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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Commerce

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

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

This report highlights the progress made and problems encountered at the Department of Commerce in its first year of experience with the act. The report focuses on Commerce's evaluation of its internal controls and accounting systems and the improvements it plans to make in its evaluation and review processes.



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

RESOURCES COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-202205

The Honorable Malcolm Baldrige
The Secretary of Commerce

Dear Mr. Secretary:

This report presents the results of our review of the Department of Commerce's efforts to implement the Federal Managers' Financial Integrity Act of 1982. Commerce was 1 of 22 federal departments and agencies we reviewed to assess governmentwide compliance with the act during its first year.

Section 2 of the act requires agency heads to evaluate the adequacy of their systems of internal accounting and administrative control and to submit an annual statement on them to the President and the Congress. The act requires that agencies base their statements on an evaluation performed in accordance with guidelines issued by the Office of Management and Budget (OMB).

OMB's guidelines describe a multiphase approach to be used by agencies for evaluating, improving, and reporting on their internal controls. The phases are (1) organizing the process, including assignment of responsibilities, (2) segmenting (dividing) the agency's activities into units for which vulnerability assessments will be conducted, (3) assessing the unit's vulnerability (susceptibility) to fraud, waste, or abuse, (4) developing plans to review the unit's system of internal controls, (5) performing the internal control reviews, (6) determining, scheduling, and taking corrective actions, and (7) preparing the annual statement on the status of the agency's systems of internal control.

Section 4 of the act requires agency heads to include in the annual statement a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

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

Your Department made progress in carrying out its responsibilities under the act. Commerce conscientiously worked on writing directives, preparing inventories of assessable units to be subjected to the evaluation process, and performing vulnerability assessments and internal control reviews.

Your 1983 year-end statement on internal controls was an accurate representation of the positive efforts made and work yet unfinished.¹ Based on our review, we agree with your conclusion contained in the statement that reasonable progress has been made in evaluating internal controls but that completion of the effort ". . . has not been broad enough to provide reasonable assurance that all of the internal control systems are in place and meeting their objectives."

With respect to Commerce's accounting systems, you reported that the systems, taken as a whole, conform in all material respects to the principles, standards, and other related requirements of the Comptroller General except for the five deviations that you reported in your statement. We agree with your conclusion that improvements are needed in the evaluation of accounting systems, especially the need to test accounting systems in operation.

Notwithstanding the progress made, we identified the following areas where Commerce can strengthen and improve its internal control evaluation process:

- Commerce divided some of its activities into assessable units that were too large. Also, important activities within these units were not assessed. For example, Commerce defined its Office of Procurement Services as an assessable unit but did not assess the Office's internal controls for monitoring Commerce's procurement system. The Office's monitoring responsibilities are important for ensuring that Commerce's procurement system functions in accordance with procurement rules and regulations.
- Commerce did not always adequately document the results of its vulnerability assessments. Assessments contained broad statements that internal controls were adequate but did not explain or document the specific controls that were functioning or the basis for concluding that controls were adequate.

¹The Secretary's year-end statement was signed by the Acting Secretary of Commerce on December 30, 1983.

- Commerce did not assess some important automated data processing (ADP) activities such as the National Weather Service's use of computer systems to process and communicate weather forecasts.
- Commerce conducted 20 internal control reviews during 1983. These reviews, however, were generally not conducted on major program and administrative internal control systems. For example, the Economic Development Administration reviewed its internal controls for ensuring the security of loan file documents. It did not review internal controls covering major loan activities.
- Commerce did not ensure that all personnel understood the vulnerability assessment process.
- Commerce did not adequately monitor the vulnerability assessments to ensure that all activities were assessed and the assessments were adequately documented.
- Commerce did not establish a formal tracking system to track the evaluations and corrective actions.

Concerning section 4 of the act, we noted that Commerce did not perform complete accounting system evaluations because it did not review accounting systems' documentation and test systems in operation. Additionally, Commerce did not monitor the accounting systems evaluations to ensure that they were conducted in accordance with its guidelines for evaluating the systems.

Commerce officials told us that they plan to take corrective actions to improve the internal control evaluation process. Specifically, Commerce plans to define smaller units on which to conduct vulnerability assessments, provide additional training to personnel, and establish a tracking system for the process. Commerce officials also told us that they plan to review accounting system documentation and test systems in operation during this year's evaluations. In addition to Commerce's planned actions to improve the evaluation process, we proposed in a draft of this report that the Secretary of Commerce direct the acting Assistant Secretary for Administration to:

- Expand Commerce's guidelines to require that the bureaus use quality assurance techniques for the internal control evaluation process, including selective testing of vulnerability assessment and internal control review results, and monitor the bureaus while they conduct assessments to be sure they use the quality assurance techniques.

- Improve vulnerability assessment documentation by requiring managers to refer to specific safeguards in their assessments (such as policies, procedures, and regulations) that support their preliminary evaluation of internal controls so that independent reviewers can understand how the manager reached his or her conclusion.
- Ensure that vulnerability assessments are conducted on important ADP activities.
- Query managers to determine whether they know how to evaluate internal controls and train them as needed.
- Establish a quality assurance review to assure adherence to Commerce's accounting system evaluation guidelines.
- Ensure that the tracking system for internal controls and audit includes the capability to track the progress of the accounting system evaluations and the implementation of corrective actions to ensure that the evaluations progress on a timely basis and corrective actions are implemented on schedule.

In commenting on our draft report, Commerce said that the report accurately assessed the Department's efforts to implement the act. (See app. III.) Commerce said that it needs to institute a quality assurance program for both vulnerability assessments and internal control reviews. Commerce also said that a quality assurance program for vulnerability assessments should determine how the assessment was derived and review documentation and assessment forms. Commerce said that it does not believe that its quality assurance program should require ". . . independent third parties to go into assessable units and conduct detailed assessments of the validity of the assessments . . ." Also Commerce said ". . . that the level of effort required for quality assurance should be proportional to the amount of effort going into completing the vulnerability assessments." We agree with Commerce's comments and believe that Commerce should effectively implement a quality assurance program that determines how the assessments were derived and reviews assessment documentation to ensure that it supports conclusions reached in the assessments.

Commerce's comments on our draft report did not address our other proposals for strengthening and improving the internal control and accounting system evaluation processes. However, Commerce officials told us that they generally agree with these proposals and are either planning or taking action to implement them. Accordingly, we are not making recommendations at this

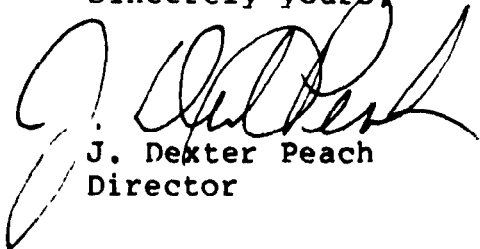
time. We plan to monitor Commerce's progress in improving its internal control and accounting system evaluation processes as part of our continuing reviews of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

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We appreciate the courtesy and cooperation extended to our staff during our work and look forward to carrying on the same spirit of cooperation in subsequent review efforts.

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

Sincerely yours,



J. Dexter Peach
Director

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ABBREVIATIONS

| | |
|-------|---|
| ADP | automated data processing |
| EDA | Economic Development Administration |
| FMFIA | Federal Managers' Financial Integrity Act |
| GAO | General Accounting Office |
| NOAA | National Oceanic and Atmospheric Administration |
| NWS | National Weather Service |
| OMB | Office of Management and Budget |

COMMERCE'S FIRST-YEAR IMPLEMENTATION OF THE
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

INTRODUCTION

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

We believe that full implementation of the Financial Integrity Act will enable the heads of federal departments and agencies to identify their major internal control and accounting problems and improve controls essential to the development of an effective management control system and a sound financial management structure for their agencies. To achieve these ends, section 2 of the act requires that:

- Each agency establish and maintain its internal accounting and administrative controls in accordance with the standards prescribed by the Comptroller General,¹ so as to reasonably assure that (1) obligations and costs comply with applicable law, (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are recorded and properly accounted for.
- Each agency evaluate and submit a statement annually on whether the agency's systems of internal control comply with the objectives of internal controls set forth in the act and with the standards prescribed by the Comptroller General. The act also provides for agency statements to identify the material weaknesses involved and describe the plans for corrective action.

¹Section 2 of the act requires the Comptroller General to prescribe standards for federal agencies' internal accounting and administrative control systems. The Comptroller General issued these standards in June 1983. The standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated.

- The Office of Management and Budget (OMB) issue guidelines for federal departments and agencies to use in evaluating their internal accounting and administrative control systems. OMB issued these guidelines in December 1982.

Section 4 of the act also requires that each agency prepare a separate report on whether the agency's accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General. Although OMB is not required by the act to prepare guidelines for agencies to follow in evaluating their accounting systems for compliance with the Comptroller General's principles and standards and related requirements, it is preparing them.

OMB's internal control evaluation process

OMB's guidelines outline a multiphase approach for agencies to evaluate their internal controls. Specifically, the guidelines recommend that agencies:

- Organize the evaluation process by determining what information and assurances are to be provided to the agency head for the year-end statement; assigning responsibilities for planning, directing, and controlling the evaluations; and developing an information system to track the status of the evaluations and corrective actions.
- Segment the agency into organizational components and identify assessable units, which are programs and administrative functions conducted in each component that will be the subject of a vulnerability assessment.
- Assess the vulnerability of assessable units to fraud, waste, or abuse. The assessment is done by identifying the factors that create an inherent risk in the function, considering the operating environment of the function and preliminarily evaluating whether safeguards exist to prevent fraud, waste, or abuse.
- Develop plans and schedules for conducting internal control reviews and other actions based on the results of the assessments and other considerations so that internal controls in programs and functions deemed most vulnerable, as well as those deemed less vulnerable, are evaluated and improved as necessary.
- Review internal controls by determining whether adequate control objectives and techniques exist and are functioning as intended and by developing recommendations to correct weaknesses.
- Determine, schedule, and take corrective actions to improve internal controls based on the cost effectiveness of the action.

--Submit an annual statement to the President and the Congress on the status of the agency's system of internal controls.

This report on the Department of Commerce is 1 of 22 reports on federal departments' and agencies' efforts to implement the act during the first year.

BACKGROUND ON COMMERCE'S CREATION,
PURPOSE, AND ORGANIZATION

Commerce was established as a separate department on March 4, 1913. It is composed of the Office of the Secretary and 12 major operating units: the International Trade Administration, Economic Development Administration, Minority Business Development Agency, National Bureau of Standards, National Oceanic and Atmospheric Administration, Patent and Trademark Office, Bureau of the Census, Bureau of Economic Analysis, Bureau of Industrial Economics, National Technical Information Service, National Telecommunications and Information Administration, and the United States Travel and Tourism Administration.

Commerce's mission is to encourage, service, and promote the nation's international trade, economic growth, and technological advancement. The Department carries out its mission through a wide variety of programs. It offers assistance and information to increase exports, limits unfair foreign trade competition, provides social and economic statistics and analyses, conducts research and supports scientific and technological development, grants patents and registers trademarks, provides loans and grants for domestic economic development, supports research to improve understanding of the physical environment and oceanic life, forecasts weather conditions, promotes travel to the United States by residents of foreign countries, and assists minority business. During fiscal year 1983, Commerce had about \$1.84 billion and about 26,780 employees to carry out its missions and programs.

COMMERCE'S INTERNAL CONTROL
EVALUATION PROCESS

Prior to enactment of FMFIA in 1982, Commerce initiated a project in July 1981 to evaluate its internal control systems as a way to improve departmental management practices. The project's goal was to develop a process for evaluating internal control systems and included pilot studies of internal controls in two Commerce bureaus. In June 1982, Commerce established a schedule to complete vulnerability assessments in each of its major bureaus by December 1982. The project was led by a Special Assistant to the Assistant Secretary for Administration. In June 1982, Commerce issued guidelines to its bureaus on how to conduct and document vulnerability assessments and internal control reviews. These guidelines, together with subsequent refinements, and Commerce's draft administrative order on internal controls establish an overall framework for conducting internal control evaluations

in accordance with OMB's guidelines and our standards for internal controls.

Commerce's organization for the evaluation process

Commerce's draft administrative order on internal controls assigns responsibilities to top managers for the internal control evaluation process. The Assistant Secretary for Administration is responsible for overseeing the Department's process. In August 1983, Commerce established the Management Control Division under the Assistant Secretary. The Division provides the central direction, technical assistance, and coordination formerly provided by the Special Assistant to the Assistant Secretary. The draft administrative order assigns to program and administrative managers responsibility for assuring that internal controls within their activities are subject to vulnerability assessments and internal control reviews. Each bureau head has designated a senior manager who is responsible for overseeing the evaluation process to assure that the bureau properly carries out the process and represents the bureau on Commerce's Internal Control Committee. Committee members act as liaisons between the Department and its bureaus and advise the Assistant Secretary on departmental internal control policies.

Prior to the vulnerability assessments, staff in the Office of the Assistant Secretary for Administration conducted orientation sessions to familiarize program and administrative managers with OMB's internal control requirements and Commerce's guidelines for internal control evaluations.

Commerce's segmentation

As a first step in the evaluation process, Commerce segmented its programs and activities into 306 units which would be subject to a vulnerability assessment. Commerce used budget amounts, number of personnel, and nature and size of the organization as criteria for defining the units.

Commerce's vulnerability assessments

Program and administrative managers assessed vulnerabilities by evaluating the general control environment, including elements such as management attitude and organizational structure of the unit and inherent risk of the unit, identifying vulnerabilities and conducting a preliminary evaluation of safeguards. These managers recommended corrective actions, including internal control reviews, for areas that they rated as high or moderate risks and some areas that were low risk. Senior managers in the bureaus, such as the Deputy Administrator, National Oceanic and Atmospheric Administration (NOAA), reviewed their bureaus' assessments to determine which areas had the higher risks. Commerce completed its initial assessments by December 31, 1982. According to

Commerce officials, the assessments disclosed 375 vulnerabilities in the 306 units: 37 vulnerabilities had a high risk, 109 vulnerabilities had a moderate risk, and 229 had a low risk.

Commerce's internal control reviews

In September 1983, Commerce asked each of its bureaus to recommend units that should be subject to an internal control review. The criteria used in selecting the units for review were that

- the review could be completed by November 30, 1983, in order to be included in the Secretary's year-end statement,
- the unit was rated highly vulnerable,
- internal control weaknesses could be corrected quickly,
- the area had a high visibility, and
- resources were available to conduct the review.

Based on the above criteria, Commerce selected and conducted 20 internal control reviews. Because the criteria for selecting the units for review included elements in addition to the unit's degree of vulnerability, such as the ability to complete the review by November 30, the units selected included those with a low vulnerability.

The Chief, Management Control Division, told us that Commerce did not want to rely solely on the vulnerability assessment results to schedule internal control reviews. He added that Commerce lacked confidence in the vulnerability assessments due to problems in the assessments such as the large size of some assessable units and the lack of field office involvement in the process. Each bureau established internal control review teams to conduct each review. The teams usually consisted of a manager responsible for the unit being reviewed and other staff members either from within or outside the unit. The Inspector General's staff assisted the review teams in designing methodologies for the review and in evaluating the adequacy of supporting documentation prepared by the teams. According to Commerce officials, the reviews were completed by December 1983 and corrective actions are being scheduled for implementation.

Prior to initiating internal control reviews, Commerce provided internal control review training, designed and presented by a public accounting firm, to over 800 senior officials, program and administrative managers, and staff who would conduct internal control reviews.

Secretary's year-end statement
on internal controls

On December 30, 1983, the Secretary of Commerce reported to the President and the Congress on the status of internal controls within the Department.² In his report, the Secretary described Commerce's internal control evaluation efforts and planned improvements to the process, identified material weaknesses disclosed by the evaluation, and discussed plans for corrective actions. (See app. II.) The Secretary stated that progress in the evaluation process was reasonable, but not ". . . broad enough to provide reasonable assurance that all of the internal control systems are in place and meeting their objectives." While the Secretary did not state definitively whether or not Commerce's internal control systems comply with the three statutory objectives and the Comptroller General's standards, we believe the year-end statement was an accurate representation of Commerce's positive efforts as well as its unfinished work.

ACCOUNTING SYSTEM EVALUATIONS

The Director of Commerce's Office of Financial Management organized and directed Commerce's accounting systems compliance evaluations. The Director's office prepared written guidelines for the evaluation, assigned responsibilities, and involved senior financial managers throughout Commerce. The accounting system evaluation process required chief financial officers to inventory accounting systems, identify system enhancement projects, and evaluate each accounting system under their control for compliance with the Comptroller General's principles and standards. The finance officers and other senior financial management personnel applied their personal experience, knowledge, and observations of each accounting system to a checklist of the accounting principles and standards. The evaluators also considered system deviations from the principles and standards that had been reported previously. Deviations disclosed during the evaluations were listed along with corrective actions and a schedule for implementation. The evaluations did not include any in-depth reviews to determine whether the checklists were answered accurately because of time constraints.

The Secretary's year-end statement discussed Commerce's evaluation efforts, identified certain areas of noncompliance and plans for corrective actions, and outlined plans to improve the evaluation next year. (See app. II.)

²The Secretary's year-end statement was signed by the Acting Secretary of Commerce.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review, which was conducted between June 1983 and January 1984, was to assess Commerce's process for evaluating its internal control and accounting systems for purposes of reporting under the act. We focused on Commerce's actions to implement the act's requirements to evaluate and report on the status of its internal control systems and to report on its accounting systems' compliance with our principles and standards.

To assess how well Commerce implemented the act, we reviewed (1) OMB guidelines for internal control evaluations and (2) Commerce's draft administrative order and guidelines for internal control and accounting system evaluations. We judgmentally selected vulnerability assessment forms prepared for 112 assessable units to determine if Commerce had consistently followed its guidelines. We also reviewed documentation supporting 10 of the 20 internal control reviews to determine if the reviews were conducted in accordance with the OMB and Commerce guidelines. In selecting internal control reviews we concentrated on organizational units which had performed more than one review. Further, we reviewed the eight accounting system evaluations performed by Commerce to determine if they conformed to Commerce's guidelines.

In addition, we reviewed training material provided by Commerce for internal control reviews and discussed the adequacy of training with internal control review team members. We also reviewed our prior audit reports and those of the Inspector General on Commerce activities in order to identify areas of internal control weakness. Also, we reviewed how well Commerce evaluated internal controls relating to ADP because of its importance to Commerce's programs.

Because we limited our first-year review to evaluating Commerce's implementation process, we did not attempt to independently determine the status of Commerce's internal control systems or the extent to which its accounting systems comply with our principles and standards.

We discussed Commerce's evaluation processes with (1) the Assistant Secretary for Administration and members of her staff, including the Director, Office of Management Analysis and Control; Director, Office of Financial Management; and the Chief, Management Control Division, (2) officials in each of Commerce's 12 major operating units responsible for coordinating the evaluation, (3) assessing managers, (4) internal control reviewers, and (5) the Inspector General and members of his staff.

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

IMPROVEMENTS NEEDED IN COMMERCE'S
INTERNAL CONTROL EVALUATION PROCESS

Although Commerce had conducted its vulnerability assessments and had completed 20 internal control reviews by December 1983, the Secretary reported in his year-end statement to the President and the Congress that the evaluations were not sufficiently broad to provide reasonable assurance that all systems of internal controls were in place and accomplishing their objectives. The Secretary has instructed secretarial officers and heads of operating units and departmental offices that in future statements he wants to provide the President with a much stronger assurance regarding Commerce's internal controls. We believe that to achieve this objective Commerce should

- identify smaller and more manageable assessable units and increase field managers' role in the evaluations,
- better document vulnerability assessments,
- ensure that vulnerability assessments are conducted on important ADP activities,
- expand the scope of future internal control reviews,
- query staff to determine whether they know how to evaluate internal controls and train them as needed,
- review the quality of the evaluations, and
- establish a formal tracking system to monitor the status of corrective actions.

Smaller assessable units and greater
field office involvement are needed
in vulnerability assessments

OMB's guidelines state that an agency's inventory of assessable units should provide complete coverage of all programs and activities and that units should be of an appropriate nature and size to facilitate meaningful vulnerability assessments. The guidelines also point out that because programs and activities may vary among locations, it may be necessary to conduct separate vulnerability assessments for each location.

As previously discussed on page 4, Commerce divided its program and administrative activities into 306 assessable units which would be subject to vulnerability assessments. Commerce used dollars budgeted, number of personnel, and the nature and size of the organizational structure as the basis for determining assessable units. According to the Secretary's year-end statement, some of the assessable units were too large to conduct efficient vulnerability assessments and internal control reviews.

During our review we noted cases of important activities within large assessable units that were not assessed. For

example, Commerce defined as an assessable unit its Office of Procurement Services, which has broad responsibilities for issuing procurement policies, regulations, and procedures; for contracting; and for monitoring the procurement system. In November 1982, the unit's manager identified and assessed the following vulnerabilities in the procurement area:

- Excessive control in the procurement process leading to waste of resources.
- Procurements of goods and services of marginal need but purchased at the end of the year.
- Exposure to bribes or kickbacks during contracting.

The manager did not assess how effectively his unit monitored procurement officials' compliance with rules and regulations, such as those governing end-of-year procurements and procurement pricing controls. At the time of the assessments, Commerce had about 88 offices throughout the country that had various levels of procurement authority. Consequently, the unit's monitoring function was important to assuring that Commerce's procurement system was functioning properly and procurement officials were following procurement regulations. Had Commerce defined the office's specific procurement responsibilities as separate assessable units, it is more likely that the office would have assessed how effectively the procurement system was monitored. In a January 1983 report to the Assistant Secretary for Administration, the Inspector General said that the Department's oversight of the procurement system was inadequate and, as a result, procurement officials were not always using and documenting procurement pricing controls. Had the vulnerability assessment focused on the monitoring functions, it might have disclosed weaknesses such as those reported by the Inspector General.

Our review also showed that, for the most part, only three of Commerce's bureaus included some of their field offices in the process. Commerce has about 650 domestic field offices but included less than 5 percent of them as assessable units. While we recognize that the desirability of assessing field office activities as separate units depends largely on the degree to which management authority is centralized, we believe that certain activities are unique to Commerce's field offices and require assessment by field office managers.

During our review we noted cases where important field office activities were not assessed. NOAA, for example, generally did not include field offices in its inventory of assessable units due to time constraints. NOAA defined property and communications management as an assessable unit and assessed its vulnerabilities in headquarters. The assessment did not disclose any vulnerabilities in NOAA's Logistics Supply Center in Kansas City which provides supplies and logistics support to all NOAA elements through a nationwide supply system. An Inspector General's report

issued 3 months after the vulnerability assessments showed that the Center had deficiencies in property management controls, including the lack of an up-to-date inventory and accountability for its estimated \$14.7 million worth of property. If NOAA had included the Center in the assessment process, it is more likely that weaknesses disclosed by the Inspector General would have been identified by Center managers during their assessments.

Commerce officials told us that field office managers should be more involved in the process. According to the Chief, Management Control Division, Commerce's first step in assessing its vulnerabilities during 1984 will be defining smaller and more manageable units for the assessments and increasing field office involvement in the process.

Need to improve vulnerability assessment documentation

OMB's guidelines require that adequate documentation should be maintained for activities conducted during the vulnerability assessments that will be useful for reviewing the validity of conclusions reached in the assessments. In reviewing Commerce's ratings on its vulnerability assessments, we found that documentation supporting some assessments did not adequately explain the high, medium, or low vulnerability ratings assigned to the units.

For example, the documentation provided by the Economic Development Administration (EDA) in its assessment of grantees' unauthorized use of funds was not adequate to explain the adequacy of controls over grantees' use of funds. Although the assessment assigned a medium vulnerability rating to the area, the rating was supported only by the following statement: "The agency has established a system of expenditure controls and reports which is adequate in the vast majority of instances, moreover, required audits surface situations of unauthorized use of funds and permit remedial action to take place." The assessor did not refer to specific procedures or operating orders or otherwise explain what systems exist to provide control.

In another case, EDA defined the "potential for poor quality grants" as a medium range vulnerability because "the agency was attempting to adhere to sound policies and procedures and an experienced staff assisted in project selection." Again there was no supporting documentation in the assessment to support the statement.

Similarly, in October 1982, NOAA's Office of Finance assessed its vulnerability of not collecting debts owed to NOAA. According to the assessment, about \$45 million must be collected from non-governmental sources each year. The assessing manager assigned a low vulnerability rating to the area and supported the rating with statements such as "collection procedures are aggressive, and are well documented." The assessing manager did not document the basis for these statements.

In May 1983, the Office of Budget and Finance reassessed its billing and collecting activities which resulted in an overall moderate vulnerability rating. Although the reassessment increased the vulnerability rating, the vulnerability assessment contained little discussion of the adequacy of controls.

Subsequently, the Assistant Inspector General for Auditing, in a June 1983 report, disclosed internal control weaknesses in NOAA's debt collection activities. The Office of the Inspector General reported that

- responsibility for debt collection had no overall central management direction, control, or oversight;
- bills are late and inaccurate;
- delinquent debtors are not sent prompt dunning notices and little is done to collect; and
- interest is not charged or, if charged, not collected.

In responding to the Office of the Inspector General's report, NOAA indicated that it had already taken actions, such as designating a debt collection manager, to correct reported weaknesses. We believe the vulnerability assessments would have been more reliable as an indicator of potential vulnerabilities if the assessing manager had discussed and documented the specific condition of controls that were in place to correct weaknesses such as those reported by the Office of the Inspector General in its preliminary evaluations of safeguards.

Commerce has changed its vulnerability assessment documentation forms since the 1982 assessments to improve documentation. The new forms require assessing managers to complete a preliminary evaluation of internal controls through a checklist of compliance with the Comptroller General's internal control standards. We believe Commerce can further improve its vulnerability assessments by requiring that assessing managers refer in the checklist to specific policies, procedures, and regulations that support their conclusions about compliance with the standards. Such references should provide an information trail for independent reviewers and allow them to better understand the basis for the assessing managers' conclusions.

Need to better assess ADP controls

Commerce depends on computers and related telecommunication networks to help carry out its mission and administrative functions accurately, completely, and efficiently. Commerce has approximately 900 computer systems and an estimated \$240 million budgeted for information technology resources during fiscal year 1984. Essentially, all of Commerce's major programs are supported by computers. For example,

--the Bureau of the Census uses computers to produce statistics used to guide programs and provide services at all levels of government and

--the National Weather Service (NWS) uses computers to develop and furnish specialized weather information to help agriculture, aviation, maritime, space, and military operations.

Although ADP has a crucial role in Commerce's programs, our review showed that some major ADP functions and related controls were not considered during the process.

For example, Commerce did not identify telecommunication networks and data processing installations as assessable units and generally did not evaluate controls in these activities as part of other assessments. Also, NWS, which relies on large computer systems, complex forecast models, and advanced telecommunications networks to process and communicate weather information, did not address these major components during the assessment process. As a result, ADP activities involving costly equipment and important missions were not considered as candidates for internal control reviews.

Major internal control systems
need to be reviewed

Commerce completed 20 internal control reviews in calendar year 1983. However, Commerce generally did not review internal control systems of major program or administrative areas. Consequently, the reviews do not provide a basis for assuring Commerce that its system of internal controls for major program or administrative activities are functioning properly. The Inspector General in a memorandum to the Secretary dated December 13, 1983, said that, although the internal control reviews were generally well done, they covered areas that were peripheral to the major missions of the bureaus and did not cover significant program or administrative areas.

Commerce generally did not review major program and administrative internal control systems, in part because its vulnerability assessments did not disclose significant vulnerabilities in these areas and did not recommend many substantive internal control reviews. Additionally, Commerce did not begin most of its reviews until September 1983 and required that they be completed by November 30, 1983, in order to be included in the Secretary's year-end statement. Thus, the reviews were conducted under tight time constraints. Commerce did not initiate its reviews earlier because it wanted to first train senior managers and reviewers.

The internal control reviews conducted by NWS are examples of reviews conducted in areas not significant to the major activities

of the organizations. NWS reviewed the adequacy of internal controls over (1) the security of imprest funds and (2) the collection of fees for climatological services. An NWS internal control coordinator estimated that each review area accounted for about \$50,000. The official agreed with us that the review areas were not significant to NWS' primary mission to prepare and disseminate weather forecasts. He said that the review areas were selected because: (1) previous Inspector General reports had indicated problems and (2) the reviews could be completed within the allowable time.

In another case, EDA conducted an internal control review of the security of loan file documents in its direct and guaranteed loan program. During the vulnerability assessment of the program, the assessing manager had assigned a low vulnerability rating to document security. Although other debt collection activities such as liquidation and management information received higher ratings, EDA did not review them because of time constraints.

Commerce officials agree that the initial internal control reviews generally were not conducted on major program or administrative activities. The Chief, Management Control Division, told us that the next round of vulnerability assessments should disclose more programmatic vulnerabilities and be a better basis for selecting more substantive areas for internal control reviews.

Some staff need more internal control evaluation guidance and training

Commerce provided limited training and guidance to assessing managers during the vulnerability assessments. In some cases, managers told us the guidance did not adequately explain the assessment process. In contrast, Commerce, primarily through the Inspector General, provided detailed guidance and assistance in areas such as designing review methodologies to internal control review teams during the internal control reviews. Internal control review team members told us that this assistance was useful to them in conducting reviews.

Training and guidance during the vulnerability assessments consisted primarily of (1) a brief orientation session covering OMB requirements and Commerce's vulnerability assessment guidelines and (2) advice from the Assistant Secretary's staff during meetings with program managers to identify sample vulnerabilities. Officials in Commerce's bureaus varied in their views about the adequacy of Commerce's assistance. Specifically, 10 of 18 officials we contacted, who commented on the assistance, told us that the assistance was limited or did not explain the assessment process. For example, officials in NOAA's Office of Management and Budget told us that Commerce provided adequate assistance in preparing for the assessments. On the other hand, NOAA officials in NWS and the National Marine Fisheries Service told us that they

had not been trained and that the entire assessment process had been unclear to them.

Commerce gave formal training on internal control reviews to its senior officials, managers, and internal control reviewers. The training provided an overview of the evaluation process and used a case study to demonstrate review techniques. Internal control reviewers told us, however, that the training did not adequately explain how to conduct a review.

However, internal control reviewers told us that the staff in the Inspector General's Internal Control and Accounting Systems Review Group provided valuable advice and assistance during the reviews. For example, the Inspector General's staff provided advice to the reviewers about designing review methodologies and documenting the reviews.

The Chief, Management Control Division, told us that Commerce recognizes the importance of making available expert advice and training on how to conduct assessments and reviews during the evaluation process and is exploring with the Office of Personnel Management the development of a training program. Commerce is considering providing training to individual bureaus and tailoring it to the bureaus' specific activities. He also told us that his office needs to take a more active role in providing advice and assistance to staff during the evaluation process, but adequate staff time is not available to accomplish this objective.

Quality assurance reviews needed during the evaluation process

Commerce's monitoring of the vulnerability assessments was not extensive enough to assure that all activities were assessed and that the assessments were adequately documented. Quality assurance measures consisted of after-the-fact reviews of completed assessments by senior officials in (1) the bureaus responsible for the assessed activity, (2) the Office of the Assistant Secretary for Administration, and (3) the Office of the Inspector General.

An official in the Office of the Assistant Secretary who reviewed the assessments told us that the reviews were not detailed and that reviewers tended to look only at those areas where they had a special knowledge of the assessed activity. Similarly, the Special Assistant to the Assistant Secretary who, as previously discussed, led the internal control evaluation project, told us that staff resources were not adequate to monitor or analyze the assessments.

The Chief, Management Control Division; the Director, Office of Management Analysis and Control; and staff in the Office of the Inspector General told us that to improve the assessments additional quality assurance monitoring is needed "up-front" during the assessments.

OMB guidelines suggest that agencies monitor vulnerability assessments and internal control reviews by using ". . . an individual or small group to test assessments and reviews as deemed necessary." The guidelines suggest that one way to monitor the assessments is to coordinate such efforts with the Inspector General's review of the process.

Commerce's guidelines for vulnerability assessments state that the Assistant Secretary for Administration and the Office of the Inspector General are responsible for reviewing the assessments but do not discuss how the reviews are to be conducted. For example, the guidelines do not state whether the Office of the Assistant Secretary and the Office of the Inspector General should test assessments by reviewing documentation, such as policies and procedures, that support statements made in the assessments about the adequacy of existing controls.

Commerce's experience with the internal control reviews demonstrates the benefit of an active quality assurance process. During the internal control reviews, the Inspector General, and to a lesser extent, Commerce's Office of Management Analysis and Control, evaluated and commented on the review methodology and supporting workpapers while the reviews were being conducted. Internal control review team members told us that this assistance was useful to them in conducting the reviews because it guided them in designing adequate review methodologies and preparing adequate documentation. Accordingly, the assistance was useful as a quality assurance measure to assure that the reviews were adequately performed.

As previously discussed on page 4, the Management Control Division in the Office of the Assistant Secretary for Administration directs and coordinates Commerce's evaluation process and provides technical assistance during the evaluation. The Division Chief told us that he has 1.5 staff years available to implement these responsibilities and that the resources are not adequate to increase the Division's quality assurance monitoring and technical assistance to assessing managers and internal control reviewers.

Need to implement a formal tracking system

OMB's guidelines suggest that agencies establish a formal followup system to track corrective actions that are recommended as a result of vulnerability assessments and internal control reviews. The guidelines state that the tracking system should log and track recommendations and target dates, provide assistance in developing plans for implementing corrections, and monitor whether changes are implemented on schedule. The Chief, Management Control Division, told us that Commerce has not implemented such a system but recognizes that one is needed.

Internal control coordinators in the individual bureaus told us that they follow up on corrective actions recommended in the

vulnerability assessments and internal control reviews and report quarterly on implemented actions to Commerce which then reports to OMB. The Chief, Management Control Division, told us, however, that these reports do not provide adequate information to track the status of corrective actions against planned milestones. He also told us that Commerce plans to implement a Department-wide system to track corrective actions, vulnerability assessments, and internal control reviews. The Chief told us that a system should be established this year.

CONCLUSIONS

Commerce worked hard and made important strides toward evaluating its system of internal controls. However, as the Secretary pointed out in his year-end statement, Commerce's accomplishments were not broad enough to provide reasonable assurance that internal control systems were in place and functioning. Vulnerability assessments did not disclose significant vulnerabilities to fraud, waste, or abuse; and internal control reviews, for the most part, did not cover internal control systems in major administrative or program activities.

Commerce is planning to take various actions this year to correct weaknesses in its evaluation program by (1) defining smaller assessable units and increasing field office managers' role in the process, (2) developing training programs for its managers, and (3) establishing a formal tracking system for the process. Commerce said that the next round of vulnerability assessments should provide a better basis for selecting substantial areas for internal control reviews. We support these actions. However, we believe that additional steps are necessary to augment Commerce's planned actions to assure that vulnerability assessments and internal control reviews are conducted properly.

PROPOSALS, AGENCY COMMENTS, AND OUR EVALUATION

In a draft of this report, we proposed that the Secretary of Commerce direct the acting Assistant Secretary for Administration to:

- Expand Commerce's guidelines to require that the bureaus use quality assurance techniques for the internal control evaluation process, including selective testing of vulnerability assessment and internal control review results, and monitor the bureaus while they conduct assessments to be sure they use the quality assurance techniques.
- Improve vulnerability assessment documentation by requiring managers to refer to specific safeguards in their assessments (such as policies, procedures, and regulations) that support their preliminary evaluation of internal controls so that independent reviewers can understand how the manager reached his or her conclusions.

- Ensure that vulnerability assessments are conducted on important ADP activities.
- Query managers to determine whether they know how to evaluate internal controls and train them as needed.

In commenting on our draft report, Commerce said that the report accurately assessed the Department's efforts to implement the act. (See app. III.) Commerce said that it needs to institute a quality assurance program for both vulnerability assessments and internal control reviews. Commerce also said that a quality assurance program for vulnerability assessments should determine how the assessments were derived and review documentation and assessment forms.

Commerce said that it does not believe that its quality assurance program should require ". . . independent third parties to go into assessable units and conduct detailed assessments of the validity of the assessments . . ." Also, Commerce said that ". . . the level of effort required for quality assurance should be proportional to the amount of effort going into completing the vulnerability assessments."

We agree with Commerce's comments and believe that Commerce should effectively implement a quality assurance program that determines how the assessments were derived and reviews assessment documentation to ensure that it supports conclusions reached in the assessments.

Commerce's comments on our draft report did not address our other proposals for strengthening and improving the internal control evaluation process. However, Commerce officials told us that they generally agree with these proposals and are either planning or taking action to implement them. Accordingly, we are not making recommendations at this time. We plan to monitor Commerce's progress in improving its internal control evaluation process as part of our continuing reviews of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

IMPROVEMENTS NEEDED IN THE ACCOUNTING SYSTEMS EVALUATION PROCESS

Commerce's first-year effort is a good starting point for evaluating its accounting systems' compliance with the Comptroller General's accounting principles and standards and related requirements, but improvements are needed. Commerce evaluated its eight accounting systems.³ Commerce's first-year effort did not start until October 1983 because it waited for OMB's governmentwide

³The Secretary's annual statement on accounting systems noted that Census' payroll was not evaluated as part of this first effort but will be reviewed in calendar year 1984.

guidelines for conducting accounting system evaluations rather than developing its own guidelines.⁴ Once started, Commerce made a reasonable effort within available time to evaluate its accounting systems' compliance with our accounting principles and standards.

Commerce's finance officers and their staffs evaluated accounting systems by applying their personal experience, knowledge, and observations of each accounting system to a checklist of our principles and standards. Commerce did not, however, conduct indepth evaluations to determine the adequacy of accounting system documentation, test the systems' conformance with our accounting principles and standards, or sufficiently monitor the evaluation process to assure that the evaluations were conducted in accordance with Commerce's guidelines for accounting system evaluations.

The Secretary concluded in his 1983 year-end statement to the President and the Congress that, with the exception of noted areas of noncompliance (see app. II), Commerce's accounting systems, taken as a whole, complied with the Comptroller General's principles and standards. Although the personal experience, knowledge, and observations of finance officers and other financial managers is valuable to the evaluation process, we believe that to report with better assurance on its accounting systems' compliance, Commerce needs to improve its evaluation process by reviewing systems documentation, testing systems in operation, and monitoring the evaluation process to assure that the evaluations are properly conducted.

Reviews of accounting system documentation needed during the evaluations

Commerce generally did not evaluate its accounting systems documentation to determine whether the documentation adequately described elements such as the systems' design, methods of operation, equipment used, control features, or end products such as accounting reports and statements. Documentation should consist of narrative descriptions and flow charts sufficiently detailed and logically organized to provide a ready understanding of a system's design, operations, and features.

Such information is needed in order to design the testing procedures necessary to determine if a system operates properly. However, there are many other advantages to properly documenting systems. For example, good documentation

⁴OMB issued draft accounting system evaluation guidelines on September 29, 1983, but instructed agencies not to use them for the 1983 evaluations.

- provides all employees with a consistent understanding of the system's established operating procedures and requirements,
- facilitates familiarization and training for new employees,
- provides a permanent record of changes made to equipment and operating procedures, and
- permits reviews by outside parties to be performed more quickly and lessens the need for employees to spend time explaining systems.

Tests of accounting systems needed during the evaluations

Commerce did not test accounting systems to determine if they operate in conformity with our principles and standards. For example, Commerce did not test to determine whether its systems accept only valid data and produce reliable reports and financial statements.

In our audit work at federal agencies, we have frequently noted accounting systems operating differently than specified in their design and even differently than responsible officials believed them to be operating. Accordingly, we believe Commerce's future accounting system evaluations should require the testing of systems' operations to assure they are functioning as intended.

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

In his 1983 year-end statement, the Secretary recognized the need to include system testing procedures and documentation reviews. The statement described plans to include these procedures in the 1984 evaluation process.

Greater control needed over the evaluation process

Our review also showed that Commerce needs stronger quality assurance to monitor and track accounting system evaluations. Commerce guidelines for accounting system evaluations require a supervisor to review evaluation results. As stipulated in the guidelines, the supervisory review was to be performed by the finance officers who were also responsible for the evaluation reviews. However, our work showed that the supervisory review did

not adequately assure that evaluations were properly conducted. Specifically, some documentation required by Commerce guidelines to support the evaluations was not complete. Documentation missing included identification of the people who performed three of the eight reviews, the types of evaluation methodology used for five of the reviews, and workpapers showing the rationale to support conclusions in three of the reviews.

Additionally, because of time constraints, Commerce did not have a system to track either the progress of the evaluations or the implementation schedules to correct deviations from principles and standards. A tracking and reporting system is necessary to assure management that the evaluations progress on a timely basis and corrective action schedules are met.

We also noted that the Inspector General plans to review accounting system evaluations and provide expert technical advice to accounting system review team members in such areas as evaluation methodologies. During the first-year effort, the Inspector General was restricted in carrying out his planned role by the short time available because of Commerce's late start in the evaluations. The primary service the Inspector General provided was to review Commerce's guidelines and furnish pertinent audit reports to the review team personnel. However, the Inspector General's implementation of his planned role in future years can be an important part of the accounting system review effort. For example, the Inspector General can provide advice on testing methodology and suggest areas to be tested.

CONCLUSIONS

In our view, Commerce made a good faith effort to comply with the act's requirements on reporting on accounting systems' conformance with the Comptroller General's accounting principles and standards. However, Commerce's year-end statement was based on the experience, knowledge, and observations of accounting officials rather than on evaluations specifically designed to assess how well the systems operated. Although the personal experience, knowledge, and observations of finance officers and other financial managers is valuable to the evaluation process, we believe that such approaches are too limited to provide a sound basis for determining whether accounting systems are operating properly and in accordance with the Comptroller General's principles and standards.

In his year-end statement the Secretary reported that more needs to be done to review Commerce's accounting systems' conformance to the Comptroller General's principles and standards. Commerce plans to review system documentation and test systems in operation during this year's evaluation effort. We believe that additional improvements can be made to assure that evaluations are properly conducted.

PROPOSALS, AGENCY COMMENTS,
AND OUR EVALUATION

In a draft of this report, we proposed that the Secretary of Commerce direct the acting Assistant Secretary for Administration to:

- establish a quality assurance review to assure adherence to Commerce's accounting system evaluation guidelines and
- ensure that the tracking system for internal controls and audit includes the capability to track the progress of the accounting system evaluations and the implementation of corrective actions to ensure that the evaluations progress on a timely basis and corrective actions are implemented on schedule.

As previously discussed, Commerce, in commenting on our draft report, said that the report accurately assessed the Department's efforts to implement the act. Commerce officials subsequently told us that they plan actions to ensure the quality of accounting system evaluations and to monitor the implementation of corrective actions for accounting system deviations from the Comptroller General's principles and standards. Accordingly, we are not making recommendations at this time. We plan to monitor Commerce's progress in improving its accounting system evaluations as part of our continuing review of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

SYNOPSIS OF THE SECRETARY OF
COMMERCE'S 1983 YEAR-END FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT STATEMENTS

As required by the act, the Secretary of Commerce issued statements on December 30, 1983, to the President and the Congress on the status of the Department's systems of internal controls and the extent of accounting systems' compliance with the Comptroller General's principles and standards. This appendix summarizes the statements' disclosure of (1) material weaknesses and accounting systems deviations from our principles and standards, (2) planned corrective actions and improvements for weaknesses and deviations, and (3) improvements Commerce plans to make in the internal control and accounting system evaluations.

Secretary's internal control statement

In his statement on internal controls, the Secretary described Commerce's evaluation process and concluded that, although Commerce made reasonable progress in the process, it was not ". . . broad enough to provide reasonable assurance that all of the internal control systems are in place and meeting their objectives." The Secretary pointed out that Commerce plans to improve the process in 1984 and following years by including more field offices in the process, segmenting programs into smaller units, addressing managers' confusion about inherent risk and the adequacy of controls; it is also reviewing a computerized system to track the process.

As part of his statement, the Secretary identified two material weaknesses disclosed by the evaluations. The Secretary reported a material weakness in Commerce's management of personal property, including a lack of control over the size of inventories. The Secretary pointed out that Commerce has taken action to improve personal property controls, including training personnel responsible for controlling personal property and establishing a task force to develop an automated personal property system. The system will provide a method to manage all accountable personal property within Commerce, including inventory control. Pilot testing of the system is scheduled for completion by the end of fiscal year 1984.

The Secretary also identified a material weakness in the management and administration of the Economic Development Administration's business loans and grants. Specifically, the Secretary pointed out that there is a high rate of loan defaults or delinquencies, inadequate efforts to ensure loans are made on a sound financial basis, poor servicing of loans, and a failure to meet program objectives to create or maintain jobs. The Secretary listed numerous actions that are planned to correct the above weaknesses, including

- developing guidelines for comprehensive financial analysis of applicants and current borrowers,
- more effectively using credit checks,
- augmenting resources to improve loan servicing, and
- adopting procedures to collect and review employment data to assess impact and achievement of program objectives and agency goals.

The Secretary reported that these and other listed actions will be implemented prior to the end of fiscal year 1984.

Secretary's statement on
accounting systems' compliance

The Secretary's annual statement reported that, taken as a whole, the accounting systems conform in all material respects to the principles and standards prescribed by the Comptroller General and other related requirements except for certain areas of noncompliance.

The annual statement reported five noncompliance areas, including

- deviations from property accounting requirements, such as the failure to perform periodic physical inventories and reconcile the results to the accounting records;
- inadequate documentation for critical procedures of the consolidated payroll system;
- failure of one system to perform accrual accounting for the Department's overseas operations;
- failure of one system to comply with applicable laws relating to agency accounting for funds and appropriations; and
- failure of one system to account for advances and prepayments as assets.

Commerce outlined corrective actions and implementation schedules for all the noncompliance areas reported. For example, Commerce has plans to

- perform physical inventories of property and adjust the accounting records to reflect the inventories,

- convert to a fully documented payroll system currently existing in another federal agency or enter into an interagency agreement with another federal agency for payroll processing services,
- develop procedures to accept accrual accounting data for overseas operations,
- request approval from Congress to operate a revolving fund accounting system that would conform to applicable laws, and
- develop procedures to account for advances and prepayments as assets.

Commerce identified the need for corrective actions based on a limited evaluation of its accounting systems. The Secretary reported in his statement that Commerce's evaluation did not include indepth testing of the systems. He also reported that Commerce will conduct indepth studies of the systems in subsequent years.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D C 20230

MAY 11 1984

MEMORANDUM FOR: George Collard
General Accounting Office

SUBJECT: GAO Draft Report on "Department of Commerce's
First Year Implementation of the Federal
Managers' Financial Integrity Act"

The Draft Report: "Department of Commerce's First Year Implementation of the Federal Managers' Financial Integrity Act, Code RCED-84-133" has been reviewed by staff of the Office of the Assistant Secretary for Administration, Office of the Inspector General's staff and affected Bureaus. We find the report to be an accurate assessment of the Department's efforts to date to implement the Act. Our specific comments are limited to the following:

1. We question the intent of the requirement for "selective testing of vulnerability assessments". While we agree that the Department needs to institute a quality assurance program for both vulnerability assessments and internal control reviews, we question whether or not testing of vulnerability assessments per se is required. If that testing requires independent third parties to go into assessable units and conduct detailed assessments of the validity of the vulnerability assessments we would object. If on the other hand what is meant by testing is discussion with the assessable unit managers of how the assessments were derived, reviewing documentation, and reviewing vulnerability assessment forms, then we agree with that type of testing. We believe that the level of effort required for quality assurance should be proportional to the amount of effort going into completing the vulnerability assessments.
2. Paragraph 1 of Appendix I on page 20 states that the Inspector General is reducing from four to two the number of staff for monitoring internal control reviews. This occurred after completion of the first year's internal control reviews and the submission of the Secretary's certification letter to the President. At that time, internal control activities decreased throughout the Department and the Inspector General did not need four staff members working on the project. The IG has increased the staff assigned to internal controls as the operating units begin the 1984 internal control evaluation process. As of April 15, the Inspector General

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had three staff members full time and one individual approximately 3/4 time assigned to the project. As vulnerability assessment and internal control reviews are completed, additional staff will be assigned to review and comment on them. The Inspector General is committed to full and active involvement in the internal control evaluation process, and to assign staff as needed to carry out their responsibilities.

(GAO NOTE: The material discussing the Inspector General's reduction in staff has been deleted because of the Inspector General's subsequent increase in staff assigned to the internal control evaluation process.)

Sincerely,



Kay Bulow
Deputy Assistant Secretary
for Administration

(006106)

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