U.S. Agency **for**
International
Development

March 1, 1999

MEMORANDUM FOR D-AA/M, Richard C. Nygard,
Chief Information Officer

FROM: IG/A/ITSA, Theodore P. Alves

SUBJECT: Audit of USAID's Progress Implementing a Financial Management System
That Meets Federal Financial Management Improvement Act Requirements
(Audit Report No. A-000-99-003-P)

The Federal Financial Management Improvement Act of 1996 (PL 104-208) (FFMIA)
requires USAID to determine whether its financial management system meets Federal
requirements that are designed to ensure that managers receive reliable information to report
financial and performance results and to manage agency operations.' In December 1997, the
Administrator determined that USAID systems did not meet those federal requirements. The
Act also requires USAID to submit a remediation plan to correct the deficiencies and the
USAID Office of Inspector General (OIG) to report to the Congress if USAID falls behind
remediation plan milestones.

This report shows that USAID has made only limited progress improving its systems during
the past year. Significant improvements are not achievable until existing systems are replaced
or modernized-an effort that is scheduled to be completed in 2001. USAID's progress has
also been limited by planning and organizational challenges that continue to threaten its
efforts to successfully modernize its systems. The report includes two recommendations
which aim to strengthen USAID's planning process and organization.

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[1]   OMB Circular A-127 and the Chief Financial Officers Act call for agencies to implement a single
integrated financial management system, which is a unified set of financial systems and the financial portions of
mixed systems (those systems that support both financial and non-financial activities). Working together using
standardized information and electronic data exchange, these systems provide the information managers need to (1)
carry out their fiduciary responsibilities; (2) deter fraud, waste, and abuse; and (3) relate financial consequences to
program performance. Thus, in addition to basic accounting functions, a single integrated financial management
system includes financial and performance data from supporting systems that perform performance measurement,
budget, procurement, payroll, human resource, and other functions. Because USAID has not implemented a single
integrated financial management system, this report refers to USAID's financial management systems.

In response to a draft report, USAID stated that USAID management and the OIG generally agree about the processes, plans, and documentation needed to deploy a financial management system that meets federal requirements. The comments also stated that the draft report conveys a general tone of non-compliance and gives the impression that the Agency is repeating earlier mistakes. Management also believes the report does not acknowledge the dilemma it faces trying to balance the risk of an acquisition based on less than a full architecture with its goal of having a new core financial system deployed in Washington by fiscal year 2000. Management also provided detailed comments on individual report sections. Those comments indicate general agreement with the findings and most recommendations. However, because the report and recommendations have changed, it is unclear whether management has made a decision to implement the report's recommendations. We will continue discussing the recommendations with management.

USAID properly characterized the tone of the report, which reflects our concerns that past mistakes were being repeated. The report points out several parallels with the approach USAID followed in acquiring the New Management System (NMS), a system that did not operate effectively. They include the (1) lack of an Agency-wide blueprint before beginning development, (2) acquisition of a core financial system in isolation from other financial and mixed financial systems, and (3) lack of a comprehensive acquisition strategy supported by sufficiently detailed plans. We are encouraged by management's comments, which indicate general agreement to modify the approach.

We believe USAID's dilemma between completing an architecture and meeting its goal of deploying a core financial system by the year 2000 should be resolved based on an analysis of risks. We believe its approach: to purchase the core financial system before completing an agency-wide architecture and acquisition strategy, and without a strong program office creates significant risks.

To illustrate, one factor contributing to NMS problems was that USAID took shortcuts in reaction to perceived schedule pressures. For example, even though responsible officials urged management to postpone deployment until problems were corrected, USAID deployed the system worldwide in October 1996 in order to meet its deployment schedule. Based on its experience with NMS, USAID has committed to follow disciplined practices in order not to repeat those mistakes. However, because USAID has not yet prepared a realistic risk adjusted schedule, it is not in a position to know whether its schedule goals are achievable. We believe a choice between following disciplined practices and meeting scheduled goals should be decided in favor of following disciplined practices.

Additional management comments and our evaluation are located on pages 14 and 19. USAID's complete comments have been included as Appendix Il.

Thank you for the cooperation and assistance extended to our auditors during this assignment.

Background

The FFMIA requires agencies to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and requirements to post transactions to the United States Standard General Ledger at the transaction level (SGL)[2]. Incorporating these capabilities will help USAID ensure that all assets, liabilities, revenues, expenditures and the full cost of programs and activities are consistently and accurately recorded, monitored, and reported.

The Act also requires financial statement audit reports to address whether the financial management system complies with these system and accounting requirements. In our March 2, 1998, report on USAID's financial statements, we reported that the systems did not substantially comply.[3] As required by the Act, our report described the nature and extent of noncompliance, the cause of noncompliance, and the organization responsible.[4] Because USAID had agreed to implement prior audit recommendations to correct the deficiencies, we did not make additional recommendations.

The Act further requires the agency head to consider the audit report and other information and make a determination as to whether the agency's financial management system substantially complies with the requirements. If the system does not substantially comply with the requirements, the agency must prepare a remediation plan that includes the resources, remedies, and intermediate target dates needed to bring the system into substantial compliance. In that case, the Act requires Inspectors General to report to the Congress if the agency does not meet the intermediate milestones identified in the plan. In a December 1998 financial management system status report to the Office of Management and Budget (OMB), USAID's Chief Financial Officer (CFO) reported that USAID's systems did not substantially comply with FFMIA's requirements and presented a remediation plan to correct the problems.

The term "financial management system" deserves clarification, because it is sometimes interpreted to refer only to accounting systems. However, OMB Circular A-127, Financial Management Systems, defines the term more broadly. Circular A-127 calls on agencies to implement a single integrated financial management system, which is a unified set of financial systems and the financial portion of mixed systems that are used to carry out financial management functions; manage financial operations; and report financial and

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[2] The SGL provides a standard chart of accounts and standardized transactions that agencies use to record accounting transactions and events consistently across the federal government.

[3] Reports on USAID's Financial Statements,, Internal Controls, and Compliance for Fiscal Years 1996 and 1997, (Audit Report No. 0-000-98-001-F, dated March 2, 1998).

[4] A companion report provided additional detail about the requirements and the nature and extent of USAID's system deficiencies. Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996, (Audit Report No. A-000-98-003-P, March 2, 1998).

performance information to central management agencies, the Congress, and the public. Financial systems are those that support the functions of tracking financial events, providing financial information to agency managers, or preparing financial statements. Mixed systems are those that support both financial and non-financial functions of the agency, such as systems to process budgets, contracts, grants, or other acquisitions. The reason the term is broadly defined is that the systems are expected to support not only basic accounting functions but also to provide the integrated budget, financial, and performance information managers need to (1) understand the implications of their decisions, (2) track the results of their programs, and (3) facilitate policy changes to improve operational efficiency or effectiveness.

Audit Objective

This audit was designed to answer the following question:

- **What progress has USAID made in bringing its financial management systems into compliance with the Federal Financial Management Improvement Act of 1996?**

To answer this question we analyzed (1) the extent to which the systems meet FFMIA requirements, and (2) the adequacy of remediation plans to bring the systems into compliance with the FFMIA. Although we focused on analyzing USAID's remediation plan, we also reviewed other information describing USAID's plans and activities to implement an effective financial management system. A full description of our scope and methodology is contained in Appendix I.

Summary of Results

USAID has made only limited progress improving its systems during the past year. Significant improvements are not achievable until existing systems are replaced or modernized-an effort that is scheduled to be completed in 2001. USAID's progress is also limited by planning and organizational challenges that threaten its efforts to successfully modernize its systems. USAID developed a remediation plan to correct the systems' deficiencies. However, the plan is not adequate because it is not based on a full information system architecture, a comprehensive acquisition strategy, or a detailed listing of planned actions to bring about an agency-wide integrated financial management system. These planning deficiencies occurred, in part, because USAID executives have not implemented organizational changes that are needed to successfully acquire complex systems. Organizational deficiencies include the fact that USAID executives have not established a program management office with sufficient staff, expertise, and authority to ensure that modernization efforts are implemented successfully.

Audit Findings

USAID's Financial Management System Does Not Yet Substantially Comply With FFMIA Requirements

USAID managers have committed to follow disciplined practices to modernize USAID systems and have taken several steps to do so. However, during fiscal year 1998, USAID's financial management systems did not yet comply substantially with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) requirements to post transactions to the United States Standard General Ledger at the transaction level. USAID recognizes that, because its financial management systems do not incorporate these accounting and systems' requirements, managers do not always receive the complete, reliable, timely, and consistent information they need to reliably report financial or performance results or efficiently manage agency operations. USAID has decided to report this condition in its fiscal year 1998 Accountability Report, and is taking action to implement a financial management system that complies with these requirements.[5]

Additional information describing these systems' requirements and the degree to which USAID systems comply with each requirement is presented in Appendix III.

USAID's Remediation Plan Is Not Adequate

USAID also faces planning and management challenges that could threaten its progress modernizing its systems. In particular, the remediation plan the CFO developed to bring systems into compliance with FFMIA is not adequate. First, because the Chief Information Officer (CIO) has not completed an agency-wide information technology architecture[6] to guide and constrain planned investments, USAID lacks assurance that its new systems will operate effectively together, support business needs, and provide adequate security. Second, the acquisition strategy-to replace one component of the financial management system before adequately analyzing other business needs and system alternatives-may preclude USAID from implementing the most cost effective system. Third, the lack of supporting plans describing the remedies (projects and tasks), resources, and interim milestones (schedules) needed to correct the deficiencies, creates a substantial risk of delays, cost increases, and system performance shortfalls. At this time, USAID has not met OMB's requirements to justify new system investments.

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[5]USAID is one of six agencies participating in the 1998 Agency Pilot Accountability Reports, which are to be submitted on March 31, 1999.

[6]An architecture is a blueprint or high level description of how the systems will interact to accomplish agency mission requirements in a cost effective manner. It focuses on describing the relationships among business functions, work processes, information flows, and technology. It also describes standards to be followed to ensure that systems will interoperate, provide security, and be implemented in a disciplined manner.

USAID Has Not Developed an
Information Technology Architecture

A sound and integrated information. technology architecture is essential to successfully implement a complex system modernization effort. Although an architecture is required by legislation and OMB guidance, USAID's CIO has not yet completed an agency-wide information technology architecture to guide and constrain its planned investments. As a result, USAID lacks assurance that replacement systems will operate together effectively, support business needs, or provide adequate security and management controls.

The Clinger-Cohen Act makes the CIO responsible for developing, maintaining, and facilitating the implementation of an agency's information technology architecture. This responsibility includes ensuring that (1) the requirements for Agency-sponsored information systems are aligned with the processes that support the agency's missions and goals, (2) information systems have adequate interoperability, redundancy, and security, and (3) the agency applies and maintains a collection of standards to evaluate and acquire systems.

The General Services Administration (GSA) recently pointed out that it is highly unlikely that a complex system can be successfully implemented if it is not based on a sound, integrated architecture. The architecture is essential because it provides a blueprint of how related agency systems will be acquired and will work together to achieve strategic mission goals and satisfy business requirements. Separate architectures describe both the currently operating systems environment, called the "baseline" or "as is" architecture, and the planned systems environment, called the "target" or "to be" architecture. Because organizations face a number of different and often conflicting choices when implementing a complex system, it is important that they consider mission requirements and organizational goals and constraints when developing the architecture. Once the architecture is completed, managers use it to both guide and constrain the acquisition and implementation of new technology.

OMB has provided guidance describing minimum requirements for an information technology architecture. The guidance, contained in OMB's Memorandum 97-16 calls for agencies to develop. both an enterprise architecture and a technical reference model and standards profile. The enterprise architecture describes the relationships among agency business processes and activities, business applications, data descriptions, and the technology infrastructure. The technical reference model describes information services that are used throughout the agency, such as database standards, communications functions, and system security requirements. The standards profile defines standards and specifications to ensure compatibility among system components. Profiles are often based on commercial or industry standards to help' the agency obtain compatible components. To be complete, the standards need to address hardware, software, user interfaces, communications, data management, and implementation approaches. The guidelines also emphasize the importance of implementing a comprehensive set of computer security standards to ensure that systems and information are protected from unauthorized alteration, loss, or destruction.

Although an architecture is critical to the successful implementation of an integrated financial management system, USAID has not yet developed such an architecture. According to USAID documents and responsible officials, the architecture is scheduled to be completed by USAID's systems integration contractor in May 1999. Although NMS Executive Team meeting minutes show that the team has discussed the importance of developing a complete architecture to guide implementation of an effective financial management system, the team decided to proceed to acquire a replacement core financial system before completing the architecture. The team decided to proceed on the basis of a preliminary architecture, which also has not yet been completed. Although USAID will not have a complete architecture, its schedule calls for it to issue a Letter of Interest (LOI) to vendors in early 1999 requesting proposals to replace the core financial system with a commercial off-the-shelf system. As a result, decisions to date have not been guided by an architecture.

Also, USAID documents show that this preliminary architecture, even when completed, will cover only the core financial system and requirements to support the FM organization. As a result, it will not meet OMB guidance to address agency-wide requirements related to security, or other financial management systems, including procurement, budget, operations, human resources, payroll, property, and inventory. Our prior reports show that these systems also do not meet FFMIA requirements and USAID will need to modernize or replace them to comply with federal accounting and system requirements.

According to USAID officials, the planned LO1 will include the preliminary architecture. However, because the preliminary architecture will not contain sufficient information to describe key elements of the agency-wide architecture, the LO1 may not include sufficient information about USAID for vendors to properly bid on a replacement for the core financial system. Further, without an agency-wide architecture, vendors may not be able to propose a system that best meets USAID's needs and USAID may not be able to properly evaluate vendor offers to ensure that the proposed system will align with other business processes and provide adequate interoperability, redundancy, and security. Accordingly, USAID risks selecting a replacement system that will not meet agency-wide business needs or provide adequate security.

Security requirements provide a good illustration of the impact of proceeding without a complete architecture. A well-designed architecture decreases the risk of implementing systems that provide inadequate security. However, because the preliminary architecture will not include a description of security standards or approaches, USAID is at risk of acquiring a system that does not support overall agency security requirements. Meeting security requirement is particularly important at USAID because pervasive computer security deficiencies have led USAID managers to identify computer security as an agency-wide material management control weakness. Without security standards, managers will not have a guide to ensure an integrated security approach for the replacement of its financial management systems. USAID's computer security program needs to operate across all financial management systems to prevent unauthorized access to financial data and resources. Without an architecture to describe how such a program will operate across future financial

management systems, a security program may operate effectively on a replacement for the core financial system, but may not operate effectively across other financial management systems.

Overall, USAID's plan to proceed to acquire a replacement core financial system before completing an agency-wide information technology architecture significantly increases risks and repeats a costly mistake that occurred when USAID recently developed the New Management System (NMS). In that case, the core financial subsystem, called AWACS, was developed independently of the other subsystems. A primary cause of subsequent NMS deficiencies was that the subsystems did not operate in an integrated manner. The fact that the subsystems were designed and developed independently is also a significant contributor to pervasive security deficiencies.

USAID Has Not Developed a
Comprehensive Acquisition Strategy

USAID has also not developed a comprehensive acquisition strategy to implement an integrated financial management system that meets federal accounting and system requirements. USAID's current remediation plan is based on an acquisition strategy that contemplates replacing the core financial component of its financial management system before adequately analyzing its other business needs and developing a modular acquisition strategy. This approach may preclude USAID from implementing the most cost effective combination of systems.

The plan calls for USAID to acquire a commercial core financial system with a managerial cost accounting component. Some of USAID's older/legacy accounting systems would be eliminated and some financial management responsibilities would be outsourced. Under this strategy, USAID plans to integrate the new core financial system with the remaining three NMS subsystems (Procurement, Budget, and Operations).

However, the strategy does not address other important financial and mixed systems that provide financial management information. These systems, which must operate together to meet federal requirements, include human resources, payroll, property management, and inventory systems. We also previously reported that the three NMS subsystems suffer from significant performance and security deficiencies and do not meet FFMIA requirements.' Although the Assistant Administrator for Management (AA/M) agreed to complete an analysis to identify the most cost effective approach to correct these deficiencies in response to that report, USAID has not done so.   Because USAID has not completed that analysis, it does not have the information needed to assure that its plan to integrate these three NMS modules with the core financial system represents the most cost effective approach.

'Report on Audit of the New Management System (NMS) Status. (Audit Report No. A-000-98-004-P. dated March 31, 1998).

The timing of the analysis is important because contractors who bid on the core financial system may also offer related procurement, budget, and other modules that could meet USAID's needs. Unless requirements for these functions are well enough defined for the contractor to bid on them, however, USAID may not be in a position to select the vendor that offers the best overall solution. To illustrate, without first identifying its business needs and analyzing other financial management components (i.e., budget, procurement, operations, and human resources), USAID risks selecting a core financial system replacement that will not be the best overall solution for the Agency. That is, it may meet the business needs of the Financial Management Division, but it may not be sufficiently expandable or adaptable to integrate with or meet the business needs of other financial management functions.

Further, without analyzing other financial management functions, USAID will not be in a position to reliably conclude that it has focused on the business areas that will provide the highest risk adjusted return on investment. For example, human resources, payroll, and small purchases may provide a higher return than the other NMS subsystems.

Although USAID managers recognize the need for a comprehensive strategy, they have not yet completed such a strategy. As early as March 27, 1998, NMS Executive Team meeting minutes noted the need to create an integrated vision so that it could make decisions regarding investment strategies, develop plans, and apply performance indicators to monitor progress toward achieving results. To date, however, the team has not created such a vision, or developed a strategy, plans, or performance measures. Until USAID considers all financial and mixed financial systems, analyzes alternatives, and streamlines its business processes, it will not be in a position to develop a modular acquisition strategy or a sound economic business case to demonstrate that it has selected the best alternative.

USAID's current approach also does not meet OMB's guidelines for evaluating information technology investments' or preparing and submitting budget estimates[9]. OMB's guidelines for information technology investments emphasize the need to take a comprehensive approach to select, control, and evaluate information technology investments. To select investments for funding, the guide calls on agencies to define a portfolio of investments by screening project proposals; analyzing risks, benefits, and costs; and prioritizing and funding projects based on risk adjusted returns on investment. Although the process calls for discipline and structure in developing an investment strategy, it also provides flexibility by recognizing that the amount of documentation and depth of analysis will vary depending on the type of project and its acquisition phase. For example, less information would be required for projects in the early planning stages than for projects that are ready for implementation. Thus, investment analysis is an iterative process that provides more precise information to decision makers as the

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[*]Evaluating Information Technology Investments: A Practical Guide (Office of Management and Budget, November 1995).

[9]OMB Circular A-l 1, Preparation and Submission of Budget Estimates (Office of Management and Budget, November 1998).

project matures. OMB's budget submission requirements also call for a comprehensive approach to justify investments. The justification requires a description of the acquisition strategy, including a description of competition and modular acquisition approaches.

Supporting Plans Do Not
Contain Sufficient Information

To correct the deficiencies in its financial management system USAID began planning, during fiscal year 1998, to develop an effective agency-wide integrated financial management system that will meet all federal accounting and system requirements. However, these plans are not adequate to meet OMB directives and best practice guidelines. Experience shows that without adequate plans, management can have little assurance that systems will be successfully deployed within cost and schedule estimates. Because planning is a fundamental element of sound information technology acquisition practices, acquiring system components before developing comprehensive plans at the proper level of detail increases risks of encountering delays and cost increases.

As required by OMB guidance for preparing budget requests (OMB Circular A-l 1), USAID submitted a remediation plan to OMB in December 1998. USAID's plan describes its approach to implement an integrated financial management system that satisfies federal system requirements described in the FFMIA. OMB's Circular A-l 1 requires plans to describe current systems and their major deficiencies; planned systems and the strategy for implementing those systems; and the projects required to move from the existing to the new system configuration, including the remedies, resources, and interim milestones needed to correct deficiencies. OMB also requires agencies to include an inventory of current and planned systems as well as schematics describing the relationships among current and among planned systems. Although OMB does not require agencies to submit detailed plans, the ability to provide the required information provides an indicator of the status of agency planning activities.

However, neither the remediation plan nor supporting plans contain the information called for in OMB's guidance. Instead, the remediation plan focuses almost exclusively on accounting systems controlled by USAID's Financial Management Division and does not describe all significant current or planned financial management systems. Although it briefly mentions the other three NMS modules (procurement, operations, and budget) it does not address other mixed systems such as personnel, payroll, property management, and inventory systems. It also does not fully describe the problems associated with the current systems--especially problems that have prevented the three NMS modules from operating effectively and computer security and internal control deficiencies.   Nor does the plan include a full inventory of current or planned financial management systems or schematics describing system relationships.

Furthermore, the plan does not adequately describe the projects needed to meet federal requirements or the remedies, resources, and intermediate target dates that are called for by

the FFMIA and OMB's guidance. USAID managers are not in a position to identify the projects that will remedy its noncompliance with FFMIA requirements because they have not completed an architecture, analyzed alternatives, or developed an acquisition strategy.

Regarding resource requirements, USAID's plan estimates that it will cost $13.5 million to fully implement the remediation plan, but that estimate significantly understates the costs required because it only covers the cost to replace the core financial system. An independent cost estimate prepared in early 1998 by a USAID contractor estimated that it would cost over $50 million to bring USAID's systems into compliance with FFMIA requirements.

Regarding milestones, the plan describes a mix of activities with a broad range of dates. Activities and milestones include: improving accountability (1998-2001), strengthening the Financial Management organization (1998-2002), improving financial management systems (1998-2000), conducting internal control reviews (1999-2002), improving asset management (1998-2002), and generating audited financial reports (1998-2002). Some of the financial system milestones are shown in the chart below:

Excerpt From USAID's Remediation Plan - Action Plan Chart Milestones	
Description of Financial Systems Activity	**Schedule**
Ensure all Agency financial systems conform to A-127 and JFMIP "core" requirements	1998-2000
Develop an operational data warehouse/corporate database	1998-2000
Develop/implement replacement accounting system	1998-2000
Develop upgraded management information systems for budgeting and program management	1998-1999

Although one manager maintains an informal plan for the "develop/implement replacement accounting system" project, that plan has not been reviewed and approved by management. Validated and approved plans would provide senior managers with a better basis to assess whether targets are achievable, measure progress, and hold managers and developers accountable for achieving objectives. We believe the lack of supporting planning details creates a substantial risk of delays, cost increases, and system performance deficiencies.

USAID Has Not Met OMB Requirements
to Justify New System Investments

A series of rules, referred to as Raines' Rules, reflect key OMB and legislative concerns and provide a framework for evaluating information technology investments. They also provide a

framework for justifying funding for investments in major information systems. These rules are incorporated in OMB's Circular A-l 1 guidance to agencies for preparing budget requests. The eight Raines' Rules require that, to be considered for funding in the President's budget, information systems investments should:

Rule No. 1:   Support core/priority mission functions.

Rule No. 2:   Be undertaken because no alternative private sector or government source can efficiently support the function.

Rule No. 3:   Support work processes that have been simplified or otherwise redesigned to reduce costs, improve effectiveness, and make maximum use of commercial off-the-shelf technology.

Rule No. 4:   Demonstrate a projected return on investment that is clearly equal to or better than alternative uses of available resources.

Rule **No. 5:**   Be consistent with the information architecture which integrates work processes and information flows with technology to achieve strategic **goals...and** specify standards to enable information exchange and resource sharing.

Rule No. 6:   Reduce risk by: avoiding or isolating custom-designed components...; using fully tested pilots, simulations, and prototypes...; and establishing clear measures and accountability for project progress.

Rule No. 7:   Be implemented in phased, successive chunks.

Rule No. 8:   Employ an acquisition strategy that appropriately allocates risk between government and the contractor.

Using Raines' Rules as a guide, we found that USAID had not met Rules No. 3, 4, 5, 6 and 7 and concluded that USAID has not met OMB's requirements to justify new system investments. Rule No. 3 was not met because business areas other than core accounting have not been subject to process redesign. Rule No. 4 was not met because USAID has concluded that the core financial system and other NMS modules have the highest rate of return on investment, even though other areas have not been fully analyzed. For example, human resources, payroll, and small purchases modules may have a higher return on investment than a large procurement module. Rule No. 5 has not been met because USAID had not developed a system architecture to guide NMS replacement efforts. Rule No. 6 has not been met because USAID has not identified clear measures and accountability for project progress. Rule No. 7 has not been met because USAID is proceeding to acquire the first component in a modular acquisition without having defined the other components.

Remediation Plan Conclusion
and Recommendations

The planning weaknesses identified in this report provide an early indicator that USAID is at risk of repeating past mistakes that led to deployment of a system that did not operate effectively. Parallels with the earlier effort include the lack of an agency-wide blueprint before beginning development, the fact that the core financial system replacement is being conducted in isolation from other financial management systems, and the lack of an integrated strategy supported by an investment analysis and detailed plans. To address these planning issues, we recommend the following:

> **Recommendation No. 1:** **We recommend that, before approving proposals to acquire any financial system component, the Chief Information Officer:**
>
> **1.1** **complete an agency-wide information technology target architecture that contains all elements identified in OMB's guidance at a sufficient level of detail to provide a high degree of assurance that USAID's financial management system enhancement projects are consistent with the target architecture; integrate redesigned work processes and technology to achieve the Agency's strategic goals; and conform to standards for information exchange, security, and resource sharing;**
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> **1.2** **use the target architecture to define USAID's financial management system portfolio in accordance with OMB's guidelines for selecting information technology investments;**
>
> **1.3** **complete a modular acquisition strategy that (a) reduces integration risk' and (b) leads to an integrated financial management system as defined by OMB Circular A-127.**
>
> **1.4** **revise and update the remediation plan and develop sufficiently detailed supporting plans.**

Management Comments and Our Evaluation

Responding to the remediation plan section, management provided a detailed discussion of the issues and stated that it (1) was in the process of developing an information technology architecture, (2) planned to use a modular acquisition strategy, and (3) planned to update and strengthen its remediation plan.. USAID appeared to generally agree with the draft report's findings and recommendations, but the detailed response contained several qualifications and suggested modifications to the recommendations. Due to the fact that we incorporated some, but not all of the suggested changes to the recommendations, it is unclear whether USAID has reached a management decision to implement the recommendations.

Regarding the need for a comprehensive information technology target architecture, the comments stated that USAID was discussing, with its PRIME contractor, a **workplan** to validate the baseline architecture, address gaps in the business model, and establish an approach to complete a target architecture. The comments stated that the architecture would be completed in June 1999, and would contain a sufficient level of detail to (1) ensure that USAID's financial management system investments integrate work processes and technology to achieve the Agency's strategic goals and objectives, and (2) conform to standards for information exchange and resource sharing among financial and mixed-financial systems. However, the comments also indicated that the level of detail required to support the acquisition of the core accounting system was still under discussion and that a condensed version of the architecture might contain a sufficient level of detail to proceed.

We believe USAID needs to develop an agency-wide architecture that includes all elements required by OMB to guide the acquisition of a core financial system in order to successfully deploy an integrated financial management system. We believe the architecture should contain sufficient detail to reduce risks to a relatively low level before USAID acquires any financial management system component. To illustrate, although all financial management functions should be addressed, USAID might not need to fully describe all information flows for a function that does not have a significant financial impact. We modified our recommendation to recognize that the **determination** of what constitutes a sufficient level of detail should be based on the level of risks. Because we revised the recommendation to include consideration of risks, it is unclear whether USAID has reached a management decision to implement Recommendation No. 1.1.

Regarding the need for a comprehensive acquisition strategy; USAID stated that it would use a modular acquisition strategy to identify potential capital investments. Further, it explained that the core financial system investment has been sequenced as the first investment to address the material weakness in the primary accounting system. Management stated its commitment to a modular strategy that will take advantage of evolutions in technology, limit the use of custom developed system components, and reduce integration risks by applying architectural standards. Following the acquisition of the core financial system, additional investment analysis and acquisition planning would be initiated for the next incremental investment. Management stated that this approach meets the statutory preference for modular contracting, while the approach we recommended would require substantial additional investment analysis without knowing the opportunities presented by the selected product.

Although this approach represents a significant improvement over that described in the remediation plan, it appears that USAID still plans to acquire the first module before identifying and analyzing the other modules that will make up the financial management system. We continue to believe that USAID needs to identify and analyze the other modules before proceeding with the first component. GSA's modular acquisition guide points out that a key element of a modular strategy is understanding, before deciding to buy individual components, what modules will make up the system and how the various components can be integrated into a single system. Identifying the modules, in turn, requires a high level logical

system design. In addition, to assure that agencies achieve the highest risk adjusted rate of return on their investments, OMB's guidelines for managing capital investments call for each agency to create a portfolio of investments, based on economic analyses. On the other hand, we recognize that the amount of information available early in the acquisition process may be limited, and that subsequent analyses may be needed to refine the strategy and better sequence components. Because our draft report may not have clearly described this distinction, we revised the report and the recommendations to better describe the need for an iterative investment analysis process. Because the report and recommendations have changed, it is unclear whether USAID has reached a management decision to implement Recommendation Nos. 1.2 and 1.3.

Regarding the need to revise the remediation plan, the comments stated that the plan was preliminary and would be revised following completion of the investment analysis and detailed acquisition planning. We do not believe it is necessary or appropriate to wait until detailed acquisition plans are complete to revise the remediation plan. The remediation plan is a legislative requirement that calls for identification of the resources, remedies, and intermediate target dates needed to bring the system into substantial compliance with federal requirements. Further, OMB guidance for preparing budget requests identifies the minimum requirements for a remediation plan including a description of current systems and their deficiencies, planned systems and the strategy for implementing them, and the projects required to move from the existing to the new system configuration. USAID should be able to meet these minimum requirements when it completes a modular acquisition strategy. We revised the recommendation to provide this time frame. Because the recommendation has changed, it is unclear whether USAID has reached a management decision to implement Recommendation No. 1.4.

Organizational Deficiencies Continue to Hinder Efforts to Implement Systems

USAID executives have committed to correct management deficiencies that have, in the past, prevented successful modernization of USAID's financial management systems. However, continuing organizational deficiencies contribute to USAID's failure to complete an agency-wide information system architecture, develop an integrated modular acquisition strategy, prepare detailed planning documents, and comply with Raines' Rules. Organizational deficiencies include the fact that USAID executives have not established a program management office with sufficient staff, expertise, and authority to ensure that modernization efforts are implemented successfully. In addition, a companion report concluded that USAID

executives had not delegated to the CFO the responsibility and authority to develop and maintain all financial management systems as required by the CFO Act."

USAID executives recognize that more effective information resource management processes are essential to implement systems that meet FFMIA requirements. During fiscal year 1998, USAID executives authorized a number of important steps to strengthen organizational control and institute disciplined information technology investment management processes. To illustrate, in May 1998, USAID hired a contractor to assist with information technology planning, technical direction, oversight, policy formulation, system acquisition, and management practices. The contractor is expected to help USAID improve its application of disciplined processes as it moves to modernize its financial management systems. In addition, the Financial Management Division has made significant progress implementing disciplined practices to modernize the core accounting functions. These include hiring a contractor to assist in its efforts to streamline business processes and to implement an effective core financial system.

USAID Has Fragmented the
Chief Financial Officer's Responsibilities

As reported in our audit of USAID's consolidated financial statements, internal controls, and compliance for fiscal year 1998, we found that USAID has not assigned its CFO the responsibility and authority to ensure that all financial management systems satisfy agency-wide information requirements. That report pointed out that The Clinger-Cohen Act of 1996 makes the head of each agency, in consultation with the Chief Financial Officer and Chief Information Officer accountable for establishing policies and procedures that ensure system development activities successfully meet agency information needs. Although these officials have taken positive steps to correct the financial management system deficiencies, fragmented line management responsibilities continue to hinder USAID's efforts to correct the deficiencies.

USAID's CFO has not been delegated the responsibility or authority to oversee financial management activities other than basic accounting functions. In particular, the CFO has not been delegated the specific responsibility for the information systems that support the performance measurement, budget, human resource, or procurement functions. Thus, the CFO lacks the authority to implement an effective integrated financial management system.

For this reason and due to other financial management and performance measurement deficiencies identified, that report recommended that the CFO work with the CIO and other senior executives to:

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[10]   Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Years 1997 and 1998, (Audit Report No. 0-000-99-001-F, dated March 1, 1999).

Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to (1) develop and maintain an integrated accounting and financial management system, (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Request that the Administrator specifically delegate adequate responsibility, authority, and resources to the Chief Financial Officer to satisfy those Chief Financial Officers Act responsibilities.

Implement policies and procedures to carry out the responsibilities delegated by the Administrator.

USAID Lacks a Program
Management Organization

USAID continues to manage modernization efforts through committees rather than adopting the recommended program office management structure. Although a strong program office led by a program manager with the skills, authority, and responsibility needed to plan and implement major systems is recognized to be a key success factor, USAID does not use a program management approach to manage its financial management modernization efforts. Instead, USAID executives managethe modernization effort by building consensus among responsible officials about the best course of action. As a result, USAID's program office consists of one individual who has no authority to make modernization decisions.

Based on industry experience and the program performance mandates of the Government Performance and Results Act, the Federal Acquisition Streamlining Act, and the Clinger/Cohen Act, "best practices" call for the creation of a strong program office to implement the acquisition of information technology systems. Best practices also call for this office to be headed by a program manager who is responsible for ensuring that an organization's long-term and short-term needs are met by its planned acquisitions. The program manager should be responsible for establishing program performance goals, ensuring that acquisitions are adequately planned and implemented, preparing program-related portions of solicitation documents, and monitoring contractor performance. The General Services Administration has also stated that an effective program office is essential to a successful modernization project.

Audit reports and other studies have repeatedly recommended that USAID strengthen its management processes, but USAID has not done so. The deficiencies were first pointed out in a study conducted by the Software Engineering Institute in June 1995 which cited undisciplined management processes, undefined organizational roles and responsibilities, and a poorly defined decision-making and commitment process as risks to the project's success. In

a March 1997 report" we recommended' that USAID appoint a senior manager to manage the NMS project and direct the project manager to (1) analyze NMS deficiencies, (2) implement disciplined practices, and (3) identify alternative implementation strategies. A February 1998 report on the NMS development process, performed under a contract with the General Services Administration's Federal Systems Integration and Management Center, concluded that USAID does not have an NMS development organization with clearly defined roles, responsibilities, and authorities. The report further concluded that this diffusion of responsibility had fragmented efforts and eroded accountability for results. Among other problems, the study pointed out that (1) a culture of informal communications and management by committees and consensus inhibit timely and effective decision-making; (2) the fragmented and complex NMS organization discourages accountability and inhibits productivity; and (3) the lack of a well defined project management process inhibits consistent delivery of products on time and within budget.

Although USAID appointed a program manager for NMS in response to our March 1997 report, the manager was not provided staff or decision-making authority and program management responsibility and authority still are not clearly defined. The NMS program manager has no staff and no authority to direct modernization activities. Instead, this official acts as a coordinator who attempts to build consensus among various individuals and organizations participating in the modernization effort. USAID also has an NMS Executive Team Board, whose members include the CIO (Chairman), CFO, and heads of other offices including Budget, and Procurement. The Board is responsible for providing management oversight of NMS program activities, providing guidance to the NMS program manager and other involved offices and work teams, and managing NMS risks. The Board attempts to operate by consensus, but the charter calls for decisions to be made by voting. In addition, two integrated product teams have been formed to direct implementation of the core accounting system and the managerial cost accounting system. The following organization chart shows USAID's organizational structure for managing its modernization project.

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[11] Audit of the Worldwide deployment of the New Management System (NMS), (Audit Report No. A-000-97-004-P).

IT Investment Management Organization
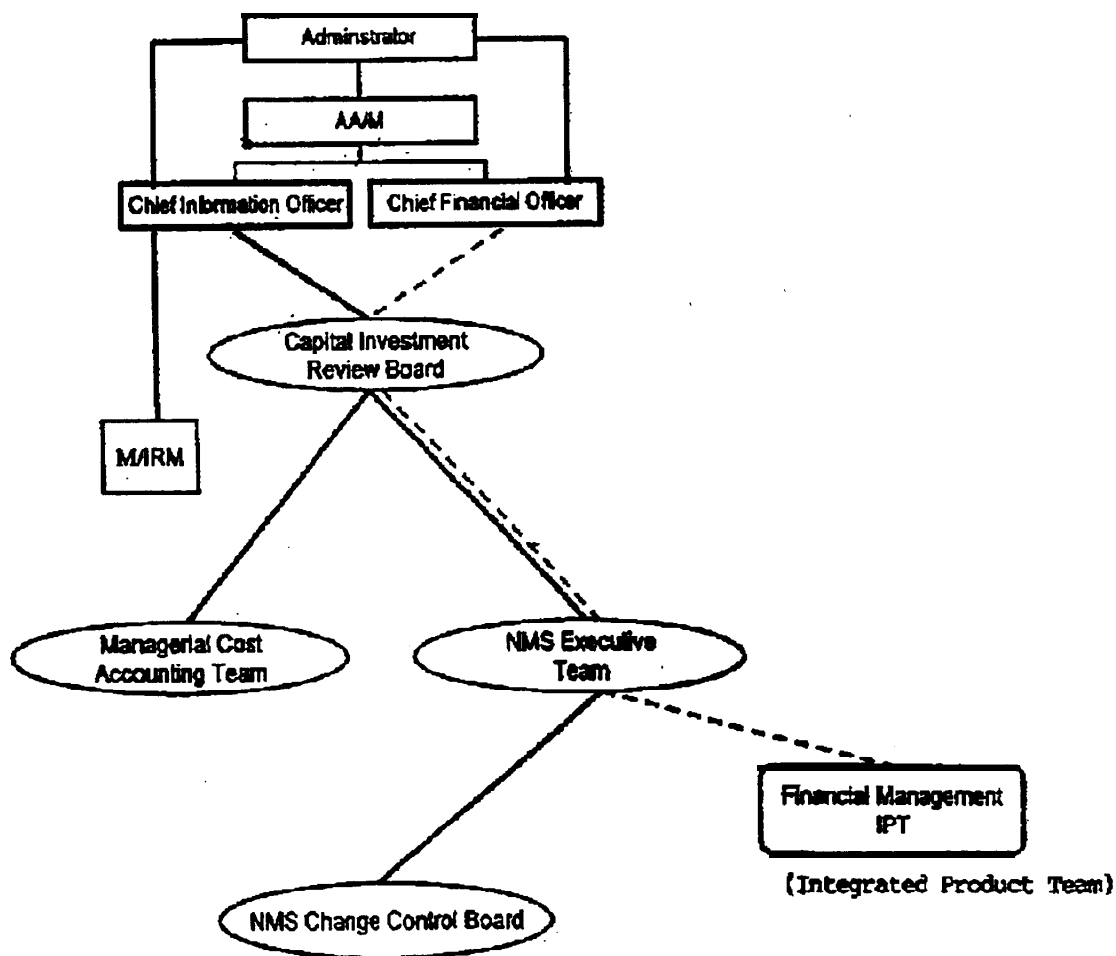
The lack of a program management office function with the authority to make decisions and the resources to implement the decisions significantly increases the risk that USAID's modernization efforts will encounter delays and cost increases and that the system will not operate effectively when deployed. In fact, the planning deficiencies cited in this report might not have occurred if a strong program manager had the authority to enforce disciplined practices.

Conclusion and Recommendation
on Organizational Deficiencies

USAID has committed to correct the management deficiencies that have, in the past, prevented successful implementation of a financial management system that meets federal accounting and system requirement. USAID has also taken several important steps in that direction by establishing an investment review board, hiring a systems integration contractor, and following disciplined practices to replace the core financial system.

However, because organizational deficiencies appear to be at the root of the planning weaknesses, USAID executives need to ensure that the CFO and CIO work together to enforce disciplined system development practices throughout the agency, including the use of a strong program management office to guide modernization efforts. To address this organizational issue, we recommend the following:

> **Recommendation No. 2:** **We recommend that the Chief Information Officer work with the Chief Financial Officer and the Assistant Administrator for Management to establish a strong program management office or function, with sufficient responsibility, authority, and resources to apply disciplined practices to implement financial management system improvements.**

Management Comments and Our Evaluation

Responding to the draft report's organizational deficiencies section, USAID management stated that it had established a financial management integrated product team to oversee the. business planning and investment analysis phases of the project and that this approach met federal guidance and best practice requirements. Management also stated that USAID would organize and staff a program management team once the investment review board approved the proposed core financial system investment. The team, under the direction of a designated program manager would then develop detailed plans to acquire the core financial system. USAID also referred to the team as a program management function rather than an office, because an "office" is a specific organizational unit at USAID.

We do not believe this response adequately addresses the findings and recommendation to establish a strong program management office--or function. The response indicates that USAID plans to continue to postpone implementing a strong program management office function with a program manager who is responsible and accountable for the success of the project. As pointed out in this report, USAID has a long history of reluctance to implement this recommended managementapproach. We believe the continuing lack of an effective program office function accounts, in part, for the fact that, two years later, USAID has not completed an architecture, modular acquisition strategy, or sufficiently detailed plans.

We also disagree with USAID management's assertion that its current approach meets federal guidance and best practice requirements. According to responsible officials, USAID believes that it implemented a Department of Defense best practice by instituting an integrated product team. However, integrated product teams at the Defense Department are part of a strong program management office. The teams report to the program manager and carry out responsibilities assigned by the manager. At USAID, the team does not report to the program manager and has not been assigned responsibility to implement an integrated financial management system. The team is only responsible for implementing the core financial system, which demonstrates the continuing fragmented nature of USAID's organizational structure. A key reason that USAID has not developed integrated financial system modernization program is that it has not established a single integrated program office ' function. This report points out that USAID is repeating past mistakes by fragmenting responsibility and allowing one system component to proceed disconnected from the others. The lack of an program management office responsible for implementing an integrated system, in our view, is a major contributor to these continuing difficulties. USAID management has not reached a decision to implement Recommendation No. 2.

SCOPE AND METHODOLOGY

Scope

Our review of the extent to which USAID's financial management systems met the. requirements of the Federal Financial Management Improvement Act of 1996 included determining, as of September 1998, whether USAID's financial management systems complied substantially with federal requirements for financial management systems, applicable federal accounting standards, and the requirement to post transactions to the United States Standard General Ledger at the transaction level, as required by Section 803(a) of the Federal Financial Management Improvement Act of 1996. To reach conclusions about the extent to which financial management systems substantially comply with federal accounting and system requirements, we reviewed the results of audit reports we issued in fiscal years 1997 and 1998 that identified financial management system deficiencies as well as management and contractor assessments. We also reviewed evidence gathered during the audit of USAID's financial statements and confirmed the continued existence of the deficiencies with officials from the Financial Management and Information Resources Management Divisions.

We also reviewed the adequacy of USAID's plans to correct the systems deficiencies, considering planning to be a key indicator of progress. The scope of our work related to planning included those financial management systems which were operational in USAID during fiscal year 1998 and planned improvements described in USAID's "Chief Financial Officer Strategic Plan Fiscal Years 19982002." To reach a conclusion we reviewed the remediation plan as well as supporting plans and other documents describing USAID's analyses and we discussed relevant issues with responsible managers.

This audit was conducted between December 1, 1998, and January 15, 1999 in accordance with generally accepted government auditing standards. Field work was conducted primarily in USAID's Bureau for Management, Office of Financial Management, Office of Information Resources Management, and Office of Human Resources in Washington, D.C.

Methodology

To evaluate the extent to which financial management systems substantially comply with federal accounting and system requirements, we reviewed audit reports covering financial management issues during fiscal years 1997 and 1998, reviewed USAID documents describing financial management system capabilities and deficiencies, and interviewed USAID officials to update FFMIA compliance findings from the "Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996," Audit Report No. A-000-98-003-P dated March 2, 1998. USAID documents included the assertions that USAID managers have decided to report in the Agency's fiscal year 1998 Accountability Report, which will be issued on or before April 30, 1999.

We also reviewed a comprehensive external analysis dated February 2, 1998 of NMS conducted, at USAID's request, by the Federal Systems Integration and Management Center, a component of the General Services Administration. To assess progress meeting accounting and system requirements, we compared the extent of compliance at the end of fiscal year 1998 to the extent of compliance at the end of fiscal year 1997.

To evaluate the adequacy of USAID's efforts to correct financial management deficiencies, we reviewed USAID's December 1998 financial management status report, which described USAID's remediation plan. We also reviewed other planning-related documents, USAID's "Chief Financial Officer Strategic Plan Fiscal Years 1998-2002," minutes from NMS Executive Team and Demand Management Integrated Product Team meetings, and Financial Management System and Managerial Cost Accounting project documents. We also interviewed responsible USAID and contractor officials.

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 12, 1999

MEMORANDUM

TO: IG/A/ITSA, Theodore P. Alves

FROM: AA/M, Terrence J. Brown

SUBJECT: Audit of USAID's Progress Implementing a Financial Management System
That Meets Federal Financial Management Improvement Act Requirements
(Audit Report No. A-000-99-xxx-P)

Thank you for the opportunity to respond to the subject draft report. We are pleased that
you have clarified the term "financial management systems" in your revised draft. We agree
with the definitions and terminology as found in OMB Circular A-127.

However, we are concerned that the draft report conveys a general tone of non-
compliance and gives the impression that we are repeating earlier mistakes. As you know,
we face the difficult challenge of reconciling the need for a fully functional, Joint Financial
Management Improvement Program (JFMIP) compliant, core financial management system,
with the time and resources required to put into place a comprehensive information
technology architecture and acquisition strategy. We must balance the risk of acquisition
based on less than a full architecture with that of delayed implementation of a new core
accounting module. The report fails to acknowledge our dilemma and the fact that we must
make difficult and informed decisions if we are to meet our goal of having a new core
accounting system in Washington by FY 2000. Also, the report does not indicate that the
Agency and OIG generally agree regarding the processes, plans and documentation necessary
for proper implementation of a financial management system that meets federal requirements.
Following is a detailed discussion of specific issues and your recommendations.

USAID Has Not Developed an Information Technology Architecture (pp 5-7)

USAID is in the process of developing an information technology architecture. We have
completed a draft baseline architecture that is currently under review. We are having
discussions with USAID's PRIME contractor on a workplan to validate the baseline
architecture, address gaps in the business model, and establish an approach to completing a
target architecture that is compliant with federal regulations. This architecture will contain a
sufficient level of detail to ensure that USAID's financial management system investments
integrate work processes and technology to achieve the Agency's strategic goals and

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objectives, and conform to standards for information exchange and resource sharing among financial and mixed-financial systems.

We would like to clarify our position regarding the acquisition of the core accounting system. Prior to moving to an acquisition stage, all major information technology investments must be approved by the Capital Investment Review Board (CIRB). Submission to the CIRB entails completion of an "Investment Selection Form". This form, per Raines' Rule No. 5, requires certification that the proposed investment is in compliance with USAID's information technology architecture. It has always been our intention to comply with CIRB procedures and to consider an information technology architecture in the submission. At issue, and still under discussion, is the precise level of detail required for the Agency's other business areas to ensure that the selected core accounting system best fits our current and future needs.

We also need to clarify our position regarding the preliminary target architecture. There has been, and continues to be, extensive discussion regarding the level of detail required in an architecture to support the core accounting system acquisition. However, agreement was reached early in the project to include the functional requirements of all business areas in the solicitation document. The format for these requirements, and their level of detail, has not yet been finalized, and will be very dependent on the architecture. The current projection for a complete architectural study to be delivered is June, 1999. We have not yet determined whether a condensed version of the architecture will have a sufficient level of detail to permit an informed decision on the core financial acquisition.

USAID Has Not Developed a Comprehensive Acquisition Strategy (pp 7-8)

USAID's approach is to utilize a modular acquisition strategy, informed by architecture, to identify potential financial management and mixed-financial system capital investments. The core financial system capital investment is sequenced as the first investment requiring detailed analysis and acquisition planning to address the material weaknesses in the primary accounting system. These weaknesses represent a significant constraint on the acquisition strategy and dictate the first incremental investment. We are planning to address the elements of modular contracting for other investments in financial and mixed systems by identifying programmatically separable segments or modules, as required by Raines' Rules and the Clinger-Cohen Act. This will provide an opportunity for later investments to take advantage of evolutions in technology, clearly limit the use of custom-developed system components, and reduce risk of integration issues by applying architecture standards. The modular acquisition strategy will shape the solicitation for a core financial system from the GSA Financial Management Systems Software (FMSS) schedule by setting forth requests for priced options that address modular investment priorities. Following the acquisition of a core financial system, USAID will initiate additional investment analysis and acquisition planning for the next priority incremental investment using the priced option data in the GSA FMSS contract and other analysis of alternatives to determine the next investment that maximizes our return over the shortest timeframe. The sequencing of later investments will be decided after the GSA FMSS vendor product is selected. We believe this approach is entirely

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responsive to the statutory "preference" for using modular contracting, while the approach recommended in the draft would require a substantial amount of further investment analysis without knowing the opportunities presented by the selected product. This would delay the acquisition unnecessarily and still require that investment analysis be redone.

The discussion on page 8 illustrates our point that the report is unbalanced. First, we believe that the approach outlined above meets the spirit and intent of the recommendation from your audit report A-000-98-004-P, which recommended that we conduct a cost, benefit and risk analysis for the A&A and Budget modules. Second, you should properly identify the "other important financial management systems" as "mixed systems". Third, your statement that we "plan to replace one component of [the] financial management system before adequately analyzing other business needs and system alternatives" does not acknowledge the fact that this component is the core financial management module, which is the center of the integrated financial management system.

Supporting Plans Do Not Contain Sufficient Information (pp 9-10) and USAID's Remediation Plans Do Not Meet OMB Requirements to Justify New System Investments (pp 11-12)

USAID's remediation plan, as described in the CFO's Report, is a preliminary plan that will be updated and strengthened following the completion of the investment analysis and detailed acquisition planning phases of the acquisition life-cycle.

Recommendations 1 and 2

Based on the discussion above, we propose the following modifications to recommendations 1 and 2:

Recommendation 1: We recommend that, before approving proposals to acquire the core financial management system component, the Chief Information Officer:

Recommendation No. 1.1: Complete an agency-wide information technology architecture containing all components identified in OMB's guidance at a level of detail to ensure that USAID's financial management system investments are consistent with the architecture, integrate work processes and technology to achieve the Agency's strategic goals, and conform to standards for information exchange and resource sharing.

Recommendation No. 1.2: Complete a modular acquisition strategy that includes integration between financial and mixed systems, takes advantage of evolutions in technology, and sequences investment analysis and planning to reduce integration risk and maximize return-on-investment.

Recommendation No. 1.3: Develop an investment analysis and detailed acquisition plan for the first incremental financial management system investment that details life-cycle cost

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estimates, benefits, risk mitigation plans and schedules to enable investment life-cycle monitoring and evaluation.

Recommendation No. 1.4: Require the CFO to update the preliminary remediation plan following the completion of the investment analysis and detailed acquisition planning phases of the acquisition life-cycle.

USAID Has Fragmented the Chief Financial Officer's Responsibilities (pp 13-14)

We generally agree with this finding and will address it in our response to your draft report accompanying the FY 1997 and 1998 financial statements. We request that you remove the text of the proposed recommendations from this report since the specific wording of those recommendations has not been finalized.

USAID Lacks a Program Management Organization (pp 14-16)

Federal guidance and best practices indicate that USAID should appoint an acquisition team to lead the investment analysis and acquisition planning work. USAID did appoint a Financial Management Integrated Product Team (FMIPT) early in the business planning phase of the acquisition life-cycle. The FMIPT was chartered to oversee business process reengineering, change management, requirements analysis and investment analysis. USAID considered this acquisition team to be properly constituted under the leadership of the Acting Chief Financial Officer to oversee the business planning and investment analysis phases of the acquisition. We plan to organize and staff a program management team once the CIRB approves the proposed investment in a core financial system. This team, under the lead of a designated program manager, will support the work of USAID's acquisition team and utilize an acquisition support contractor to develop a detailed acquisition plan, program management plan, risk management plan and implementation plan. Key members of the acquisition team will staff the program management team, along with the acquisition support contractor. USAID agrees that a strong program management function is needed to lead detailed acquisition planning activities, once there is an approved capital investment plan for a replacement core financial system. Because of the urgent need to address the weaknesses in the accounting system, USAID has begun drafting portions of the letter of interest to be sent to GSA FMSS vendors. This does not mean that we have entered the phase of detailed aquisitioa planning in which a program management team is essential. We do agree that establishing a team early enough in the acquisition life-cycle to properly develop a modular acquisition strategy is critical, and we are taking steps to do this.

Conclusion and Recommendation on Organizational Deficiencies (pp 16-17)

Based on the discussion above, we propose a revised recommendation 3:

Recommendation No. 3: we recommend that the Chief Information Officer work with the Chief Financial Officer and the Assistant Administrator for Management to establish

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a program management function with the responsibility, authority, and resources to apply disciplined practices and implement financial management system improvements.

<u>General Comments</u>

Throughout the report, references to matters that have been identified as material weaknesses under the Federal Managers' Financial Integrity Act (Integrity Act) are inconsistent. We have finalized our decisions for FY 1998, and will report the material weaknesses in the FY 1998 Accountability Report, which will be published by the end of April, 1999. Also, Rick Nygard was formally appointed by OMB as the Chief Information Officer (CIO) in October 1998.

Clearance Sheet

Response to OIG Audit of USAID's Progress Implementing a Financial Management System
That Meets Federal Financial Management Improvement Act Requirements

Drafter: M/MPI:CTurner:cat:x25693:2/12/98:u:\cturner\docs\ffmia.ig

Clearances:

AA/M:AVodraska _Draft_ date 2-11-99

AA/M:LMartin _draft_ date 2-11-99

A-CFO:TCully _draft_ date 2-11-99

M/FM/FS:SCrabtree _draft_ date 2-11-99

Extent to Which USAID's Financial Management Systems Substantially Comply With FFMIA Requirements

The purposes of this appendix are to (1) document the extent to which financial management system deficiencies have been corrected, (2) describe the nature and importance of the requirements for an effective federal financial management system as outlined in Section 7 of Office of Management and Budget Circular No. A-127, and (3) summarize the impact on agency operations from not meeting the requirements. This Appendix updates information contained in a previously issued report that provided a baseline against which progress in correcting the system deficiencies could be measured.[12]

Summary of Results

USAID managers have committed to follow disciplined practices to modernize USAID systems and have taken several steps to do so. However, because significant improvements are not achievable until existing systems are replaced or modernized-an effort that is not scheduled to be completed until 2001USAID has made only limited progress improving its systems during the past year. As a result, during fiscal year 1998, USAID's financial management systems do not yet comply substantially with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) the requirement to post transactions to the United States Standard General Ledger at the transaction level, as required by Section 803 (a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Due to these system deficiencies, USAID managers do not always receive the complete, reliable, timely, and consistent information they need to reliably report financial or performance results or efficiently manage agency operations. USAID's management has decided to report this condition in its fiscal year 1998 Accountability Report and is taking action to implement a financial management system that complies with these requirements.

Requirements for Financial
Management Systems

Financial management system requirements are designed to enable agencies to provide complete, reliable, timely, and consistent information to decision makers and the public. Agencies, including Treasury and OMB, need this information to (1) carry out their fiduciary responsibilities; (2) deter fraud, waste, and abuse; (3) facilitate efficient and effective delivery

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[12] Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996, Audit Report No. A-000-98-003-P dated March 2, 1998.

of programs; and **(4)** hold agency managers accountable for the way government programs are managed. The Congress needs this information to oversee government operations, and the public, to exercise their citizenship responsibilities. Thus, a key objective of financial management systems is to ensure that reliable financial and program performance data are obtained, maintained, and reported. Federal policy is to establish government-wide financial management systems and compatible agency systems to accomplish these objectives.

The three system requirements identified in the FFMIA-federal requirements for financial management systems, applicable accounting standards, and the SGL at the transaction level-are detailed in OMB's Circular No. A-127, <u>Financial Management Systems</u>. Section **7** of this Circular identifies 12 categories of requirements that a financial management system should meet to operate effectively. ' Other policy documents further detail these requirements, including Office of Management and Budget's Circulars No. A-130, <u>Management of Federal Information Resources</u>, No. A-134, <u>Financial Accounting Principles and Standards,</u> No. A- 11, <u>Preparation and Submission of Budget Estimates</u>, and No. A-34, <u>Instructions on Budget Execution</u>; and the Treasury Department's <u>Treasury Financial Manual</u>. In particular, the Joint Financial Management Improvement Program (JFMIP) has published several documents describing detailed functional requirements that systems should possess to perform effectively.

For purposes of this report and in order to better describe the interrelationships among the 12 requirements contained in OMB Circular A-127, we grouped the requirements into four categories as shown in the following table.

FEDERAL FINANCIAL MANAGEMENT SYSTEMS	
Category	**Requirements**
Accounting	▪ Classification structure ▪ Integrated system ▪ Application of U.S. Government Standard General Ledger at the transaction level ▪ Federal Accounting Standards ▪ Functional requirements (i.e., JFMIP)
Reporting	▪ Financial reporting (including performance measures) ▪ Budget reporting
Controls	▪ Internal controls ▪ Computer Security Act requirements
Operations	▪ Documentation ▪ Training and user support ▪ Maintenance

**USAID's Financial Management Systems Do Not
Yet Substantially Comply With FFMIA Requirements**

To correct the deficiencies in its financial management systems USAID began planning in fiscal year 1998 to develop an integrated financial management system which would substantially comply with all federal accounting and system requirements. In March 1998 USAID issued a General Notice stating the Agency's commitment to implement an effective integrated financial management system. Current USAID estimates call for the new system to be fully operational in 2001.

However, during fiscal year 1998, our audits as well as USAID management assessments confirmed the continuing existence of financial management system deficiencies that we reported during fiscal year 1997.[13] In large part because the recently deployed New

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[13] Audit of the Worldwide Deployment of the New Management System (NMS), Audit Report No. A-000-97-004-P, March 31, 1997; Audit of USAID's Efforts to Resolve the Year 2000 Problem Audit Report No. A-000-97-005-P, July 11, 1997; Audit of USAID's Federal Computer Security Requirements, Audit Report No. A-000-97-008-P, September 30, 1997; Audit of the Internal Controls for the Operational New Management System Audit Report No. A-000-97-009-P, September 30, 1997; and Audit of the Status of USAID's New Management System (NMS), Audit

Management System (NMS) has not operated effectively, USAID has had to rely on a combination of outmoded legacy systems, informal and unofficial records maintained by individual managers or organizational units, and NMS which suffers from technical and operational problems. As a result, during fiscal year 1998, USAID's financial management systems did not substantially comply with 11 of the 12 characteristics listed in Section 7 of the Office of Management and Budget's Circular No. A-127. The following table shows that USAID did comply with the requirement to provide adequate training to system users, which was an improvement over last year's results. Our analysis shows that USAID scheduled regular training for NMS users, most of whom have been trained.

Report No. A-000-97-010-P, September 30, 1997.

Substantial Compliance With Federal System Requirements			
System Requirement	1998		Indicators of the Status of Compliance
	Complies	Does Not Comply	
Information Classification Structure		X	USAID relies on legacy systems, informal records, and NMS. Because they lack standard data definitions or formats, USAID lacks an agency-wide classification structure.
Integrated System		X	Because USAID relies on multiple incompatible systems that cannot exchange data, it does not have an integrated system.
United States Standard General Ledger at the Transaction Level		X	Several major categories of transactions are not supported by the U.S. Standard General Ledger at the transaction level.
Applicable Federal Accounting Standards		X	USAID does not have a managerial cost accounting system.
Financial Reporting		X	USAID has decided to report financial reporting as a material weakness in its FY 1998 Accountability Report
Budget Reporting		X	The Budget system does not link budget data compiled by strategic objective with data compiled by object code.
Functional Requirements [JFMIP]		X	In two fiscal year audit reports, we identified important JFMIP requirements that had not been met.
Computer Security Act		X	USAID has decided to report computer security as material weakness in its FY 1998 Accountability Report
Documentation		X	USAID has decided to report the lack of financial management policies as a material weakness in its FY 1998 Accountability Report.
Internal Controls		X	We reported in September 1997, that the NMS did not have a system of internal controls that met federal government standards. These deficiencies have not yet been corrected.
Training and User support	X		USAID established a regular NMS training program in 1998. Most NMS users have received adequate training.
Maintenance		X	NMS is difficult to maintain because numerous design and software deficiencies exist.

The following sections summarize areas of noncompliance reported by OIG audits and USAID management assessments.

Accounting

In fiscal year 1998, USAID's net outlays totaled about **$7.8** billion. In order for the President, the Congress, and the public to have confidence that USAID is properly managing operations and reliably reporting results, the financial management system needs to incorporate federal accounting requirements. These requirements include an agency-wide classification structure, an integrated system, implementation of the SGL at the transaction level, applicable accounting standards, and JFMIP functional requirements.

Classification Structure

Federal financial management systems should collect, store, and retrieve financial data based on a standard agency-wide financial information classification structure. A standard structure requires that common data definitions and formats be used throughout the agency to accumulate financial and financially related information. The structure needs to support standard reporting requirements, allow consistent tracking of program expenditures, and cover financial and financially related information. A common classification structure minimizes data redundancy, ensures that consistent information is collected for similar transactions, encourages consistent formats for data entry, and ensures that consistent information is readily available and provided to managers at all levels. The classification structure needs to cover information needs for budget formulation, budget execution, programmatic, financial management, performance measurement, and financial statement and other reporting requirements.

USAID's financial management system, however, does not contain a consistent or complete classification structure. USAID currently relies on a combination of legacy systems, informal "cuff" records, and NMS. Because these systems do not contain standard data definitions or formats, USAID lacks a consistent agency-wide classification structure. In addition, the NMS does not include a complete classification structure. Although the new system was intended to maintain a common classification structure, USAID did not accomplish this goal. To be complete, a classification structure requires accounting events to be associated in several different ways in order to accumulate financial information for various purposes. For example, financial information needs to be reported by organizational unit, funding source, and program or project. NMS, however, does not incorporate a project classification structure, which limits the systems' ability to accumulate financial information related to individual initiatives. Further, USAID did not provide adequate guidance to users to define how financial activities should be classified.

Unstructured classification of financial information contributes to increased data duplication, inconsistent information, the inability to support the agency's budget formulation and execution functions, inaccurate performance measurement information, and difficulties preparing reliable financial statements.

Integrated Systems

Federal policy calls for each agency to implement an integrated financial management system. An integrated system does not mean a single all encompassing computer system that performs all financial functions. Instead, integrated means a unified set of systems that are planned, managed, and operated in an integrated manner, and linked electronically to carry out the agency's mission and support financial management needs. To be considered integrated, the system should use (1) a common classification structure (discussed above), (2) common transaction processing, (3) consistent internal controls, and (4) efficient transaction entry. An integrated system is important because it provides effective and efficient interrelationships between the software, hardware, personnel, procedures, controls, and data. For example, in an integrated system, data supporting an accounting event would normally be entered into the system once and then transferred electronically to update all accounts as required. This feature reduces data entry costs and the likelihood of errors from duplicate data entry.

USAID's financial management system, however, is not integrated. USAID currently relies on numerous incompatible formal and informal financial systems that are unable to share data. Among other problems, the lack of an integrated system compromises controls over the funds availability function, increasing the risk that USAID may over-commit, over-obligate, or over-expend funds, resulting in Anti-Deficiency Act Violations. Also, lack of integration could result in reporting discrepancies between the amount of funds available, committed, obligated, or expended.

U.S. Government Standard General Ledger

The SGL establishes a standard set of accounts for financial reporting throughout the federal government. Agency financial management systems should record financial events following the requirements of the SGL at the transaction level. In order to ensure that government-wide financial information is consistent and reliable, all agencies need to process transactions following the definitions and defined uses of the accounts described in SGL. Compliance with this standard requires that (1) data in financial reports be consistent with the SGL, (2) individual transactions be recorded consistent with SGL rules, and (3) supporting transaction details for SGL accounts be readily available. Following the SGL enhances financial control and supports consistent internal and external reporting for the agency and the federal government.

USAID's financial management system does not implement the SGL at the transaction level. The lack of an integrated system causes heavy reliance on manual compilations of summary data from formal and informal systems to generate financial statements, rather than relying on systems to account for events in SGL formats.

For example, USAID does not record Accounts Receivables in accordance with the SGL. Instead, USAID relies on data calls[14] to obtain the total amounts of outstanding Accounts Receivable. These data calls were posted to the General Ledger at the summary level as opposed to at the transaction level. By using data calls to determine outstanding Accounts Receivable, USAID is at risk that the information obtained is not complete. For instance, USAID's summarization of the data calls improperly omitted the Office of Procurement's outstanding Accounts Receivables.

Federal Accounting Standards

Accounting standards provide rules for reporting financial information in financial statements. Federal Accounting Standards ensure that financial reports contain understandable, relevant, and reliable information about the financial position, activities, and results of operations for each agency and the U.S. Government as a whole. Generally, the federal government 'operates on an accrual basis of accounting. The federal government also has some unique accounting requirements. To standardize financial statement accounting practices, the Federal Accounting Standard Advisory Board (FASAB) develops and recommends adoption of federal accounting standards, which are issued by the Director of OMB. Agencies need to incorporate these standards into their financial management systems to permit reporting in accordance with applicable accounting standards and other reporting requirements. When no accounting standard has been issued, agency systems can maintain and report data based on applicable accounting standards used by the agency for preparing its financial statements.

Currently, the FASAB has issued two accounting concepts covering (1) the objectives of federal financial reporting, and (2) entity and display. The concepts are:

■ financial reporting focuses on the uses, user needs, and objectives of financial reporting by the federal government, and

■ entity and display describes the basis for defining government organizations that should prepare financial statements.

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[14]Data call is a term used to describe the process of requesting various offices to compile and report outstanding balances as of year end.

In addition, eight accounting standards were effective for fiscal year 1998, covering accounting requirements for:

- selected assets and liabilities
- managerial cost accounting

- direct loans and loan guarantees
- property, plant, and equipment

- inventory and related property
- revenue and other financing sources

- liabilities of the federal government
- supplementary stewardship reporting

USAID has reported that neither NMS, nor the legacy systems, comply substantially with applicable federal accounting standards. Noncompliance with Federal Accounting Standards limits USAID's ability to provide financial reports with understandable, relevant, and reliable information about the financial position, activities, and results of operations.

For example, the lack of a managerial cost accounting system limits USAID's ability to measure the cost of its operations and results. This standard requires federal agencies to be able to provide reliable and timely information on the full cost of federal programs, their activities, and outputs (by responsible segments). The cost assignments should be performed using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other. Because USAID does not have a cost accounting system that meets these requirements, it is not able to segregate its costs. As a result, USAID has not implemented Statement of Federal Financial Accounting Standards No. 4 and did not comply with the following five fundamental elements of managerial cost accounting:

- Requirement for cost accounting, - Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes;

- Responsibility segments - Management of each reporting entity should define and establish responsibility segments;

- Full cost - Reporting entities should report the full costs of outputs in general purpose financial reports;

- Inter-entity costs - Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities, and

- <u>Costing methodology</u> - Cost of resources consumed by responsibility segments should be accumulated by type of resource.

In addition, USAID has not implemented an effective accrual methodology that complies with the standard for assets and liabilities. USAID's accrual methodology does not properly recognize its current liability and establish accounts payable for unpaid goods. Further, USAID does not have a methodology to reduce its advances and recognize expenses when goods or services were received, contract terms were met, progress was made under contract or when prepaid expenses expired. Instead, USAID establishes estimates for Accounts Payable and related expenses based solely on unliquidation obligations balances. No additional information is requested or obtained to determine whether the goods or services were actually received.

Functional Requirements

Functional requirements for financial management systems are defined in a series of publications issued by the Joint Financial Management Improvement Program (JFMIP). These requirements describe in detail the functions each system must perform to meet financial management system requirements. The <u>Framework for Federal Financial Management Systems,</u> published in 1995, describes the requirements for developing an integrated financial management system. <u>Core Financial System Requirements,</u> originally published in 1988 and subsequently revised, describe detailed requirements for core accounting functions.[15] These functional requirements help ensure that financial management systems actually contain the features necessary to meet federal accounting and reporting requirements. OMB Circular No. A-127 calls for core accounting systems to be tested to ensure that they meet the JFMIP core requirements.

Other JFMIP requirements documents include:

- Personnel/Payroll System Requirements, May 1990

- Travel System Requirements, January 1991

- Seized/Forfeited Asset System Requirements, March 1993

- Direct Loan System Requirements, December 1993

- Guaranteed Loan System Requirements, December 1993

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[15] These include (1) core financial system management, (2) general ledger management, (3) funds management, (4) payment management, (5) receipt management, (6) cost management, and (7) reporting.

- Inventory System Requirements, June 1995

- Managerial Cost Accounting, June 1998

USAID has decided to report in its fiscal year 1998 Accountability Report that NMS does not substantially comply with federal financial management system requirements. In addition, a U&AID-contracted study performed by IBM and titled "Analysis of Alternatives with Regard to the USAID New Management System" dated February 2, 1998, stated that USAID's core financial system does not meet JFMIP requirements to support the Prompt Payment Act, does not support USAID's external reporting needs, and does not ensure that costs are accumulated and reported with proper matching of periods, segments, and outputs. By not meeting these functional requirements, USAID is operating a system that does not perform key functions required of federal financial management systems.

Reporting

Reporting involves summarizing reliable information on financial, performance, and budget matters and making that information readily available to users inside and outside the agency. In enacting the FFMIA into law, the Congress found that the accountability and credibility of the federal government must be rebuilt and public confidence in it must be restored.   In short, agencies and managers must be able to provide information that is essential to monitor budgets, operations, financial results, and program performance.

A key purpose of federal financial management systems is to report financial, performance, and budget information, so that agency programs and activities can be considered and evaluated based on their full costs and merit. Agency management, the President, the Congress, and citizens need access to complete, reliable, timely, and consistent information generated from agency financial management systems.

Federal laws and executive branch policies require agencies to develop and maintain integrated systems for reporting program results and related funding. Examples of these laws and regulations include:

- Office of Management and Budget Circular No. A-127 (Revised), <u>Financial Management Systems</u>, states that"...each agency shall establish and maintain a single, integrated financial management system.. .[and] the agency financial management system shall be able to provide financial information in a timely and useful fashion."

- The Chief Financial Officers Act of 1990 (section 902.[a][3] [D] [iv]) states: "An agency CFO shall develop and maintain an integrated agency accounting and financial management system which provides for the systematic measurement of performance."

- Office of Management and Budget Bulletin No. 93-02 states: "Whenever possible 'financial data should be related to other measures of **performance** on a **program-by-**program basis. The inclusion of performance measures **will** facilitate using the financial statement to assess both financial and program performance."

USAID has not yet met the above requirements. USAID plans, in its fiscal year 1998 Accountability Report, to state that the system does not meet some important financial management system requirements, such as being capable of producing all required financial reports and other management information at an acceptable level of timeliness and accuracy.

USAID has not developed and maintained an integrated system for reporting program results and related funding and is currently unable to meet many of its reporting requirements. In our September 1998 report on "The Process USAID Used To Prepare Its Fiscal Year 1997 Financial Statements from the General Ledger," we found USAID must manually prepare its financial statements because its financial management systems were not integrated and could not prepare the statements electronically. Because of the reporting deficiencies:

- Managers are unable to reliably accumulate prior or projected program or project costs due to the lack of a required managerial cost accounting component.

- Unreliable or incomplete financial data is being reported to managers and to external parties, including OMB, Congress, and the public. To illustrate, USAID submitted financial information to OMB and to the U.S. Treasury that is materially inconsistent with its general ledger. This occurred in reporting the .year-end cash balance to Treasury and budgetary information to OMB.

The lack of an effective integrated financial management system inhibits USAID's ability to relate (1) obligations and expenditures to USAID's overall strategic goals and objectives, and in support of each operating unit's strategic objective and intermediate results; and (2) program results to budget components included in its financial statements. This in turn impairs USAID's ability to manage for results and to report results in relation to funding.

Controls

Management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision making. Federal requirements call for adequate internal and computer security controls, which should be essential elements in the design and operation of financial management systems.

Internal Controls

A subset of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of assets. Laws dealing with internal controls include the (1) Accounting and Auditing Act of 1950 which established requirements for an effective internal control system, and (2) Federal Managers' Financial Integrity Act of 1982 which reinforced the need for effective internal controls.

Federal financial management system requirements for internal controls call for the system to include internal controls that ensure resources use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. GAO has established guidance for internal controls in their publication <u>Standards for Internal Controls in The Federal Government</u>. The following table shows the areas addressed by the GAO general and specific standards for internal controls in the federal government.

GAO Internal Control Standards	
General Standards	**Specific Standards**
1. Reasonable Assurance Internal control systems are to provide reasonable assurance that the objectives of the system will be accomplished.	**1. Documentation** Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
2. Supportive Attitude Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.	**2. Recording of Transactions and Events** Transactions and other significant events are to be promptly recorded and properly classified.
3. Competent Personnel Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.	**3. Execution of Transactions and Events** Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
4. Control Objectives Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.	**4. Separation of Duties** Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
5. Control Techniques Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.	**5. Supervision** Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
	6. Access to and Accountability for Resources Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

USAID's financial management system does not include a system of internal controls that meets GAO's standards for internal control. In September 1997,[16] we reported that the NMS does not include a system of internal controls that meets GAO's <u>Standards for Internal Controls in the Federal Government</u>. Among other things, internal control objectives were not identified and internal control techniques were not documented. As a result, USAID managers cannot reasonably ensure that the control techniques they have implemented are effective. USAID has made a management decision on an OIG recommendation to document, test, and implement a system of internal controls for NMS that comply with the General Accounting Office's Standards for Internal Controls in the Federal Government. However, our continuing work and discussions with responsible financial management officials confirm that USAID has not yet corrected the deficiencies.

Without adequate internal controls, USAID managers are unable to provide reasonable assurance that program goals and objectives are met; resources are adequately safeguarded; reliable data are obtained, maintained and reported; and activities comply with laws and regulations. Because of this situation, USAID faces significant risks and increased vulnerability, known and unknown, to' fraud, waste, and abuse; and compromise of sensitive, Privacy Act-protected information as a result of relying on NMS to account for and provide management information on the use of resources and program operations.

Computer Security

Computer security requirements comprise a subset of an organization's overall internal controls. These particular controls are intended to protect the integrity of sensitive information which is stored in computer systems. However, computer security requirements are often addressed separately from other internal controls. This separation is due to the technical complexity involved in securing computers and the agency's increasing reliance on computers to store and process information.

Among the significant laws and guidelines requiring agencies to maintain an effective computer security program are the Computer Security Act of 1987 and OMB Circular No. A-130, Appendix III, "Security of Federal Automated Information Systems." Specifically:

■   the Computer Security Act requires federal agencies to protect information by: (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices.

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[16]   <u>Audit of the Internal Controls for the Operational New Management System</u>, Audit Report No. A-000-97-009-P September 30, 1997.

■   Appendix III of OMB Circular A-130, which implements the requirements of the
Computer Security Act, directs agencies to establish a security program and maintain
an adequate level of security for sensitive systems and information.

The increasing complexity of technology and the proliferation of computers have resulted in a
greater commitment of resources to computer operations and a wide range of computer
applications. USAID makes extensive use of information technology in serving the public
and managing resources while executing its programs. However, the increasing reliance on
computers leaves USAID exposed to the risk of unauthorized modification of data; destruction
of computer resources; disruption of operations; and compromise or loss of resources,
including sensitive agency information.

In two companion reports, we reported that USAID had not implemented an effective security
program that met me requirements of the Computer Security Act of 1987 or OMB Circular
No. A-130."   Specifically, we reported that USAID's security controls, access controls, and
change controls were not effective. These security weaknesses expose USAID to
unacceptable risks that resources will not be adequately protected from fraud or misuse and
that sensitive data and systems will not be adequately protected from loss or destruction.

Operations

Most computer system costs are incurred after the system becomes operational. Computer
system operations include operating the system, responding to user questions and correcting'
routine defects, enhancing system capabilities to meet new requirements, and eventually,
retiring the system. The FFMIA defines financial management systems to include not only
the hardware and software needed to support financial management, but also the automated
and manual processes, procedures, controls, data, and support personnel dedicated to the
operation and maintenance of system functions. Federal requirements call for adequate
documentation, training, and maintenance practices, which are important to ensure that the
system continues to operate efficiently and effectively.

Documentation

Federal financial management system requirements call for agencies to adequately document
the system/software structure and capabilities, processing instructions for operating personnel,
and operating procedures and manuals for users. To be fully useful, documentation should be
kept up-to-date and be readily available for examination and use. The documentation also

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"Audit of General Controls Over USAID's Mainframe Computer Environment (Report No. A-000-99-004-P,
March 1, 1999) and Audit of General Controls Over USAID's Client-Server Environment (Report No. A-000-99-005-P,
March 1, 1999).

needs to be sufficiently detailed to permit responsible personnel to understand the system and its operations. Up-to-date documentation is needed so that users will be able to understand how to operate the system, technical personnel will be able to keep the system functioning effectively and efficiently, and system developers will be able to easily correct problems and implement enhancements.

USAID management recognizes that financial management system documentation is not complete or current. USAID has identified the lack of financial management procedures as a material control deficiency in its Integrity Act reports since 1993. USAID also recognizes that system and requirements documentation for NMS is not complete, is not up-to-date, and does not follow prescribed standards. These deficiencies have hindered efforts to support on-going system maintenance and operations.

Training and User Support.

Training is important to successful implementation and ongoing operation of a financial management system. Without proper training, users of a system may erroneously enter data, operators may make errors that disrupt system operations, and developers may have difficulty implementing new requirements. Federal financial management system requirements call for agencies to provide adequate training and appropriate support-based on the level of responsibility and roles of individual users—to enable the users of the system at all levels to understand, operate, and maintain the system efficiently and effectively. This requires implementation of a comprehensive training program for system developers, computer operators, and users.

During fiscal year 1998, USAID implemented a regular NMS training program. The program included monthly courses in budget, reporting, operations, and several other NMS areas.

Maintenance

On-going system maintenance needs to be performed to enable the system to continue operating effectively and efficiently. Agencies should periodically evaluate how well the system supports changing business practices and make appropriate modifications through its maintenance program.

USAID's financial management systems, however, are difficult and expensive to maintain. Maintenance is difficult because (1) legacy systems are outdated, (2) informal locally developed systems that are not well documented, and (3) NMS suffers from design deficiencies, software defects, and documentation gaps.