencies need to make greater use of existing ADP guidelines.

We believe Agriculture can strengthen these areas by revising their current guidelines to include more specific guidance and to establish standards and expectations. The Department recognizes the need for revisions and is already making needed changes.

#### AGRICULTURE'S PROGRESS IN THE SECOND YEAR

Agriculture continues to improve its internal control program. For example,

- Departmental staff have developed and issued guidelines for agency use in evaluating and improving controls. The guidelines are comprehensive and include specific procedures for evaluating the vulnerability of ADP activities and assessing the quality of evaluations made by each agency.
- Agencies are overcoming initial problems in their implementation of the act. For example, the ASCS has strengthened its internal control program and substantially increased the time and resources applied to meet the objectives of the act. Other agencies are continuing to refine their processes. For example, 17 individual agencies within Agriculture have reported that they conducted internal control reviews or other types of review in 1984. Most of these agencies reported conducting both types of reviews.
- Agencies have begun evaluating their accounting systems to determine whether they comply with the Comptroller General's principles and standards. The Department has

developed a standard reporting format that agencies are using for their annual reports and has developed a tracking system for monitoring system deviations and corrective actions reported by agencies.

Recognizing the need to improve the internal control process, the Department has organized an Internal Controls Task Force comprised of key agency ICOs. Their goal is to streamline the departmental internal control guidelines and directives. The Task Force intends to consolidate all guidelines into a single document based on practical experience in the Department. We believe the work of the Task Force is extremely important to the success of the Department's internal control program and represents Agriculture's commitment to develop a reliable and meaningful internal control program.

#### IMPROVING VULNERABILITY ASSESSMENTS

A vulnerability assessment judges how susceptible a program or function is to waste, unauthorized use, or mismanagement. VAs should indicate relative potential for loss and be used as a basis for establishing priority for corrective actions, ICRs, and related actions. Because VAs provide the basis for evaluating and improving internal controls, they are critical to the internal control evaluation process.

Agriculture's 1984 VAs were substantially improved over the first round of VAs performed in 1982. Agencies are using more sophisticated approaches for measuring risk, more programs and functions are being assessed, and more managers are involved in the process. Agencies are generally following Agriculture's guidelines, which contain detailed checklists and formats for conducting VAs.

Despite these improvements, agencies have not yet achieved effective ways to assess the vulnerability of field offices, developed reliable instruments to collect VA information, documented their problems, or adequately completed their VAs in time to meet year-end reporting requirements.

#### Need for more field participation in vulnerability assessments

Although Agriculture is increasing field participation in its VAs--a problem we discussed in our first-year report<sup>1</sup>--agencies' field locations are still largely excluded from the assessment process. Agriculture's many thousands of field offices play a significant role in administering

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<sup>1</sup>Agriculture's First-Year Implementation of the Federal Managers' Financial Integrity Act (RCED-84-138, June 21, 1984).

programs. Important differences in the administration of a program or function exist between geographic areas or even between field offices in the same area. Agency managers recognize the importance of including their field managers and are searching for approaches to increase field participation and assess field vulnerabilities. Involving field locations is a formidable task and agencies could benefit from more specific departmental guidance in this area.

Described below is the progress being made by several of Agriculture's largest agencies in involving its field locations in VAs.

- ASCS administers its programs in 50 states and 2800 counties, yet only 5 of its state and 25 of its county offices participated in its 1984 vulnerability assessment. The ASCS's ICO told us these locations were not representative but were chosen to experiment with field participation. The officer also told us that broader field participation is needed to obtain more reliable assessment results and ASCS will adopt new procedures for assessing the vulnerability of field offices in the future.
- FmHA's 1984 VA involved 15 of its 46 state offices, but none of its 2000 county offices directly participated. FmHA intends to include more field offices in future assessments.
- FNS funds the Food Stamp Program in all 50 states and 3 jurisdictions (the District of Columbia, Guam, and the Virgin Islands), yet none of its 7 regional offices participated in the Service's 1984 food stamp assessments.
- The Forest Service operates 1100 field offices, but its VAs were based on information developed by Washington office staff only. Draft VA results were then sent to the field for comment and, as a result, changes in vulnerability rankings were made.

Factors that we believe have thus far inhibited extensive field participation are the high cost of soliciting information from many different locations and uncertainties regarding the appropriate level of field involvement necessary to develop an accurate and complete VA. The Department's ICO told us that his office advises agencies to conduct VAs in 20 to 25 percent of the field locations each cycle. Over 4 to 5 years, all locations would then be covered.

As shown in the examples of field participation, none of these agencies has achieved a 20- to 25-percent assessment of field locations or will have covered all locations over 4 to 5



years on the basis of their present rate of field participation. We believe agency managers could benefit from specific guidance on (1) the level of field participation needed to achieve reliable assessment results and (2) acceptable approaches for obtaining field participation.

### Vulnerability assessment methodologies

Despite the increased use of more quantitative measures for evaluating vulnerability (checklists and questionnaires), Department and agency officials are not comfortable with the results achieved. For example,

- The ASCS internal control officer told us he doubts the accuracy of his field office VAs, which rated county offices low in vulnerability. The OIG reports several internal control weaknesses in a review of county offices.
- The FGIS internal control officer told us that headquarters managers did not accept the low rankings of some assessable units and subsequently made adjustments.
- FNS rated all five food stamp assessable units low in vulnerability, yet the agency continues to report internal control weaknesses in the food stamp program, a federal program with large recognized losses. The methodology used by agency managers to develop food stamp rankings did not accurately reflect the vulnerability of the Food Stamp Program or the federal monitoring role.
- The Forest Service ICO told us that he is changing some of the vulnerability rankings developed in headquarters because of the critical comments on the results received by field offices.

These experiences illustrate the difficulty in developing a method that accurately meets the needs of managers. Agriculture officials have told us they believe that no instrument for measuring vulnerability is totally conclusive and that subjective judgment is an important factor in developing rankings. We generally agree with this position but note that the lack of direct field office involvement is still a significant problem. The Internal Controls Task Force's development of a more streamlined VA instrument should help improve the acceptability of VAs.

### Need for supporting documentation

The quality of Agriculture's documentation of VAs has improved over their first-year effort. We believe these

improvements are due to department-wide emphasis on the need for documenting results. However, on the basis of our review, problems still exist.

Proper documentation of VAs is an important part of the basis for the assurances provided by heads of component organizations to the agency head; this, in turn, is the basis of the agency head's report to the President and the Congress. OMB allows agencies to define their own documentation standards. However, OMB guidance also states that documentation should be in sufficient detail to permit effective supervisory review, quality review by management, and oversight by the Inspector General and GAO. Therefore, documentation also serves as an essential element for the successful operation of an agency's quality control program.

While there is no one correct way to document how the VA is prepared, there should be, at a minimum, enough information-- either noted on the instrument itself or readily available when asked for--for a third party to understand how conclusions were reached.

We found that only one agency had written standards specifying the support needed for VAs. The Food and Nutrition Service requires that VA documentation include a permanent record describing how the assessments are accomplished. The record is to include sufficient detail to permit reviews by management supervisors, personnel and oversight groups, and the methods and factors used to determine the risk, control environment, preliminary control evaluations, and the overall assessment. Persons in FNS completing VAs were able to provide supporting information. For example, FNS staff documented statutory- and regulatory-required safeguards and controls when they assessed the vulnerability of the Food Stamp Program segments.

At other agencies supporting documentation was not prepared for vulnerability assessments beyond the VA questionnaire itself. Individuals conducting the assessment filled out the questionnaire on the basis of their knowledge and experience, and no supporting information was prepared or maintained.

Many of the vulnerability assessment questionnaires we reviewed were lengthy and contained ambiguous and overlapping questions. Providing adequate documentation for such questionnaires would require a lot of time and effort. We believe, however, that the agency can reduce the effort required to adequately document the review process through the use of a more streamlined VA instrument. For example, by providing space for the preparer of a VA instrument to explain the basis for his or her answer, extra paperwork is eliminated and the instrument is well documented as required. References could be made in

this space to other supporting material such as analysis, policy manuals, or memos. The Internal Control Task Force is currently attempting to develop such an instrument.

Coordinating completion of vulnerability assessments with year-end reporting

The results of the VAs are an important part of the Department's annual report on the status of internal controls. For many agencies the VA process represents the majority of work performed in response to the act. However, nearly a third of Agriculture's agencies did not complete VAs by the time they were required to submit reports to the Secretary on the status of their internal control systems.

The timing for completing VAs varied throughout the Department. For example,

--ASCS completed its VAs by August 1984 and included the results in its annual report.

--FmHA's VA was in process when it was required to prepare its report on the status of its controls to the Secretary. Only 2 of its 15 field office VAs were started by the end of the fiscal year.

--The Forest Service started its VAs in November 1984 and did not have final rankings until April 1985.

--FSIS did not complete its VAs before submitting its report to the Secretary. Although VA results were completed by December 1984, the results were not covered in its year-end report to the Secretary.

OMB requires agencies to conduct VAs on each assessable unit at least once every 2 years. Agriculture required its component agencies to complete VAs by December 31, 1984. However, the Department also requires the agency heads to submit their annual internal control reports by October 31. Thus, Agriculture's agencies were not required to complete VAs before they reported on the status of their internal controls.

STRATEGY NEEDED FOR ADDRESSING VULNERABLE AREAS

Agriculture is using a variety of approaches for addressing its most vulnerable areas. According to the Secretary's year-end report, 11 agencies conducted ICRs in 1984 and 15 agencies and offices are using alternative approaches such as management reviews. We found that ICRs performed did not always include all steps recommended by the Department and OMB. In addition, the alternative approaches we examined did not meet the Department's guidelines. Closer adherence to Agriculture guidelines is needed to improve ICRs. Departmental standards on

acceptable alternative approaches also are needed so that agencies can modify their management reviews to effectively review internal controls.

OMB guidelines and Agriculture regulations both require that agencies take action on the most highly vulnerable areas identified from VAs. Although performing an ICR is a highly desirable approach for evaluating the effectiveness of controls, OMB guidelines allow alternatives as long as the approach taken determines whether controls are operating as intended and are effective at correcting weaknesses. The Department encourages its agencies to use alternative approaches in situations where the causes of control problems are known and the activity under review is not complex.

The Department requires that alternative approaches include procedures for evaluating the appropriateness of controls and testing them. Evaluating the appropriateness of controls entails determining whether controls for an activity are in place, will reduce or eliminate an identified risk, and are cost-effective. Controls are tested to determine whether they are operating as intended.

Some ICRs were limited  
in scope and quality

ICRs we examined varied widely in their adherence to Agriculture guidelines.<sup>2</sup> Although the reviews produced important information, they did not always evaluate and test controls--the key steps in an ICR.

OMB defines an ICR as a detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost-effective manner. OMB guidelines recommend several steps for performing an ICR. The key steps include evaluating the appropriateness of internal controls and then testing them for effectiveness. Departmental guidelines exist to help agencies implement OMB's multistep approach.

Some ICRs we examined did not fully evaluate and test controls. For example,

--An Agricultural Cooperative Service ICR on time and attendance concluded that time and attendance reports are being processed "in an efficient, controlled and timely manner". However, the ICR team did not evaluate or test controls on field employee leave-taking, which is an

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<sup>2</sup>We examined 14 ICRs, which was the total number available to us by mid-July 1984. Agriculture subsequently reported 37 ICRs conducted in their 1984 year-end report.

activity recognized in the ICR report as being high risk. The report stated that the risk of field employee leave abuse is "significant" and the risk of this type of abuse occurring and being undetected is "fairly high".

--A Federal Crop Insurance Corporation ICR on its acreage reporting process found that generally, acreage reports were being processed adequately and that problems discovered in the process were not critical. However, controls in a primary risk area--that farmers might falsify their acreage reports to obtain lower premium rates--were not evaluated or tested. The ICR report stated that this risk area needs to be evaluated in more detail because of its past history of errors in one particular geographic location and the "limited scope" of the ICR evaluation.<sup>3</sup>

We also found ICRs that did evaluate and test controls. For example, we reviewed three of NFC's four ICRs (the fourth had not been drafted by late 1984) and found that except for documentation weaknesses, they included all steps for an ICR as recommended in Agriculture guidelines. Some limited control testing was conducted and recommendations were made. An Agricultural Research Service ICR on grants, cooperative agreements, and research contracts was conducted, which included site visits to examine randomly selected awards made by field offices. The team followed guidelines prepared by the department specifically for reviews of grants, cooperative agreements, and contracts. Another agency performed a review that, although not labeled ICR, produced information useful to management. The Economics Management Staff conducted reviews of overtime, training, lump sum, and compensation payments, which included random testing of controls covering these activities and led to several recommendations.

For example, ICRs performed by the Animal and Plant Health and Inspection Service did not precisely follow Agriculture guidelines but did appear to provide useful information for management. Generally, this Service's ICRs were broadly based reviews of program efficiency and operations. The purpose statement of the Boll Weevil Eradication Program, for example, included "to review the overall management of the program." Another Service review focused primarily on control evaluation. The Citrus Canker Bacteria Program ICR team visited several locations in Mexico to determine whether local authorities were following proper quarantine procedures, such as border checks, fruit orchard inspections, and spraying.

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<sup>3</sup>Subsequent to preparation of this draft, Agriculture advised us that revisions in crop insurance contracts effective for the 1986 crop year will reduce the risk of farmer underreporting of acreage.

## Alternatives to internal control reviews

We found that although management reviews potentially are an alternative approach, these reviews do not yet fully evaluate and test controls--an OMB and Agriculture requirement for an acceptable alternative to ICRs. We concentrated our review in the Forest Service, Farmers Home Administration, and the Food and Nutrition Service, Agriculture's largest agencies, which use management reviews as alternatives to internal control reviews.

### Forest Service management reviews

The Forest Service operates a multilevel review structure with participants at both Washington and field levels. The types of reviews performed are

- general management reviews, which are designed to assess the efficiency and effectiveness of a unit (e.g., regional office, forest station);
- program reviews, which are designed to assess the efficiency and effectiveness of a particular program (e.g., Administrative Management, Fiscal and Accounting Management, Timber Management); and
- activity reviews, which are designed to assess the efficiency and effectiveness of a particular activity (e.g., Timber Sale Accounting, Procurement Management, Law Enforcement).

For general management and program reviews, Forest Service regulations governing these reviews do not require reviewers to perform essential functions necessary to meet the OMB or Agriculture requirements for an ICR or an alternative approach. For example, reviewers are not required to test the adequacy of internal control techniques or specifically determine whether controls are actually in place and functioning as intended. The activity reviews do provide a framework within which relevant OMB and Departmental standards can be met. However, Forest Service officials told us that its various reviews are not intended to result in the same level of detail set forth in OMB guidelines.

The Forest Service revised its management review guidelines in 1984 to emphasize the need for more extensive evaluation of internal controls. However, the precise method by which their reviews are performed is still left primarily to the reviewer's discretion. For example, the Forest Service Manual covering controls (Title 1400) states

"Line officers decide when reviews are needed, what will be covered, who will conduct them, how they will be conducted, and what corrective actions will be taken as a result of reviews."

Since Forest Service guidelines for these reviews have only recently been revised, we were unable to determine whether future Forest Service reviews will focus more on internal control evaluations. We believe the Forest Service reviews do provide an opportunity for increased attention on internal control evaluation and improvement in field offices.

#### Farmers Home Administration reviews

Farmers Home Administration also operates a multilevel management review system that agency officials are using to satisfy internal control evaluation requirements. These reviews include the following:

- Coordinated assessment reviews are reviews of state, district, and county operations by teams of program and administrative specialists from FmHA headquarters.
- State evaluation reviews normally involve state officials reviewing district office operations and district officials reviewing county office operations. Reviews at both levels are conducted by using structured evaluation questionnaires.

FmHA performs other types of reviews on field operations but, according to their 1984 year-end internal control report, will be primarily relying on these two types for meeting internal control evaluation needs.

FmHA's reviews do not evaluate the appropriateness of internal controls, nor is control testing a priority activity in the review process. The Department has provided FmHA with specific guidance for revising its reviews to make them an acceptable alternative to ICRs. FmHA stated in their 1984 year-end internal control report that its review processes are being restructured to meet internal control requirements.

#### Food and Nutrition Service reviews

The Food and Nutrition Service uses several types of management reviews as substitutes for internal control reviews in the Food Stamp Program:

- quality control reviews, which are sample reviews of food stamp case files done by state agencies to determine, for example, whether eligibility decisions were proper;
- management evaluations, which are state reviews of local agencies to determine compliance with program regulations; and
- operation reviews, which are FNS regional office reviews of state agencies to determine whether they are operating in compliance with program regulations.

These reviews focus on measuring compliance with existing regulations and procedures, and evaluating the appropriateness of internal controls is not performed.

We agree with Agriculture that modifying existing management reviews to focus more on internal controls may be a cost-effective alternative in many situations. For example, management reviews are generally designed to measure compliance with a set of criteria (e.g., procedures and policies). If the criteria represent adequate controls and the reviews are done in vulnerable areas, the reviews could serve as a test of control effectiveness. However, an agency would still have to evaluate the appropriateness of the controls (determining whether controls exist, are adequate, and are cost-effective). Alternative approaches also have the advantage of providing greater coverage of agency operations within a tight budget because these reviews are already a part of management structure.

We also believe that since the success of Agriculture's internal control program in many agencies hinges on the quality and credibility of these alternative approaches, minimum standards are needed to develop and implement acceptable alternative approaches. Agencies are already reporting alternative approaches as their primary evaluation tool.

Agriculture officials recognize the need to improve guidance for alternative approaches, and the Internal Controls Task Force is developing more specific criteria. The Task Force has developed a draft standard against which agency management reviews will be evaluated. The draft requires that, at a minimum, the management review (in order to be an alternative to an ICR) should (1) identify the specified controls, (2) document the purpose of each control, (3) evaluate the appropriateness of each control, (4) ensure that the specified controls are in place and functioning as intended, (5) make recommendations for changes/corrective actions, and (6) evaluate the extent to which GAO's internal control standards are met. The standard recommends that the review process use VA results to establish which controls should be tested.

#### IMPROVING ADP EVALUATIONS

Agriculture has improved its coverage of ADP internal control issues since our last review. More extensive and specific guidance provided by the Department in March 1984 was the main reason for improvement. The Department also has issued a new ADP security manual, but should take steps to ensure that agencies also consistently use the ADP guidance.

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 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 controls

There are two types of ADP internal controls:

--ADP general controls are applied to overall ADP functions, such as organization and management, application systems development, and computer operations, and affect the quality of services rendered to ADP users. These controls are a series of objectives and techniques that, when adhered to, are designed to provide reasonable assurance that the centralized ADP department is operating effectively.

--ADP application controls are part of individual software application systems and are unique to that specific application or task such as payroll or inventory. These controls are a system of objectives and techniques designed to provide reasonable assurance that data origination, input, processing, and output controls unique to a specific software application are in place.

Managers of centralized ADP facilities are usually responsible for evaluating the vulnerability of general controls. ADP applications controls are usually assessed by managers who are also responsible for other administrative and programmatic activities.

#### Better coverage of ADP is needed

Agriculture provided better coverage of ADP internal controls in 1984 than it did in 1983. The Department published revised guidelines for conducting vulnerability assessments in March 1984 that contain an appendix for evaluating ADP control issues. The appendix is a comprehensive questionnaire to be used by the person preparing a VA and adequately covers ADP general and application controls. Agriculture also revised its ADP security policies in July 1984 to include evaluation criteria for internal controls. We believe that use of the ADP security manual could enhance their overall internal control evaluation effort.

Not all program managers use the ADP guidance, however. According to internal control officers in FNS, ASCS, and FmHA, program managers did not use the special ADP appendix, even though ADP applications are important to their programs. The general VA questionnaire, which does not adequately cover ADP control issues, contains only five general ADP questions, while the ADP appendix contains over 100 questions to be used as necessary for a more complete evaluation of ADP controls.

Several factors contributed to nonuse of the appendix. For example, one agency ICO said that some managers lacked ADP expertise or thought it was only for use by the ADP managers. He also said that some managers were told by their supervisors that it was not necessary to use the appendix.

#### Other ways to improve ADP evaluations

Agencies can further improve their ADP evaluations by taking advantage of work already performed under Agriculture's ADP security program. Much of the work done on ADP security pertains directly to ADP internal controls. Agriculture's Technical Services Division in the Office of Information Resources Management published a revised ADP security manual on July 19, 1984. This manual designates that an ADP security officer be assigned for each agency and delineates responsibilities for ADP security. At FNS, the ICO responsible for FMFIA implementation worked with the ADP security officer. The close adherence at FNS to departmental security policy and procedures allowed a more coordinated and complete evaluation effort of ADP internal controls. Opportunities to improve coordination and cooperation may exist in other agencies.

OIRM officials believe there is a need for closer coordination between ADP security and internal controls, and other evaluation efforts, and they are implementing the FMFIA with other related ADP requirements.

#### PROBLEMS IN LARGE AGENCIES' INTERNAL CONTROL PROGRAMS DETRACT FROM AGRICULTURE'S PROGRESS

Agriculture's largest agencies have experienced difficulty in implementing an internal control evaluation and improvement program that meets OMB and Agriculture guidelines. These four agencies--the Agricultural Stabilization and Conservation Service, Food and Nutrition Service, Farmers Home Administration and Forest Service--account for almost 90 percent of Agriculture's \$37.5 billion budget and operate the Department's programs that we believe are most vulnerable to waste, fraud, and mismanagement. Half of all internal control weaknesses reported by the Secretary in 1984 were reported by these agencies. The magnitude of these weaknesses is a major reason given by the Secretary as to why he could not give complete assurance that Agriculture's internal controls comply with the act's requirements. We believe that these four agencies need to perform effectively in all phases of the internal control process before Agriculture can achieve reasonable assurance.

These agencies face major problems, including difficulties in assessing the vulnerability of very decentralized operations, the lack of proven procedures for making detailed reviews of internal controls, and limited ability to track and monitor actions to correct weaknesses.

## The Agricultural Stabilization Service and Conservation

ASCS managers have made changes during the past year that strengthen its implementation of the act. All of these changes have not been fully implemented, however. For example, ASCS has not yet developed effective ways to assess the vulnerability of its county offices to waste, fraud, and mismanagement. It has not implemented an approach for detailed reviews of internal controls but may be able to develop an approach through the internal control and management reviews that it plans to conduct in 1985. It also lacks a formal tracking and follow-up system but plans to create one during 1985.

## The Food and Nutrition Service

FNS had been an early leader in developing approaches for implementing various phases of OMB's internal control program. The Service established a formal tracking system for monitoring corrective actions and developed a detailed internal control handbook. FNS has not, however, performed VAs on the Food Stamp Program's state and local government components because agency managers and the department believe these operations are not covered by the act.

However, recognized losses of \$1 billion annually exist in state and local administration of the Food Stamp Program, and monitoring is one aspect of internal controls that is a federal responsibility under FIA. Since FNS's monitoring over state and local administration of food stamps is not deterring waste, fraud, and mismanagement, we believe that FNS must conclude that federal controls are inadequate. In order for FNS to have adequate internal controls over the program, it must either require appropriate internal controls for state and local activities and functions that will provide reasonable assurance that pertinent internal control objectives are met, or be able to explain satisfactorily how the objectives of the act are otherwise to be met. FNS also has not performed any internal control reviews on the Food Stamp Program or developed an alternative approach that evaluates and tests internal controls. FNS officials believe that the high number of national audits of the Food Stamp Program (25) provides a legitimate alternative to an ICR.

## The Farmers Home Administration

FmHA completely restructured its internal control program in 1984, but implementation is incomplete. For example, FmHA did not include any of its 2200 county offices in its 1984 assessment, although it plans to include them in future assessments. FmHA does not have an approach to perform internal control reviews or alternatives, and its existing management reviews, discussed earlier in this chapter, are not effective

for evaluating internal controls as required by OMB and Agriculture guidelines. In addition, FmHA does not have a tracking and follow-up system to monitor corrective actions arising from various phases of its internal control evaluation activities.

### The Forest Service

The Forest Service has implemented an internal control program that hinges on the success of its existing management reviews (see p. 20). The Service has revised guidelines for its reviews to emphasize internal controls, but the effectiveness of this approach has not yet been demonstrated. Because the Forest Service is attempting to integrate internal control evaluation into its existing management reviews, no internal control reviews have been performed or are planned on its more vulnerable areas. Further, the Service does not have a central system for tracking and following up on corrective actions relating to internal control weaknesses.

### CONCLUSIONS

Agriculture is improving its systems for evaluating and improving internal controls. Agriculture guidelines exist for implementing the act, and individual agencies are improving their internal control programs.

Although progress is being made, Agriculture needs to strengthen several parts of its program. For example, vulnerability assessments are not as reliable as they could be, a condition that we think is attributable to insufficient field participation and poor documentation. In addition, ICRs and alternative approaches for addressing vulnerable activities do not yet meet OMB or Agriculture guidelines. Moreover, agencies do not always follow existing ADP guidance for evaluating and improving internal controls. Agriculture's Internal Controls Task Force, which was created to streamline Agriculture's internal control guidelines, represents an opportunity to significantly improve these weaknesses.

Agriculture's four largest agencies have decentralized operations and extensive financial transactions--factors that increase the difficulty of implementing the act. Because these large agencies manage the majority of Agriculture's budget, we believe all phases of their internal control program should be in operation and functioning effectively before reasonable assurance can be given that Agriculture's system of internal controls meets the act's objectives.

RECOMMENDATIONS TO THE  
SECRETARY OF AGRICULTURE

To improve Agriculture's internal control program, we recommend the Secretary direct the Assistant Secretary for Administration to revise the internal control guidelines to include minimum standards for

- including field locations in the vulnerability assessments and documenting the process;
- conducting ICRs and alternative approaches, including specifying the conditions under which alternatives are acceptable; and
- using existing ADP guidance.

AGENCY COMMENTS AND OUR EVALUATION

Agriculture agreed to our recommendations and stated it has taken action in response to them. Agriculture said its new USDA Guide for Management Control (August 1985) contains adequate direction for documenting the internal control process and minimum requirements for including field office activities in the process. Agriculture also stated that the new Guide contains adequate direction for conducting ICRs and alternative approaches and emphasizes using existing ADP guidance. (See app. II.)

We agree that the recently issued Guide provides adequate guidance and minimum standards for the internal control process. The Guide also emphasizes the importance of documenting the internal control process and advises agencies to evaluate a significant number (20 to 33 percent) of field offices each year. The Guide also provides objectives and criteria for conducting reviews based on VA results.

We believe that if agencies follow the Guide, the concerns that led to our recommendations will be satisfied.

## CHAPTER 4

### IMPROVING AGRICULTURE'S ACCOUNTING SYSTEMS

Recognizing the Department's accounting system deficiencies, the Secretary's 1984 report stated that the magnitude of corrective actions needed, control weaknesses, and system deviations prevented Agriculture from providing complete assurance that its systems conform with the Comptroller General's accounting principles, standards, and related requirements.<sup>1</sup> Additionally, he reported that the accounting system evaluations conducted in fiscal year 1984 were a major improvement over those conducted in fiscal year 1983.

Although Agriculture made progress in reviewing its systems, most of the Department's systems have not been evaluated or tested for conformance with GAO principles and standards. Therefore, we believe that Agriculture was correct in not providing assurance that its accounting systems conform with GAO principles and standards. Substantially more work is needed by Agriculture in evaluating as well as improving the systems. Several of Agriculture's agencies have significant system redesign efforts in progress to correct some of the 78 system deficiencies reported in 1984. Since the corrective actions are long-term in nature, it is too early to predict the outcome of Agriculture's efforts.

Agriculture plans to evaluate more of its systems in future years, including new system designs. To ensure that these evaluations provide an adequate basis for determining conformance with the applicable requirements, Agriculture needs to evaluate and test the systems in operation to cover key GAO principles, standards, and related requirements. To ensure more consistent evaluations among Agriculture's diverse agencies, the Department needs to develop minimum acceptable standards for conducting evaluations.

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<sup>1</sup>The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards; titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. In addition, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements, such as the Treasury Financial Manual and OMB circulars.

AGRICULTURE'S SYSTEMS  
DO NOT CONFORM

In addition to the act's required statement on internal controls, the act requires agency heads to state whether accounting systems conform to the Comptroller General's principles, standards, and related requirements. The Secretary, in his 1984 report, stated that he could not give complete assurance that the requirements of the act have been achieved. The Secretary attributed this lack of conformance to the magnitude of corrective actions, number of deviations, and the need to evaluate corrective actions already taken. The Secretary also stated that there were a number of systems yet to be reviewed and significant redesigns still in progress. Agriculture operates the 13 systems listed in appendix I.

On the basis of our past audit work and knowledge of Agriculture's systems, we agree with the Secretary's opinion that many improvements are needed. For example, we have found deficiencies in Agriculture's systems operated by the Department's National Finance Center (NFC), which operates major Agriculture systems. In 1984 we found that NFC's Miscellaneous Payments System, which NFC says handles over \$1.4 billion in transactions annually, contains unreliable information. Among other things, we found instances where transactions were being incorrectly recorded and charged to the wrong appropriation accounts, and errors were made in accumulating information needed for complying with prompt payment requirements. These deficiencies result in incorrect reporting of expenditures and losses of purchase discounts. We also found that the controls to ensure payments processed through this system were authorized but had been compromised. NFC has taken some actions to decrease the system's vulnerability to fraud and abuse.

We also performed work on NFC's departmental payroll system and the general controls over ADP. In both cases we found several instances where internal controls were weak. For example, control over programmer access and modifications to computer programs and computer and payroll files was inadequate. Although some of these weaknesses have been corrected, others have not. These deficiencies were included in NFC's annual statement to the Secretary.

STATUS OF SYSTEM  
REDESIGN EFFORTS

Agriculture has major redesign efforts underway to improve three of its largest systems that deviate from the Comptroller General's principles, standards, and related requirements (NFC, ASCS, and FmHA). However, resolution of some of these deviations will not occur until the redesigned systems are implemented over the next several years. Considering the long-term nature of Agriculture's systems development, it is too

early to determine whether all deviations will be corrected. Given past development problems, Agriculture needs to continually monitor progress.

### Major system changes

Most of Agriculture's 78 reported system deviations involve FmHA, ASCS, and NFC. These agencies are redesigning accounting systems that handle billions of dollars annually. The major redesign projects underway include the following:

- FmHA is currently managing a complete redesign of its program delivery system, which they believe will correct a long-standing debt collection problem. This system is used to control and track more than \$60 billion in loans. Previous FmHA attempts to design a new system were unsuccessful. FmHA expects to implement the new system in 1987.
- ASCS has a major project underway known as the State and County Office Automation Project (SCOAP). Under this project, computers will be placed in every state and county office of ASCS. SCOAP is expected to reduce paperwork and provide more timely information flow by allowing the offices to directly input transaction data into a central computer. About 835,000 transactions totaling \$307 million are expected to be processed annually. As of October 1984, implementation of SCOAP was on schedule and ASCS expects to have computers in all offices by June 1987. Full implementation, however, is not expected until 1989.
- NFC is redesigning its central payroll system, which they report processed about 6.9 million transactions totaling nearly \$2.8 billion in 1984. NFC had completed the first phase of redesign in 1983, and a majority of phase II is scheduled for June 1986.<sup>2</sup>

### Need for departmental oversight of systems development

Agriculture is relying on satisfactory completion of several systems development efforts to achieve conformance with the Comptroller General's principles, standards, and related

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<sup>2</sup>The system is being implemented in two phases, which involve processing and recording payments. NFC implemented phase I of the payroll/personnel system in February 1983. Phase I related to processing time and attendance reports through the system and preparing the pay tapes. Phase II of the system includes the payroll accounting subsystems, personnel reporting, and personnel history.



requirements. Agriculture's systems development projects, however, have not always been successful or completed on time. For example:

--FmHA, in response to long-standing problems with its accounting and financial management information systems, initiated a major update of its accounting system in 1974. During 1980 we reported that the FmHA system would not be effective as designed.<sup>3</sup> In 1982, after years of work, the project stopped. A second major system update was then started with an initial implementation target of March 1986, but has been delayed until 1987.

--NFC has also had problems in designing and implementing new systems. During 1981 we reviewed and reported on management of ADP resources at Agriculture. We said that NFC had planned to have its payroll/personnel system implemented by October 1981--about 3 years after the original estimates.<sup>4</sup> The project slipped further, and implementation did not begin until February 1983. As of May 1985, phase II was not complete and a June 1986 target date had been set for completion.

To help avoid these types of problems in the future, departmental oversight of all developmental efforts is needed to ensure that those efforts are successful, address GAO principles and standards, and meet established time frames for completion.

#### BETTER EVALUATIONS NEEDED

To provide an accurate assessment of conformance with the Comptroller General's principles, standards, and related requirements, systems must be evaluated and tested in operation. In an environment as large and diverse as Agriculture's, it is also essential that individual agencies have sound guidance on how to conduct adequate evaluations. In addition, quality assurance over the evaluations should be implemented. However, Agriculture's second-year effort was characterized by

--an insufficient number of agency accounting systems being reviewed,

--a lack of testing systems in operation by agencies that did review systems, and

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<sup>3</sup>Farmers Home Administration's ADP Development Project--Current Status and Unresolved Problems (CED-80-67, Feb. 19, 1980).

<sup>4</sup>Department of Agriculture Needs Leadership In Managing Its Information Resources (CED-81-116, June 19, 1981).

--a lack of standard guidance for conducting consistent system evaluations.

#### System reviews were limited

In 1984 most of Agriculture's systems were not evaluated. For example, substantive review work was conducted on only parts of four systems, and the more significant accounting operations were not covered. NFC reviewed only 2 of its 24 subsystems during 1984.

A second major agency, FmHA, limited its review to audit reports and circulating a memorandum requesting information from staff on accounting systems problems. FmHA's portfolio contains 1.9 million loans worth nearly \$60 billion and grants worth over \$300 million. FmHA reported many outstanding deviations in 1983, but stated that their accounting systems were "generally adequate in terms of the principles and standards."

The primary reasons that systems were not fully evaluated appeared to be (1) insufficient resources, (2) lack of understanding on what constituted an adequate review, and (3) assumptions by agency managers that existing problems were known.

#### More testing of systems in operation needed

In accomplishing conformance reviews under the act, most Agriculture agencies did not test the general ADP aspects of their systems or adequately review their accounting systems to include testing in operation. The testing that did occur was not adequate because agencies did not (1) test general and application controls in automated systems, (2) include sufficient transaction types, or (3) examine and test internal controls in their accounting systems. We believe such testing is necessary to ensure that accounting system problems are identified. Proper testing will become increasingly important as Agriculture attempts to bring its systems into conformance.

To determine whether a financial system conforms to appropriate principles and standards, it is necessary to review and test the system in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system, and may include

- interviewing persons who operate the system,
- observing operating procedures,
- examining system documentation,
- applying procedures to live transactions and comparing results,

--directly testing computer-based systems by use of simulated transactions, and

--reviewing error reports and evaluating error follow-up procedures.

Tests should be designed to disclose whether valid transactions are processed properly and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, consideration should be given to the results of any prior system testing.

This criteria has been adopted by OMB and included in Appendix H of its publication, Guidelines for Evaluating Financial Management/Accounting Systems (May 20, 1985). In determining the tests that would be appropriate for any system, it is important to keep in mind that in most cases, more than one of the above techniques is needed to test all key aspects of an accounting system.

We observed one instance where testing was improved after we expressed our concerns on November 16, 1984. The Food and Nutrition Service initially drew a sample of 1049 transactions originating in Washington from one of its four subsystems of the national accounting system. Although the sample was large and covered some aspects of the accounting systems, it was not representative of the operational accounting system. As a result, it could not be used as a basis for the agency to provide assurance that the accounting system conforms.

To be representative of the system, the testing has to be relevant to the entire system under review. This means that in performing tests, any and all parts of the system must have an opportunity to be selected. However, in the case of FNS, the sample drawn was restricted and did not represent many material aspects of the system such as grant accounting. A sample that allowed all aspects of the system to be included and was comprised of valid and invalid transactions would have provided FNS with the data it needed. After we expressed our concerns, FNS corrected its procedure to test additional transactions for 1985.

#### Lack of firm guidance for system evaluations

Agriculture has not prepared standard guidance for agencies to use in reviewing their accounting systems. As a result, agencies used inconsistent methodologies to review their accounting systems, which (1) resulted in inadequate evaluations

being conducted and (2) made it difficult for Agriculture to determine whether their systems conform with the Comptroller General's principles, standards, and related requirements.

We found that of the eight agencies that reported reviews in 1984, three different general types of approaches were taken. These approaches are shown in the following examples:

- The Forest Service used a methodology similar to that suggested by OMB in its 1983 draft guidelines,<sup>5</sup> which described five areas for review: system operations, integrity, reporting, budget examination, and financial management. Although the Service documented its reviews and set control objectives for each system, only limited testing of its operational systems was performed.
- The ASCS used a risk-based methodology based on a draft review guide of GAO principles and standards developed several years ago. However, only limited testing of the operational system was performed, and GAO's draft review guide was not approved to be used for conducting conformance evaluations on accounting systems.
- Other agencies used internally developed methodologies. For example, FmHA limited its review efforts to following up on known problem areas identified in 1983 and analysis of audit reports.

The diversity and limitation of approaches resulted from a lack of a clear standard against which agencies' accounting systems could be evaluated. In our first-year report on Agriculture's implementation of the act, we proposed that the Secretary direct agencies to perform conformance evaluations and test the systems in operation. Agriculture agreed with our proposal. However, because Agriculture is large and complex, it decided that a nonstandard approach was needed to implement the conformance reviews.

Guidance provided to agencies by Agriculture's OFM included copies of the draft OMB guide with a draft checklist based on GAO principles and standards and, in some instances, with checklists similar to those used by the Department of Transportation. OFM did not direct or require the use of any specific methodology. The resulting diversity of conformance evaluations performed by individual agencies made it difficult for OFM to properly monitor the extent to which agencies met the intent of the act.

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<sup>5</sup>Guidelines For Evaluating, Improving, And Reporting Upon Financial Management Accounting Systems In The Federal Government, (draft), GAO, Sept. 29, 1983.

For example, during the course of our review, we were asked to provide an opinion on the adequacy of two systems reviews that had been reported to the Secretary. In one instance, FNS reported that the system conformed. In the other, FmHA reported that the system was generally adequate. OFM had not had an opportunity to review these reports, but believed that the FNS report could provide a good example of a system compliance review.

Our examination disclosed that FNS had used a checklist to review its system. Although a checklist may be a useful tool to provide a quick system overview, it cannot be relied upon as the sole basis for determining conformance. FNS's answers to the checklist were drawn from the reviewer's personal knowledge and not from reviewing and testing the operating system. Lacking clear references to accounting systems documentation or to the system, we could not conclude that a system conformance evaluation was performed. When this situation was brought to the attention of FNS officials, action was taken to begin properly evaluating this system.

In the second instance, FmHA reported having reviewed its system. However after interviewing FmHA officials and key persons and reviewing available documentation, we concluded that no system review occurred. Personnel had reviewed such things as Inspector General reports and known problems, but controls in the operational accounting system were not reviewed.

We believe a minimum acceptable process or standard is needed for evaluating accounting systems. Establishing minimum standards can ensure Agriculture of the quality of agency reviews when agencies use internally developed methodologies or extensively modify other review guides. Agriculture already has a quality assurance plan that contains several checklists for agencies' use when performing VAs and ICRs. We believe the Department should include procedures covering the quality of accounting system conformance evaluations. Accomplishing this would provide a basis for the Department to evaluate the methodologies and resulting information reported by the agencies.

## CONCLUSIONS

Agriculture presented an accurate statement on the status of accounting systems in its 1984 year-end statement to the President and the Congress. Many system deficiencies exist, and the Department expects its major systems redesign efforts to correct many of them over a long period of time. Agriculture also improved its efforts to evaluate accounting system conformance with GAO principles, standards, and related requirements. Evaluations performed, however, did not generally test systems in operation--a necessary component of a satisfactory evaluation. The lack of standard guidance led to inadequate evaluations.

As system changes and improvements are made and Agriculture moves closer to adequate systems, a greater effort will be needed to improve the accounting system evaluation program. The systems that Agriculture relies on as well as any new systems will need to be reviewed and tested.

#### RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary direct the Assistant Secretary for Administration to

- review major system development efforts to help ensure that efforts are successful; address GAO principles, standards, and related requirements; and meet established time frames for completion;
- develop minimum acceptable standards for system evaluation, and provide system reviewers with guidance on how to perform such evaluations and ensure their quality; and
- sufficiently test accounting systems in operation to determine conformance with the Comptroller General's principles, standards, and related requirements.

#### AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of our report (see app. II.), Agriculture stated that our recommendation that systems being developed be reviewed for conformance with the Comptroller General's requirements was not necessary because this was already being done. They said that a June 1985 reorganization delegated this responsibility to the Program Development Staff of the Office of Finance and Management, and 1-1/2 staff members are assigned. The staff resources available to review system development efforts may not be adequate, however, because of the complexity of major system development projects. As a result, we believe our recommendation to review major system development efforts for conformance with the Comptroller General's principles, standards, and related requirements is still valid.

Regarding our recommendation on the need for system evaluation standards and guidelines, Agriculture said that it considers OMB Guidelines for Evaluating Financial Management/Accounting Systems (May 20, 1985) to contain the minimum acceptable standards and guidance for system evaluations. Because those guidelines are general in nature, they may not ensure that all the Comptroller General's requirements are covered for a particular system. We believe that Agriculture should adapt the OMB guidelines to its operating systems to ensure that all accounting systems are evaluated for conformance with the Comptroller General's principles, standards, and related requirements as specified by

the act. This guidance should then be communicated to all of Agriculture's agencies for use in reviewing their accounting systems for conformance.

Agriculture also disagreed with our recommendation on testing accounting systems in operation. Agriculture stated that review of agency accounting systems is the responsibility of the agency system and subsystem managers. Our point is that the systems should be tested in operation to determine conformance with the Comptroller General's principles, standards, and related requirements. We directed our recommendation to the Secretary, recognizing that he would delegate the action to the appropriate under secretaries. We are also aware that a draft guide is being prepared by the Office of Financial Management that should assign these responsibilities to the appropriate officials throughout the Department. As long as the accounting systems are tested as we recommended, our concerns would be satisfied.

Table I.1: ACCOUNTING SYSTEMS AND SUBSYSTEMS  
SEPTEMBER 30, 1984

<u>Agency</u>	<u>System/Subsystem</u>
1. Agricultural Marketing Service	AMS Accounting System -Validation -Payroll -Payables -Receivables -Property -Obligation Reporting -Distribution -Cost Reporting -Budget Reporting -General Ledger
2. Agricultural Stabilization and Conservation Service	Accounting and Review -Accounting, Budgeting and Reporting -Conservation Reporting and Evaluation -County Office Administrative Expense -Check Accounting -Claims and Receivables
3. Farmers Home Administration	Loan and Grant Accounting
4. Food and Nutrition Service	Fiscal Accounting and Reporting -Letter of Credit -Grant Management -Regional Office Administered Programs -Budget Authority
5. Forest Service	Program Accounting and Management Reporting -Allocation -Collections and Accounts Receivable -Payments Certified by Central Accounting System -Payments Certified by Forest Service -Fire Time Payments -Timber Sales Accounting -Unpaid Obligations -Personal Property Management -Real Property -Working Capital Fund



## 6. National Finance Center

## Payments

- Casual Employees Time Reports
- Correction, Adjustment, (Manual) Payment
- Disbursing
- FEDSTRIP
- Gasoline Credit Card
- Imprest Funds
- Miscellaneous Payments
- Motor Pool
- Purchase Orders, Invoices, and Vouchers
- Purchase Order
- Telephone Vendors
- Transportation
- Travel Advance
- Travel Vouchers
- Uniform Allowances
- Payroll/Personnel
  - \*Adjustment Processing
  - \*Federal Employees Health Benefits
  - \*Merit Pay
  - \*Payday Interface to Centralized Accounting
  - \*Payroll Processing
  - \*Personnel Processing
  - \*Retirement Application
  - \*T and A Validation

## Collection

- Billings and Collections, Administrative
- Billings and Collections

## Property

- Equipment Management Information
- Personal Property
- Supply/Property Inventory

## Accounting and Reporting

- Agency Accounting and Reporting
- Centralized Accounting System
  - \*Budget Cost
  - \*Central Accounting Reconciliation
  - \*General Ledger Interactive Description

- \*General Ledger
- \*Management and  
Accounting Structure  
Codes
- \*Transaction  
Distribution
- Miscellaneous Income  
Reporting

7. Rural Electrification  
Administration

Rural Electrification and  
Telephone Revolving Fund  
Accounting

- Advance
- Billing
- Collection
- Accounts Receivable
- Federal Financing Bank  
Guaranteed Loan

Rural Telephone Bank  
Accounting

- Advances
- Billings
- Collections
- Rural Communications  
Development Fund

Administrative Accounting

8. Soil Conservation Service

SCS Accounting

- General Ledger
- Fund Control
- Cash Management
- Debt Management
- Collections
- Payments
- Grant Payments
- Contracts and Grants
- Unpaid Obligations/  
Month-end Estimates
- Capitalized Property
- Internal Reporting
- External Reporting

Note: Full accounting services are provided by the National  
Finance Center for all Agriculture agencies not listed.

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



DEPARTMENT OF AGRICULTURE  
OFFICE OF ASSISTANT SECRETARY FOR ADMINISTRATION  
WASHINGTON, D.C. 20250

AUG 22 1985

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

Dear Mr. Peach:

We believe that the GAO audit team lead by Mr. Gary Boss did a fine job. However, we still have some differences in viewpoints on some issues (see enclosure). Some minor issues have already been resolved and do not appear in the enclosure.

It is important to remember that the problems and weaknesses that exist in the Federal Government did not develop overnight and will not be solved overnight. The internal control process is relatively new to the Federal Government and is still evolving. We should be careful that expectations do not overrun the ability to deliver without adversely impacting the accomplishment of agencies' primary missions.

Sincerely,

*Act. S.  
Enc* *John J. Franke, Jr.*

JOHN J. FRANKE, JR.  
Assistant Secretary  
for Administration

Enclosure

ADVANCE COMMENTS FROM THE  
DEPARTMENT OF AGRICULTURE

Chapter 1 - Introduction. No Comment

See comment 1.

Chapter 2 - Agriculture is Improving Its Internal Controls

There are a number of references in the report to inappropriate or ineffective corrective actions being reported. This represents, at least partially, some misunderstandings by the audit team. Whenever a weakness is identified, several actions are possible. If the source of the weaknesses is known and the solution is known, corrective action can be taken immediately. If the solution is not known, several planned actions are possible to identify the necessary corrective actions, i.e., audits, management reviews, pilot studies, etc. USDA has been reporting the more general "planned actions" rather than specifically "corrective actions." We agree that the weakness should continue to be carried in the tracking system until adequate "corrective actions" are completed.

As a practical matter corrective actions often do not completely correct weaknesses because the assessable inputs are inherently vulnerable. Sometimes the best that can be done is to minimize the vulnerability, and that minimum level of vulnerability may be low, medium or even high. Therefore, a corrective action may be effective even if it doesn't eliminate all vulnerability. Further, the final result of the actions may not be known for some time. However, we agree that corrective actions can be made more effective in many cases.

We agree to the recommendation to revise the Department's internal control directive to include requirements for:

- following up to confirm the effectiveness of corrective actions, and
- reporting on the status of corrective actions.

These actions have been taken already in the new USDA Guide for Management Control which was issued in early August 1985.

See comment 2.

Chapter 3 - Opportunities for Strengthening Agriculture's Internal Control Evaluations

The involvement of field offices in the internal control process is an area of principal concern throughout this chapter. However, neither GAO nor OMB has provided guidance as to the level of involvement that is required. In the absence of such guidance, we believe that the highly decentralized agencies such as Forest Service (FS), Agricultural Stabilization and Conservation Service (ASCS) and Farmers Home Administration (FmHA) are best qualified to develop a scheme that makes sense for their management structure. We believe that ASCS, in particular, has made major advancements in this area. They have implemented a continual vulnerability assessment ongoing in all field offices rather than being limited to a two year cycle. FmHA is also making major advances in this area and will show a very strong field involvement in FY 1985.

See comment 3.

The audit team also expressed concern that the vulnerability assessment form did not identify all areas of vulnerability known to management. Some managers exercised their option to identify areas of vulnerability not

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surfaced by the form or to increase the level of vulnerability in other areas. Managerial prerogatives of this kind were formally built into the USDA process since upper management may have information not available to lower level employees. There is no way to develop a 100 percent effective general vulnerability assessment form. For these reasons, we believe these criticisms to be invalid.

Now on p. 15.  
See comment 4.

On page 22, the audit team seems to imply that an assessment rating of "low" for the Food Stamp Program (FSP) ought to preclude a weakness from existing. Low vulnerability does not imply a complete absence of problems. In the FSP local operation of the program is the responsibility of State and local governments and the Federal Government has an oversight role. The real vulnerability is at the local level where program delivery occurs and FNS has no direct control. The difference between the GAO team and FNS viewpoints as to the vulnerability of the FSP is really one of definition of the assessable unit. The Family Nutrition Program (FNP) following guidance provided by OFM to all agencies, restricted the assessable unit to those activities over which FNS had direct control. With this definition, the rating of low vulnerability is probably accurate. An alternative approach would be to break the FSP into two assessable units of different character, i.e., the first covering activities under FNS' direct control and the second covering State and local government and recipients over which FNS does not have direct control. One possible answer from a control viewpoint would be to impose the Federal Managers' Financial Integrity Act (FMFIA) on State and local governments. The FMFIA does not presently have this coverage.

Now on p. 22,  
par. 1.  
See comment 5.

Further, it should be noted on page 38 at the end of paragraph 2 that FNS has not conducted an internal control review (ICR) of the FSP because there are currently 25 national audits in various stages of completion that should provide a legitimate alternative to an ICR.

Now on p. 15  
See comment 6.

Documentation of the vulnerability assessments (VA) (page 23) is another area of disagreement. The VA is intended to be the managers' viewpoints on areas of potential vulnerability. Requiring extensive documentation is counterproductive and wasteful. The new Guide provides for recording of background information related to the assessable unit but USDA has no intention of imposing the unnecessary paperwork (documentation) recommended by GAO on its employees.

Now on p. 17.  
See comment 7.  
Now on p. 19.

The completion date for the second round of VA's (page 26) was specified to be December 31, 1984, by OMB not USDA.

While the Agricultural Cooperative Service listed field employees time and attendance as a high risk as indicated on page 28, the team did not feel it would be necessary to evaluate and test these three employees. Due to the nature of their work and the constant exchange of information with their supervisor, they felt that testing at this time was not essential.

See comment 8

The Federal Crop Insurance Corporation, ICR on "Acreage Reporting Losses" identified the potential for farmers falsifying acreage reports to obtain

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Now on p. 19.

lower premium rates as an area for further evaluation (see page 28). This risk has since been addressed by Board of Director's Memorandum No. 256, dated July 12, 1984. Action is being implemented by insertion of new language in Section 9e of all crop insurance contracts effective for the 1986 crop year which should reduce any economic incentive to under-report acreage. The new provision requires that all production will count but that the guarantee will be based upon reported acreage. In the event of a late season loss to the insured crop, any substantial under-reporting of acreage would result in a severely reduced indemnity payment in most cases.

The recommendations were to "revise the internal control guidelines to include minimum standards for:"

1. Including field locations in the vulnerability assessments and documenting the process;

The new Guide contains adequate direction for documenting the internal control process and minimum requirements for including field office activities in the process.

2. Conducting ICRs and alternative approaches, including specifying the conditions under which alternatives are acceptable;

The new Guide contains adequate direction in this area. Management reviews will be the prevailing review process.

3. Using existing ADP guidance.

The ADP control guidance provided by OIRM continues to improve and will replace guidance previously provided by OFM. The new guide provides adequate direction in this area.

Chapter 4 - Improving Agriculture's Accounting System

GAO recommended that the Secretary direct the Assistant Secretary for Administration to:

1. Review major systems development efforts to help ensure that efforts are successful, address GAO principles, standards, and related requirements, and meet established time frames for completion.

We believe that the recommendation is unnecessary, because the Assistant Secretary for Administration has delegated these responsibilities to the Director, Office of Finance and Management (OFM). The Director, OFM, is performing these functional responsibilities.

The Program Development Staff of OFM reviews major USDA financial management system development efforts to ensure conformance with Departmental policies, Comptroller General's principles and standards, and Office of Management and Budget guidance. In addition, the Program

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Development Staff monitors financial system development efforts against established timeframes for completion.

2. Develop minimum acceptable standards for system evaluation and provide system reviewers with guidance on how to perform such evaluations, and assure their quality.

No GAO approved guidance has been furnished to executive agencies. The OMB has recently published such minimum acceptable standards. Unfortunately, the guidelines were not available for Agriculture's Second-Year Implementation of the Federal Managers' Financial Integrity Act.

According to OMB Circular No. A-127, each agency shall perform an annual review of agency financial systems. The Circular goes on to say that:

A review shall be conducted annually by system managers and users in accordance with an OMB review guide to be issued separately, Guidelines for Evaluating, Improving, and Reporting upon Financial Management/Accounting System. The review will build upon reviews required by OMB Circular A-123, Internal Control Systems, and result in a documented management assessment of how well the agency's financial management system and component systems conform to Section 6 objectives. More detailed evaluation of agency financial systems shall be conducted on a cyclical basis.

On May 20, 1985, the Office of Management and Budget issued the Guidelines for Evaluating Financial Management/Accounting Systems. The OMB guidelines<sup>o</sup> have been furnished to each USDA agency.

USDA believes that these guidelines represent the minimum acceptable standards for system evaluation and provide system reviewers with guidance on how to perform such evaluations and assure their quality.

The System Managers, Agency Chief Financial Officers, and OFM have been reviewing, initialing, and dating the agency reports, workpapers and other relevant supporting documentation thereby providing the necessary supervisory and quality controls.

3. Sufficiently test accounting systems in operation to determine conformance with the Comptroller General's principles, standards, and related requirements.

We disagree with the recommendation because these are the responsibilities of the Agency system and subsystem managers.

According to OMB Circular No. A-127, each agency shall perform an annual review of agency financial systems. The Circular goes on to say that a review shall be conducted annually by system managers and users.

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The Departmental Regulation on Financial Management Systems states that "financial system and subsystem managers are responsible for performing annual system and subsystem reviews and for issuing reports on them." Therefore, system and subsystem managers have been delegated the responsibility for sufficiently testing accounting systems in operation to determine conformance with the Comptroller General's principles, standards, and related requirements. Office of Finance and Management reviews the agency reports, workpapers and supporting documentation thereby providing the necessary supervisory and quality controls.

Three levels of review take place, (1) the System and Subsystem Managers, (2) the Agency Chief Financial Officers, and (3) the Office of Finance and Management to assure quality of documentation and reporting.



The following are GAO's comments on the Department of Agriculture's letter dated August 22, 1985.

GAO COMMENTS

1. The source of the misunderstanding was the Secretary's report to the President and the Congress. The Secretary's report stated that Agriculture has completed or substantially completed many corrective actions on identified weaknesses. However, an attachment to the report used the term "planned actions" to describe the many "corrective actions" referenced in the Secretary's report. Our concern in the chapter was that agencies were not evaluating the effectiveness of the corrective or planned actions.
2. We agree that Agriculture's highly decentralized agencies are best qualified to develop a scheme that suits their management structure. Our report also recognizes progress made by Agriculture in this area. We believe that Agriculture's responsiveness to our recommendation (see p. 27) will substantially strengthen its internal control process.
3. As we stated in the text, we generally agree that management prerogatives should be part of the VA process and that no VA instrument is perfect. Our concern is that the better an instrument is at assessing potential vulnerability, the less likely it is that management will need to significantly alter VA results because of information the instrument failed to capture.
4. We support Agriculture's suggestion of segmenting the Food Stamp Program into two separate assessable units of different character. This would allow a realistic assessment of the Food Stamp Program's vulnerabilities with respect to the federal government's role in evaluating and improving controls for a federal program largely operated by state and local entities.
5. The text has been revised to reflect this concern.
6. As discussed in our evaluation of Agriculture's response to our recommendation on this subject (see p. 27), Agriculture has emphasized the need for appropriate documentation in its newly issued USDA Guide for Management Control. The Guide's documentation guidance is consistent with GAO expectations.
7. OMB requires agencies to have an ongoing program of VAs, which are to be accomplished as frequently as circumstances warrant, with some form of evaluation to be performed at least once every two years. We believe Agriculture clearly has the flexibility under OMB guidelines to establish VA completion dates best suited to their individual needs.
8. The text has been revised to reflect this information.

(006121)





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