

~~32588~~

128232

BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Administrator,
General Services Administration**

**Improvements Needed In GSA's
Second Year Implementation
Of The Financial Integrity Act**

GAO conducted reviews of 23 federal agencies' efforts to implement the Financial Integrity Act of 1982. To help reduce fraud, waste, and abuse in government operations, the act requires federal agencies to evaluate their systems of accounting and internal control and annually report the results to the President and the Congress.

GSA is to be commended for its forthright disclosures of internal control and accounting system weaknesses known to senior management. However, GAO found that the 2,000 evaluations made under the act could not be relied on to (1) identify internal control deficiencies or vulnerabilities to such problems and (2) determine the extent to which accounting systems did not conform to the Comptroller General's requirements. GAO makes recommendations for improving evaluation quality--a necessary step in assuring internal control and accounting system adequacy.



128232



GAO/GGD-86-11
OCTOBER 11, 1985

033584

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20877**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



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

GENERAL GOVERNMENT
DIVISION

B-216946

The Honorable Terence C. Golden
Administrator of General Services

Dear Mr. Golden:

This report discusses the General Services Administration's progress and problems in its second year implementation of the Federal Managers' Financial Integrity Act. The report focuses on the

- status of actions taken to correct identified weaknesses,
- reliability of managers' evaluations in identifying control deficiencies, and
- sufficiency of accounting system evaluations.

The report contains recommendations to you on pages 22, 23, and 33. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of the report to the Director, Office of Management and Budget; heads of the General Services Administration's services and major staff offices; and interested committees of the Congress.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

EXECUTIVE SUMMARY

The General Services Administration (GSA) manages much of the federal government's requirements for real and personal property, supplies, transportation, communication, strategic materials, and automatic data processing. In 1984, this involved managing buildings valued at \$4.2 billion and making \$3.9 billion in centralized procurements.

Because of these important missions, GAO reviewed GSA's fiscal 1984 progress in evaluating the adequacy of its internal controls and accounting systems under the Federal Managers' Financial Integrity Act.

BACKGROUND

The act requires that executive agencies evaluate their systems of internal accounting and administrative controls to determine whether they comply with the Comptroller General's internal control standards and provide reasonable assurance that (1) obligations and costs comply with applicable law; (2) funds, property, and assets are safeguarded; and (3) revenues and expenses are properly accounted for. Agency heads must report annually to the President and the Congress on the results of these evaluations. Also, each agency must report on whether its accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General. (See pp. 1 to 3.)

RESULTS IN BRIEF

GSA is to be commended for its informative and forthright disclosures of serious weaknesses in its internal control and accounting systems. In its fiscal 1983 and 1984 annual reports, GSA identified 62 deficiencies that materially or significantly affected its operations. Also, because of the significance of certain uncorrected problems, GSA reported that its accounting systems do not conform to the Comptroller General's requirements.

EXECUTIVE SUMMARY

The internal control and accounting system problems confronting GSA are serious and widespread. To illustrate, weaknesses in supply distribution controls present opportunities for pilferage, submission of false claims, and other practices that may result in loss of merchandise and money. Also, reliable accounting data are not always timely or fully available. Nonetheless, in view of actions being taken to correct identified problems, agency-wide evaluations of controls, and assurances given by managers, GSA reported that its control systems, taken as a whole, are generally capable of providing reasonable assurance that the act's objectives are met.

Despite the reported success in finding and dealing with internal control and accounting system problems, GAO believes GSA did not have an adequate basis for concluding that its internal control systems, taken as a whole, met the objectives of the act. GSA had not corrected many of the serious control deficiencies already identified. Moreover, its internal control evaluations could not be relied on to identify existing control deficiencies or vulnerabilities to such problems. Similarly, accounting system evaluations were of insufficient depth and scope to determine the extent to which those systems did not conform to the Comptroller General's requirements.

PRINCIPAL FINDINGS

Corrective actions

GSA is making progress in correcting its control deficiencies. Of the 62 identified deficiencies, GSA reported correcting 9. Because some deficiencies are complex, however, it will be years before GSA can reasonably expect to correct them. For instance, GSA estimates that it will take until 1987 to convert to up-to-date data processing technology for centralized inventory control. (See pp. 7 to 10.)

Unreliable evaluations

To determine if GSA managers' evaluations were reliable in identifying control deficiencies as GSA expected, GAO identified the 196 central and field office program components that carry out the activities and operations corresponding to the areas that GSA reported as having 22 newly identified deficiencies during 1984. GAO's

EXECUTIVE SUMMARY

analysis of the evaluations showed that only 7 of the 196 evaluations identified any of the reported control deficiencies. The reported deficiencies were identified primarily on the basis of senior GSA management's and the inspector general's knowledge. Furthermore, essentially all of the evaluations indicated low or no vulnerability to internal control problems. (See pp. 11 to 13.)

**Reasons for
unreliability**

In general, managers were not properly prepared to do the evaluation work necessary to identify control weaknesses. Specifically

- The complex evaluation process, viewed by GSA managers as confusing, overwhelming, and difficult to understand, was implemented late in the fiscal year which left little time for training, doing the evaluations, and reviewing evaluation quality. (See pp. 13 to 16.)
- The criteria to evaluate internal controls was found by many managers, who did the evaluations that GAO reviewed, to be too general to assess automated systems and identify internal control weaknesses. (See pp. 16 to 19.)

Contributing to the unreliable evaluations, in GAO's opinion, is the general perception of GSA managers that the evaluations accomplish little. This perception places the evaluation process at risk of being treated as a paperwork exercise by the managers that GSA senior management expects substantive and accurate evaluations from. (See pp. 19 and 20.)

**Accounting
system
evaluation
insufficiencies**

Although GSA identified instances of material accounting system nonconformance with the Comptroller General's requirements, the evaluations were of insufficient depth and scope to provide GSA with an adequate basis for determining the extent to which the systems do not conform to the requirements. The evaluations generally included little testing of systems in operation, and regional systems were not examined. (See pp. 26 to 33.)

EXECUTIVE SUMMARY

RECOMMENDATIONS

GAO recommends that the Administrator of General Services take steps as outlined in this report to improve GSA's basis for determining the adequacy of its internal controls and accounting systems. For the most part, this entails better preparing managers for undertaking the evaluations by, for example, developing improved evaluation criteria and training and expanding accounting system evaluation coverage to include regional accounting system functions. (See pp. 22, 23, and 33.)

**AGENCY
COMMENTS**

In commenting on this report, GSA agreed with GAO's recommendations and described actions, taken and planned, to implement them. (See pp. 23, 34, and 35.)

C O N T E N T S

		<u>Page</u>
EXECUTIVE SUMMARY		i
CHAPTER		
1	INTRODUCTION	1
	Framework established to implement the act's requirements	1
	GSA responsive to GAO concerns	3
	Objectives, scope, and methodology	4
2	IMPROVEMENTS NEEDED TO ASSURE INTERNAL CONTROL ADEQUACY	7
	Serious control deficiencies present; much remains to be done	7
	Managers' evaluations are important for assessing internal control adequacy	10
	Managers' evaluations were not reliable	11
	Various factors contributed to unreliable evaluations	13
	Few internal control reviews were completed	20
	GSA is reassessing its evaluation process	21
	Conclusions	22
	Recommendations to the Administrator of General Services	22
	Agency comments and our evaluation	23
3	FURTHER WORK IS NEEDED TO IMPROVE GSA'S ACCOUNTING SYSTEMS	26
	GSA is taking action to bring its accounting systems into conformance	26
	Insufficient evaluation work completed	28
	Weaknesses in GSA's evaluation program	31
	Conclusions	33
	Recommendations to the Administrator of General Services	33
	Agency comments and our evaluation	34
APPENDIX		
I	Advance comments from the General Services Administration	35
II	Description of GSA manager evaluations selected for review by GAO	40
III	Description of ADP general and application controls covered by the GAO assignment	41
IV	Description of internal control deficiencies identified in GSA's annual report for fiscal 1984	44

FIGURES AND TABLES

Figure 2.1: Distribution of certain GSA manager evaluations according to their highest vulnerability rating	12
Table II.1: Listing of the GSA manager evaluations selected for review by GAO	40
Table IV.1: Internal control deficiencies identified by GSA in fiscal 1984 according to source	44

ABBREVIATIONS

ADP	Automatic Data Processing
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse in government programs, largely attributable to serious weaknesses in federal agency internal controls, the Congress in 1982 enacted the Federal Managers' Financial Integrity Act (31 U.S.C. 3512 (b) and (c)). The General Services Administration (GSA) is 1 of 23 agencies included in our review of the status of federal agencies' efforts to implement the act.

GSA manages much of the federal government's requirements for real and personal property including the construction and operation of buildings, procurement and distribution of supplies, reutilization and disposal of property, transportation, communications management, stockpiling of strategic materials, and the management of the governmentwide automatic data processing (ADP) resources program. These operations are carried out by GSA's 5 services--Public Buildings Service, Office of Federal Supply and Services,¹ Office of Information Resources Management, Federal Property Resources Service, and the National Archives and Records Service²--several supporting staff offices, and 11 regional offices.

FRAMEWORK ESTABLISHED TO IMPLEMENT THE ACT'S REQUIREMENTS

The Federal Managers' Financial Integrity Act reiterated the concept first incorporated in the Accounting and Auditing Act of 1950. That is, the primary responsibility for maintaining adequate systems of internal control and accounting rests with agency management. Sections 2 and 4 of the Financial Integrity Act address this concept.

Section 2 requires that agency systems of accounting and administrative control comply with internal control standards prescribed by the Comptroller General of the United States and provide reasonable assurance that:

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

¹Hereinafter referred to as the Federal Supply Service.

²Effective April 1, 1985, the National Archives and Records Service became an independent agency.

--revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over assets.

Also, agency heads must prepare annual statements to the President and the Congress on whether their internal control systems fully comply with the requirements contained in section 2. To the extent the systems do not comply, the act requires the identification of material weaknesses in the agencies' systems together with plans for corrective actions. These annual statements are to be made on the basis of internal control evaluations done in accordance with guidelines developed by the Office of Management and Budget (OMB).

Section 4 further requires that agency heads prepare annual statements on whether their agencies' accounting systems conform with the Comptroller General's accounting principles, standards, and related requirements (hereinafter referred to as the Comptroller General's requirements).³

To provide the framework for implementation, as prescribed by the act, the Comptroller General issued additional standards in June 1983 for federal agencies to meet in establishing their internal control systems. The standards apply to program management as well as to traditional financial management areas and encompass all operations and management functions.

Also, as prescribed by the act, OMB, in consultation with the Comptroller General, established guidelines in December 1982 for agencies to use in evaluating, improving, and reporting on their internal control systems. In short, OMB's guidelines provide that agencies should segment their programs and functions into units and then assess the units for vulnerability to fraud, waste, and abuse. On the basis of the vulnerability assessments and other available information, agencies should correct known weaknesses, schedule more detailed review work to areas suspected of having control weaknesses or areas believed highly vulnerable to problems to identify necessary corrective actions, and annually report on actions being taken to correct material control weaknesses.

³The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards, while titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowance; and fiscal procedures, respectively. Also, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements such as the Treasury Financial Manual and OMB circulars.

GSA assigned responsibility for integrity act work to the Office of Program Oversight. This office is under the direction of the Associate Administrator for Policy and Management Systems, the designated senior official responsible for GSA's efforts. Additionally, GSA

- established within each service, staff office, and regional office, a network of representatives responsible for assuring orderly implementation of integrity act requirements;
- directed that internal control responsibilities be included in performance plans of all Senior Executive Service and merit pay managers; and
- established a senior advisory body consisting of the heads of GSA services and staff offices and representatives from the Office of Inspector General to review integrity act implementation and reporting.

In general, these steps created a centrally directed internal control evaluation and reporting program under the supervision of the Office of Program Oversight.

GSA RESPONSIVE TO GAO CONCERNS

We reported⁴ that GSA made progress in implementing the act during 1983 but that it had problems assessing internal controls under the OMB guidelines and assessing conformance of accounting systems with the Comptroller General's requirements. Accordingly, we made a number of suggestions to assist GSA in improving its evaluation efforts.

GSA has been responsive to our suggestions and, in the second year, revised much of what it did the first year. For example, GSA:

- Developed a new internal control evaluation methodology--called managerial evaluations--for identifying control weaknesses and highly vulnerable areas warranting closer examination through testing of controls in operation. In doing so, GSA (1) overhauled the organizational basis on which the previous year's evaluations were done; (2) documented, for evaluation purposes, a list of management requirements unique to the work processes of each program component; and (3) introduced new procedures for systematically evaluating each program component.

⁴First Year Implementation of the Federal Managers' Financial Integrity Act by the General Services Administration
(GAO/GGD-84-57, May 22, 1984).

- Established a more comprehensive accounting system evaluation process by (1) improving evaluation guidance, (2) obtaining more complete coverage, and (3) scheduling operational testing of all financial management systems.
- Made extensive disclosures of known internal control weaknesses and accounting system deviations from standards. GSA went beyond what was required in OMB guidelines by reporting significant problems that affected the agency but were not so severe as to meet OMB's definition of material.⁵
- Implemented a monitoring process to assure identified internal control weaknesses and accounting system deviations are corrected. The process incorporated a number of sound management principles such as establishing accountability for correcting problems, identifying significant corrective action steps to be taken, and establishing milestones for each significant step.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed GSA's implementation of the Federal Managers' Financial Integrity Act because of the high priority given by the President and the Congress to improving the government's internal controls. In doing so, we did not attempt to independently determine the adequacy of GSA's internal control and accounting systems nor independently test the results of actions taken by GSA to improve those systems.

The objectives of our review were to:

- evaluate GSA's second year progress in implementing its internal control and accounting systems evaluation processes;
- assess GSA's progress in correcting internal control and accounting system weaknesses identified during the first year under the act;
- assess the reasonableness of GSA's second annual assurance statements on internal control adequacy and accounting system conformance to the Comptroller General's principles and standards; and

⁵Material internal control deficiencies are those that impair fulfillment of an agency's mission; deprive the public of needed government services; violate statutory or regulatory requirements, or result in a conflict of interest. According to GSA, significant deficiencies are those that seriously affect agency operations but do not meet the definition of materiality.

--evaluate the reliability of GSA's evaluation efforts for determining the adequacy of its internal control and accounting systems.

Audit work was conducted at GSA's central office and 3 of its 11 regional offices--National Capital, Kansas City, and Chicago. These locations were included in our review of GSA's first year implementation of the integrity act and, because of the base line information already developed, were again visited. Originally, the National Capital Region was selected because it is the region with the most employees, Kansas City because it has the National Payroll Center, and Chicago to provide additional geographic representation. At each location we (1) examined relevant correspondence, directives, and procedures; (2) analyzed internal control evaluations performed and corrective action plans developed; and (3) discussed integrity act requirements, evaluations, and corrective actions with responsible GSA officials.

Although we obtained information on GSA-wide efforts to improve internal control systems in accordance with section 2 of the act, we examined in more detail the internal control evaluation efforts made by GSA component managers in three programs that, on the basis of our prior work, seemed likely to have a high potential for experiencing control problems. These programs were the supply and property management programs in the Federal Supply Service and the leasing program in the Public Buildings Service. In general, we went over all aspects of the evaluations with the affected managers. As shown in appendix II, our detailed work involved 65 evaluations covering 18 different GSA program components in the four locations. To place this aspect of our detailed work in perspective, we covered 18 of GSA's 350 components and 65 of the 1,962 control evaluations done by managers agencywide. We supplemented the detailed work with information from the internal control evaluation file documentation of 1,689 evaluations. In total, we reviewed information on 1,754 evaluations or about 89 percent of GSA's evaluations.

We also selected, for detailed review, six ADP components from the Federal Supply Service, Public Buildings Service, and the Office of Information Resources Management; the bulk of GSA's computer-related activities are located in these three services. These six components covered all ADP related program components in GSA's Federal Supply Service and Public Buildings Service, and 2 of 17 automated information service components in the Office of Information Resources Management. A fuller explanation of the ADP controls covered by the assignment is shown in appendix III.

In assessing GSA's accounting systems evaluation and improvement efforts (section 4 of the act), we concentrated on the central office because it was the center of GSA's evaluation

effort. To provide audit coverage to regional finance center evaluation efforts, we also performed audit work in the Kansas City region because it had the National Payroll Center. We reviewed GSA's evaluation guidelines, service and staff office conformance reports and user surveys, corrective action status reports, and GAO and inspector general audit reports. We also interviewed central office and Kansas City regional office officials who planned, monitored, and implemented GSA's evaluation efforts. Additionally, we interviewed Office of Inspector General officials to determine their role in the accounting system evaluation efforts.

All audit work was performed from May 1984 to February 1985 and was done in accordance with generally accepted government auditing standards.

CHAPTER 2

IMPROVEMENTS NEEDED TO ASSURE INTERNAL CONTROL ADEQUACY

GSA has identified numerous control deficiencies and is taking action to correct the reported problems. On the basis of the corrective action underway, internal control evaluations done in late 1984, and other available information, GSA reported that it has reasonable assurance its systems of control are adequate; that is, the control systems, taken as a whole, are "generally capable" of achieving the objectives of the Financial Integrity Act.

In our opinion, GSA did not have an adequate basis for concluding that its systems of control, taken as a whole, were adequate. GSA had not yet completed action to correct serious internal control deficiencies that it had previously identified. Moreover, GSA's evaluations of its control systems were not reliable for identifying existing control weaknesses and/or vulnerability to such weaknesses, and few internal control reviews, which test systems in operation, were completed. Additionally, GSA needs to overcome the perception held by some managers that the integrity act process is little more than a paperwork exercise; a perception that GSA senior management believes skewed the results of its internal control evaluations and made it appear that GSA has greater assurance than it really has.

SERIOUS CONTROL DEFICIENCIES PRESENT; MUCH REMAINS TO BE DONE

In both its 1983 and 1984 reports to the President and the Congress, GSA identified many serious and widespread internal control problems facing the agency. GSA is to be commended for its informative and forthright reporting of such weaknesses. GSA is working toward, and has made some progress in, correcting its internal control deficiencies. However, because in some instances these identified deficiencies are complex, it will be years before GSA can reasonably expect to correct them.

GSA's two annual reports identified 17 material and 45 significant internal control deficiencies requiring corrective actions. The following illustrates the widespread nature and seriousness of the control problems.

Material weaknesses:

- Weaknesses in supply distribution controls present opportunities for pilferage, submission of fictitious orders, filing of false claims, and other practices that may result in a loss of merchandise and money.

- Weaknesses in ADP security of 20 major computer system installations in such diverse areas as supply distribution, financial systems, and public buildings management information systems, may allow critical data to be altered, sensitive information to be inappropriately disclosed, data files to be destroyed, and/or ADP services to be disrupted or completely shutdown for unacceptable periods of time.
- Weaknesses in financial management systems (data is not fully available, of consistent quality and reliability, and not always available on a timely basis) limit the availability of financial data to support effective decisionmaking throughout the agency.
- Weaknesses in project planning and management for the containment and removal of asbestos from the federal work place may result in the work not being accomplished in a timely manner. Asbestos--a known carcinogen--was a commonly used building material and has not yet been fully identified in the federal work place, although accelerated action on 33 buildings at a cost of \$195 million has been undertaken.
- Weaknesses in the controls over the appraisal of real property may result in appraisals that are not timely or sufficiently independent to support objective and cost-effective decisionmaking and cause delays in disposing of real property, rejection of acceptable offers, increased disposal expense, and the appearance of impropriety.

Significant weaknesses:

- Weaknesses in inventory controls over personal property may allow the loss of such property to go undetected.
- Weaknesses in controls over the protection and maintenance of high value strategic and critical materials in the National Defense Stockpile present opportunities for their theft and/or deterioration.
- Weaknesses in controls over data entry into GSA's automated supply system, including inadequate separation of duties, provide the potential for falsifying supply inventory receipts to support falsified billings.
- Weaknesses in telephone inventory and accounting system controls result in GSA paying for disconnected and unneeded phone lines.
- Weaknesses in controls over the determination of space requirements can lead to the acquisition of inappropriate building space.

--Weaknesses in controls governing the use of cost estimates by qualified price analysts may preclude assessing whether GSA settled on a fair and reasonable price during contract negotiations.

--Weaknesses in controls over proceeds resulting from the sale of government-owned personal property and in protecting personnel responsible for such proceeds may result in loss of money and harm to personnel involved.

To assure timely and appropriate correction of the reported control problems, GSA established in March 1984 a process to oversee managers' efforts to plan and carry out corrective actions. GSA required that (1) responsibilities for addressing control deficiencies be assigned to appropriate managers; (2) corrective action plans developed to address the deficiencies be approved by service or staff office officials and the Office of Oversight; (3) significant corrective action steps be enumerated in the plans; (4) milestones for each action step be established; and (5) periodic reporting be made to the Office of Oversight. These steps, taken together, establish accountability and deadlines for correcting the problems and help assure high level GSA attention.

In turn, GSA reported some progress in correcting control weaknesses and recognized the long-term nature of correcting others. More specifically, GSA reported correcting 1 of the 17 material deficiencies and 8 of the 45 significant deficiencies and specifically enumerated longer-term actions programmed to correct the others. For example, GSA estimates that updating the ADP technology required for centralized inventory control will take until 1987 but will result in savings of \$90 million over the life of the system. Similarly, to eliminate control weaknesses in its supply distribution operations, in part, will require the replacement of an automated information system in the Office of Finance. The initial design for that system is underway. Also, to eliminate waste in the contracting program, GSA managers estimate that it will take until 1988 to appropriately convert to single award contracts from multiple award ones.

GSA also reported making 26 other improvements to its control systems. These problems were identified and corrected during 1984 and included improvements such as the establishment of edit checks in the supply distribution ADP systems to prevent the processing of erroneous shipping information.

Despite the presence of serious control deficiencies, GSA senior officials believe GSA's systems of internal controls have been improved over the previous year. While recognizing that much remains to be done to correct control deficiencies, they believe GSA's system of controls, taken as a whole, provide a

control environment generally capable of providing reasonable assurance that the objectives of the Financial Integrity Act are met. This assurance is based on the corrective actions underway, evaluations of internal controls agencywide, assurances given by subordinate GSA officials, and consideration of other available information.

MANAGERS' EVALUATIONS ARE IMPORTANT
FOR ASSESSING INTERNAL CONTROL ADEQUACY

To a large degree, GSA's 1984 assessment of internal controls was to be made on the basis of managers' evaluations of each of GSA's 350 program components located in the central and regional offices, or about 2,000 evaluations.

Managers were expected to appropriately (1) identify specific control weaknesses that need improvement or (2) recommend an internal control review when such a weakness is believed present but the weakness or corrective action cannot be definitively identified. Because GSA officials viewed the managers' evaluations as comprehensive, they believed that managers, for the most part, could identify the control deficiencies and needed corrective actions and thereby eliminate the need for the more detailed and time consuming internal control reviews.

To provide criteria for performing substantive evaluations, central office managers were requested to identify, in a document called the management control matrix, all program controls by listing (1) applicable laws and regulations, (2) significant work performance requirements, and (3) significant requirements for management controls. To assure that the matrix was complete, field managers were requested to document any missing program controls and, if appropriate, supplement the matrix with any significant operational controls. As such, the matrix contained a list of management requirements unique to the work processes of each component.

In performing the evaluations, the central and regional office program component managers, in addition to documenting known control breakdowns such as those identified in the prior year by the inspector general, GAO, or in other studies, were required to assess their components' vulnerability to waste, loss, unauthorized use, or misappropriation.

Managers were to first rate how effectively and efficiently their program components met specified performance requirements. Managers were to then rate how effectively certain types of controls assured that the performance requirements were met. On the basis of this second rating, managers were to compute a vulnerability index and identify internal control deficiencies or the potential for such deficiencies that should be examined in more detail during an internal control review.

These managers' evaluations, together with other available information, such as inspector general reports, were to serve as a basis for the preparation of assurance letters by GSA's 11 regional administrators and 14 heads of GSA's services and staff offices attesting to the adequacy of internal controls within their areas of responsibility.

MANAGERS' EVALUATIONS
WERE NOT RELIABLE

GSA's evaluations were expected to identify internal control weaknesses and/or the potential vulnerability for such weaknesses where they existed. However, they did not do so. The evaluations, for the most part, did not identify the deficiencies GSA reported to the President and the Congress in its report covering 1984 operations. These deficiencies were identified primarily on the basis of senior GSA management's and the inspector general's knowledge. Additionally, the evaluations generally indicated very low vulnerability in the reported problem areas. Therefore, GSA cannot rely on these evaluations as an accurate assessment of the adequacy of its internal controls.

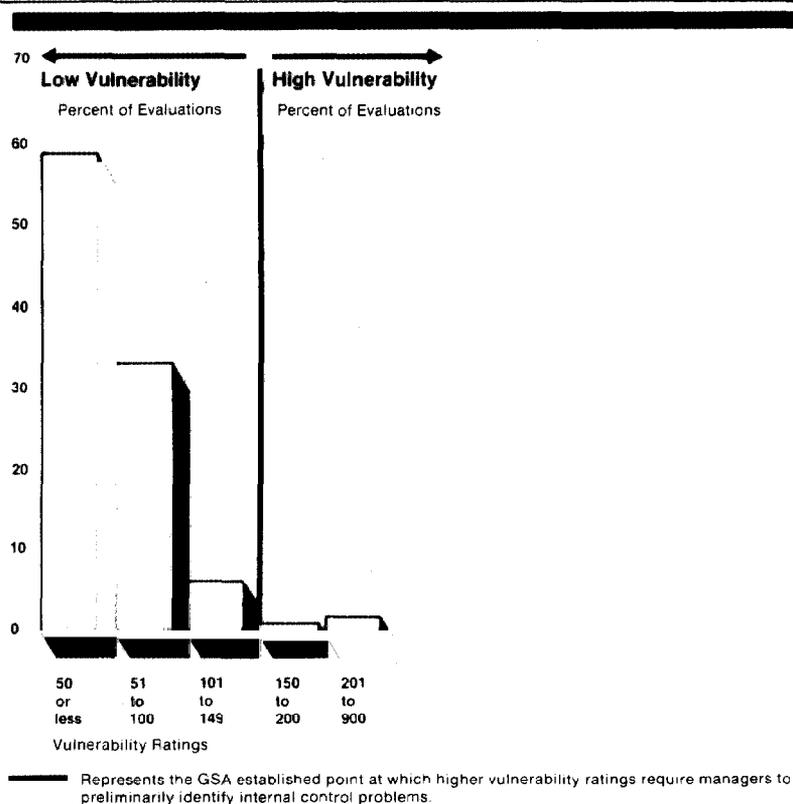
GSA's year-end report covering 1984 operations identified 19 new areas containing 22 significant and material internal control deficiencies in addition to the 40 deficiencies identified during the previous year. To determine if the managers' evaluations identified internal control deficiencies as GSA expected, we identified the program components that carry out the activities and operations corresponding to the 19 areas which GSA reported as having newly identified significant and material deficiencies during 1984. We then analyzed the 196 evaluations done by the managers of those components (22 central office and 174 regional office evaluations).

Only 7 of the 196 evaluations we analyzed, or about 4 percent, identified any of the significant and material internal control deficiencies which GSA reported. Moreover, these 7 evaluations identified only 6 of the 22 reported control deficiencies. For example, none of the applicable evaluations identified the limited separation of duties among leasing program employees or the need for more timely removal of asbestos from GSA-controlled space as problems. Most of GSA's reported deficiencies were identified by means other than the managers' evaluations. Specifically, 8 of the 22 deficiencies were identified by the Offices of Oversight and the Inspector General as a result of their audits and reviews, and 8 were identified from the assurance letters prepared by the heads of GSA services, staff offices, and regional offices. See appendix IV for summary descriptions of the reported deficiencies and sources for their identification.

Furthermore, our analysis showed that GSA cannot rely on the evaluations to identify vulnerability to control deficiencies. Although the 196 evaluations represented components corresponding to the areas that GSA reported contained significant and material deficiencies, the evaluations rarely indicated that the components' controls were potentially vulnerable to such problems.

According to GSA's instructions, managers were to rate the effectiveness with which specified control categories assured that specified performance requirements were met. Although individual control categories could be rated from 0 to 900, GSA required managers to preliminarily identify a control problem warranting further evaluation if a control category was rated 150 or higher. As shown in figure 2.1, only 1.5 percent, or 3 of the 196 evaluations had a control category rated at 150 or more. The majority had ratings indicating very low vulnerability to potential control problems--that is, 92 percent of the evaluations rated no control category greater than 100, and almost 60 percent rated no category greater than 50.

Figure 2.1: Distribution of Certain GSA Manager Evaluations According to Their Highest Vulnerability Rating^a



^a Vulnerability ratings were assigned to the following categories of controls: organizational structure; authority/responsibility relationship; personnel qualifications and development; objectives; communication; resource use; performance measurement and evaluation; criteria, methods, and work processes; reports; records; and safeguarding of assets.

Finally, our analysis showed that GSA cannot rely on the evaluations because they did not generally identify areas that needed further detailed review. GSA's year-end report covering 1984 operations identified 27 areas which warranted an internal control review because of either suspected or known control problems. In general, these areas were identified by the heads of GSA's services and staff offices. Our analysis of the evaluations corresponding to the 27 areas showed that the affected managers recommended an internal control review in only 5 of the 27 areas. Furthermore, of the 1,754 managers' evaluations that we obtained information from during the review, only 1 percent recommended that internal control reviews be done.

VARIOUS FACTORS CONTRIBUTED TO UNRELIABLE EVALUATIONS

In general, managers were not properly prepared to do the evaluation work necessary to identify control weaknesses. The complex evaluation process, viewed by GSA managers as confusing, overwhelming, and difficult to understand, was implemented too late in the fiscal year to provide time for training, doing the evaluations, and instituting quality control checks. Also, many managers who did the evaluations that we reviewed found that the criteria established to evaluate internal controls was too general to assess ADP systems and identify potential control weaknesses. Further contributing to the unreliability of the managerial evaluations is the general perception of GSA managers that the evaluation work is accomplishing little. This perception places the evaluation process at risk of being treated as little more than a paperwork exercise by the managers that GSA expects to do substantive evaluations and to accurately report the results to GSA management. As discussed on page 21, GSA senior officials share our concern about the evaluation process being treated as a paperwork exercise.

Late evaluation implementation hindered the evaluation effort

GSA's late development of the evaluation process left little time for training managers on the complex evaluation methodology, for performing the evaluations, and for instituting quality control checks. Moreover, managers were required to do the evaluations during a particularly busy time--when they have other fiscal year-end reporting and budgeting responsibilities. In addition, much of the training provided to managers was not very helpful because it was too general and because parts of the evaluation instructions were later substantially revised. Consequently, managers had difficulty in understanding and complying with GSA's rather complex evaluation requirements.

In order to prepare the year-end report on the status of its internal controls, GSA established October 1, 1984, as the deadline for completing the evaluation work in the regional

offices. The regional evaluations were then to be consolidated into an overall control evaluation by the central office component managers. By November 16, 1984, the results of this work were to be reported to the Office of Oversight for preparation of the GSA annual report.

Because GSA did not issue evaluation instructions until August 31, 1984, however, little time was available to perform the basic evaluation work in the field offices. For example, the Chicago regional office received the evaluation forms and instructions on about September 5, 1984. The national capital region received evaluation criteria covering one of GSA's five services in mid-September. According to field managers, because of their deadline for completing the evaluations and heavy end-of-fiscal year responsibilities such as budgeting, financial reporting, and operational planning, little time was available to evaluate internal controls. Yet the field evaluations are the foundation on which the overall conclusion regarding the adequacy of service and staff office internal controls is based.

Similarly, time constraints were experienced by regional officials responsible for reviewing the adequacy of the evaluations. For example, in Chicago the official had 1 day to review 176 evaluations and, at the national capital region, the official had less than 2 days to review 138 evaluations. As a result, these reviews were procedural and perfunctory in nature.

Further adding to these time pressures was the need for additional time to properly train managers on the rather complex evaluation methodology. The evaluation instructions were 26 pages long, and the evaluation form was 12 pages long. The consensus of the 39 managers who prepared the 65 evaluations on which we did detailed work in three regions and the central office was that the instructions and forms were unclear, difficult to understand, confusing to read, overwhelming, or inadequate in some way. Some managers complained that they did not have enough time to read and understand all 26 pages of instructions, so they took shortcuts or, as one senior national capital region manager said, the timing of the process forced managers to "blindly" rush to finish their evaluations. In the Chicago region, for example, the regional official responsible for administering the evaluation process in the region found that

" . . . to respond to these extensive complex procedures within a two-week period established a psychology among the region's managers that the central office was not serious about this program."

The training provided to managers within the time available was not sufficient to overcome evaluation complexities. The consensus of central and regional office managers who prepared the 65 evaluations was that the training provided by GSA's central office was not very helpful. They said the training

provided only a general overview of the evaluation process rather than an understanding of the specific requirements that had to be met.

The training provided to Chicago regional office managers illustrates how managers were introduced to the evaluation requirements. Two training sessions were held on August 20, 1984. The first session--a 1-hour briefing to top regional managers--centered on why GSA was evaluating its programs. It did not cover how to do an evaluation and no information handouts were provided.

The second training session--which lasted about 2-1/2 hours--was given to managers responsible for making the evaluations. Draft copies of the evaluation forms were given to the managers and explained with the use of slides. However, the bulk of the presentation was aimed at why GSA is evaluating its programs and what the evaluation process should accomplish. Substantive questions, such as how to make an accurate assessment of vulnerability, were not addressed because written instructions and supporting documents were not available. Managers were informed that details on how to develop ratings would be explained in the final instructions.

The final instructions, however, did not reduce the need for training. As noted previously, most managers found the instructions confusing and difficult to understand. Accordingly, each of the three regions and two services that we reviewed established their own training. Most of the persons providing this training had received some earlier training in preparation for administering the process in their region or service. Their 1-week introduction to the requirements of GSA's process, however, was given in early July 1984, before the evaluation methodology was fully developed. Major segments of the explanatory material used for that training differed substantially from the instructions that were eventually issued on August 31, 1984. Consequently, those persons designated by the services and regional offices to train the managers who would be making the evaluations were not, themselves, fully trained.

Thus, the managers' evaluations often did not comply with GSA's requirements. For example, our review of 65 evaluations done by managers of Federal Supply Service and Public Buildings Service components located in the central office and the Chicago, Kansas City, and national capital regions showed that:

--Fifty-nine did not adequately describe, as required by GSA guidelines, the basis for the vulnerability assessment. Ten of the 59 did not provide any explanation.

--Twenty-two omitted required information on prior evaluations, known deficiencies, or remaining corrective actions.

--Supervisory reviews, to assure that the evaluations were properly done, generally did not identify non-compliance with GSA requirements.

Evaluation criteria too general to identify control problems

Many of the managers who did the evaluations that we reviewed found that the criteria established for evaluating internal controls was too general to assess ADP systems and identify potential control weaknesses.

Evaluations did not adequately consider relevant ADP controls

GSA is highly dependent on its automated systems to carry out its mission and administrative functions. For example, the Federal Supply System supports about \$3.3 billion of annual purchases of supplies and materials and the Public Buildings Service Information System supports about \$2.2 billion spent in the leasing and ownership of federal buildings. It is therefore important for GSA to thoroughly evaluate ADP controls as their quality affects GSA's ability to give reasonable assurance that its systems of internal control are effective and operating as intended.

GSA, however, did not provide its managers with specific instructions or criteria for evaluating ADP controls or documenting such evaluations. Accordingly, each GSA service and staff office was responsible for determining how best to evaluate controls dealing with the management of computer centers and ADP systems--"general controls"--and those dealing with assuring the accuracy and reliability of computer-processed data--"application controls." Our review showed that relevant (1) general controls were overlooked in evaluations by managers of components responsible for computer centers and ADP systems and (2) application controls were overlooked by managers of components supported by ADP systems.⁶

general controls overlooked

Generally, the managers who prepared the Federal Supply Service and Public Buildings Service ADP evaluations told us that they did not specifically consider ADP general controls. Moreover, the documentation supporting the six evaluations that we reviewed did not indicate that the ADP general controls were

⁶Appendix III provides a more detailed discussion on the general and application controls considered during the assignment.

evaluated when appropriate.⁷ For example, the documentation supporting the evaluation of controls at the GSA computer centers did not identify the general controls, such as installation management and system software and hardware controls, for which the centers are responsible. However, the managers who performed the evaluations generally believed that sufficient controls were in place and working.

These managers said they did not specifically evaluate ADP general controls because of the lack of detailed instructions. Most of these managers noted that guidelines established under the current evaluation process did not specifically help them in evaluating or documenting their evaluations.

Some managers told us that they utilized other guidance to supplement their evaluations. This guidance, however, was not sufficiently comprehensive to assure that all relevant general controls were evaluated. For example, the three ADP managers at the Washington, D.C., computer centers assessed physical security by using guidance provided by a different GSA program. However, this guidance does not provide for evaluating other general controls, such as installation management, or software and hardware controls, for which the centers are also responsible.

Similarly, the two ADP managers responsible for evaluating the Office of Information Resources Management's internal ADP systems used guidance developed for performing ADP risk analysis studies which were required by OMB under another program. These risk analyses, however, dealt primarily with security controls over certain ADP systems and certain software and hardware controls: they did not provide for assessments of system design, development, and modification; installation management; or installation security controls.

application controls overlooked

The evaluation of application controls--assuring the accuracy and reliability of computer-processed data--is the responsibility of program component managers. Program component managers are responsible for originating the data, preparing the data for entry into the computer system, and/or receiving and reviewing the output from the system. Our discussions with the 39 GSA managers who did the 65 evaluations in the central office and the Chicago, Kansas City, and national capital regions showed that 54 components were substantially dependent on

⁷Our review of the 6 evaluations covered all ADP related program components in GSA's Federal Supply Service and Public Buildings Service, 2 of 17 automated information service components in the Office of Information Resources Management, and 2 of 4 major GSA computer centers nationwide. Our analysis of each of these evaluations was supplemented by discussions with the affected managers, 14 in all.

computer-processed information and that the managers should therefore be concerned about data accuracy and reliability.

Our review work was largely dependent on our discussions with these managers because evaluation documentation generally did not indicate the ADP controls that were evaluated. Specifically, the documentation did not identify either the ADP application systems, such as the Federal Supply System, or relevant application controls, such as those to assure that only authorized and properly prepared data are entered into the computer or those to assure that data output is complete, accurate, and timely.

Almost half of the evaluations did not consider relevant ADP controls. Of the 54 program components that required ADP support, the managers who conducted 26 of the evaluations stated that they did not consider the relevant ADP application controls. Moreover, the managers that said they did consider ADP controls could not provide us with any supporting documentation. For the most part, they told us that their evaluations were based on their general knowledge of controls and how well they were working.

Central office managers who were responsible for aggregating the information from the regions and summarizing it to provide an overall evaluation of ADP application controls told us that the lack of specific guidance was the primary reason for not, in most cases, considering application controls and documenting their evaluations. They told us that the existing guidance does not clearly specify that ADP application systems should be evaluated, nor does it provide managers with a systematic approach for evaluating and documenting their controls.

Management control matrix is too general to identify potential control weaknesses

By establishing the management control matrix, GSA made a start in tailoring evaluation criteria to the unique characteristics of each component. GSA's managers, in applying the performance requirements and the control categories specified in the matrix, did not, however, identify existing material and significant control deficiencies nor did they indicate that components with such deficiencies were potentially vulnerable to control problems. (See pp. 11 through 13.) In our opinion, this is, in part, attributable to the rather broad and general nature of the performance requirements and control categories.

Of the 21 managers who responded to our questions, 11 indicated that the criteria provided by the matrix is not sufficient for managers to use in finding control problems. For example, one regional Federal Supply Service manager, who had

responsibilities involving inventory management, requisition management, and wholesale supply, told us that the evaluation process will not identify internal control problems because the broadly stated performance requirements do not require managers to "dig" to make an evaluation. The manager cited the following example to make the point. Rather than focusing the evaluation on a control objective--"Are you buying the right amount of stock, at the proper time, from the right source"--the performance requirement calls for evaluating the following:

"Establishes and maintains policies and procedures to assure the establishment, replenishment, and release of personal property through the FSS depot stock program."

The manager said the performance requirement is so broad managers can evaluate their performance as always effective and efficient and not perform the evaluation work needed to determine if control problems are present.

To illustrate this point, a regional Federal Supply Service manager used the evaluation criteria and arrived at a conclusion exactly opposite that of senior GSA management. The regional manager for GSA's centralized discrepancy report center was required to evaluate the following relevant performance requirement and control categories.

<u>Performance requirement</u>	<u>Control category</u>
Establish procedures for civilian activities to report discrepancies in shipments from GSA or Department of Defense wholesale supply systems	Resource use Criteria, methods, and work processes Reports

The regional manager concluded that his operations' performance was always effective and always efficient, and rated the controls in place, on a scale of one (the best) to nine (the worst), a perfect "one." According to the manager, he rated his performance as always efficient because he believed that productivity goals were being met or nearly met and that timely responses were provided on discrepancy reports. Senior GSA managers, however, concluded that the lack of a fully automated discrepancy report system and its accompanying effect on productivity and response to customers constitute a significant control weakness.

Managers saw few tangible benefits resulting from evaluations

The general perception of the GSA managers we interviewed is that little is being accomplished on the basis of the integrity act evaluation work. This perception places the

evaluation process at risk of being treated as little more than a paperwork exercise by the managers that GSA expects to do substantive evaluations and to accurately report the results to senior GSA management.

We discussed the benefits derived from the evaluation process with 37 of the 39 managers who prepared the 65 evaluations that we reviewed. Only 2 of the 37 saw tangible benefits being derived from the evaluation process. Also, managers working in components affected by deficiencies reported in GSA's annual report covering 1983 operations told us they saw few tangible benefits. For example, we interviewed 12 national capital region component managers concerning 11 corrective action plans developed by the central office. None had seen the corrective action plans nor had they been contacted by the central office for input. Moreover, 11 of the 12 managers believed no tangible benefits were being obtained from the process.

Managers may be inherently reluctant to disclose control problems if they are unaware of benefits being obtained from such disclosure. A few of the managers that we spoke with indicated that it was not beneficial to report all they knew about control problems to the Office of Oversight. One manager said that it was far better to resolve problems at the local level than to report the problems up through the organization because unnecessary and continuing paperwork had to be filled out. The following example is one instance where a known deficiency was not reported to the Office of Oversight.

Two regions were not meeting agency standards for timely payment of bills; according to sample data, one region made late payments 50 percent of the time. This problem was known to regional officials and the Comptroller's Office. The problem was not, however, reported to the Office of Oversight for consideration by senior GSA management during deliberations leading to GSA's annual statement on the status of its internal controls. According to an Office of Oversight official, the problems were serious enough to warrant consideration by senior management in preparing that report.

FEW INTERNAL CONTROL REVIEWS WERE COMPLETED

Despite the intended thoroughness of the managerial evaluations, GSA senior officials recognized that the evaluations needed to be supplemented with the more in-depth internal control reviews. These reviews are intended to test the controls of vulnerable systems and may also serve as a validity check on the managers' evaluations of these same areas. Because of GSA's late start in developing its review program, however, only 5 of 41 scheduled reviews were completed in time for consideration in GSA's annual statement on the adequacy of its internal control systems.

In part, this incomplete review coverage is attributable to the late development of review instructions by the Office of Oversight. As of May 1985, GSA had not finalized its guidelines for conducting internal control reviews. Draft guidelines were developed in July 1984, but little training was provided to affected managers. GSA service and staff office managers told us that they were not about to rush into doing the internal control reviews because they believed the guidance would change.

Accordingly, GSA has scheduled 63 internal control reviews for completion during fiscal year 1985. This number includes 36 left uncompleted from 1984 and 27 newly identified ones.

GSA IS REASSESSING ITS EVALUATION PROCESS

GSA acknowledged in its year-end report covering 1984 operations that there were shortcomings in the evaluation process. GSA reported that many of its managers consider implementation of the Financial Integrity Act to be a paperwork exercise and that this view may have skewed the results of the managers' evaluations, making it appear that GSA has greater assurance of proper operations than it really has.

To overcome the paperwork perception problem and to give the services and staff offices more control over the evaluation process, GSA made several changes for 1985. The Office of Oversight has authorized each of GSA's services and staff offices to develop their own internal control evaluation process if they believe a different approach is more appropriate for evaluating their operations. Regardless of the evaluation procedures adopted, however, each service and staff office is tasked with developing improved evaluation criteria (performance requirements specified by the management control matrix under the present system). Specifically, central office managers are to develop a listing of control objectives and control techniques before obtaining field evaluations. The appropriate development of such evaluation criteria, in our opinion, can provide managers a better basis for evaluating the adequacy of existing controls.

Also, to reduce paperwork and provide more control to the services and staff offices, the Office of Oversight changed corrective action reporting requirements. Services and staff offices are no longer required to provide monthly reports on corrective actions. Instead, reporting is to be made on an event cycle basis; that is, when a milestone is met or missed. Also, only the correction of material control deficiencies and not significant control deficiencies are to be monitored centrally.

While we believe evaluation criteria improvements are needed, we caution GSA that the reduced central direction of the

Office of Oversight may be interpreted as a lessening of GSA commitment to a strong Financial Integrity Act effort. GSA-wide commitment is critical to (1) resolving the uncorrected material and significant internal control deficiencies, (2) testing the controls in the areas recognized as potentially having control deficiencies, and (3) performing sufficient evaluation work of good quality and consistency to appropriately determine the adequacy of GSA's control systems.

CONCLUSIONS

GSA did not have an adequate basis for concluding that its systems of control, taken as a whole, met the objectives of the act. GSA is working towards, but has not yet completed, actions to correct the serious control deficiencies already identified. These deficiencies adversely affect agencywide operations and need to be promptly resolved. Moreover, GSA's evaluations were not reliable and few internal control reviews were completed. Thus, GSA has not performed sufficient evaluation work of good quality to be in a position to reliably assess whether adequate controls are in place and working effectively. GSA's late development of the evaluation process left little time for training managers on the complex evaluation methodology, for doing the evaluations, and for instituting quality control checks. These shortcomings and accompanying manager confusion, together with views that little is being accomplished by the evaluation process, place GSA's evaluative effort at risk of being treated as little more than a paperwork exercise.

Concern over GSA's internal control evaluation work being treated as a paperwork formality is shared by some GSA managers and is reflected in GSA's annual report. To address this concern, GSA has passed responsibility for improving evaluation methodology and criteria from the Office of Oversight to the various services and staff offices. Although evaluation criteria improvements are needed, we caution GSA that this step does not negate the need for overcoming the other program weaknesses. Furthermore, it should be made clear to the various services and staff offices that the reduced role of the Office of Oversight should not be interpreted as a lessened commitment by GSA to meeting the goals of the Financial Integrity Act.

RECOMMENDATIONS TO THE ADMINISTRATOR OF GENERAL SERVICES

We recommend that the Administrator of General Services direct the Associate Administrator for Policy and Management Systems to work with the various GSA services and staff offices to

- assure that the evaluation criteria being developed by the service and staff offices identify appropriate control objectives and techniques as the basis for evaluating the adequacy of existing controls;

- develop more explicit guidance covering ADP control evaluations to assure that relevant "general" and "application" controls are appropriately evaluated;
- train managers so that they fully understand the evaluation requirements that they are expected to follow;
- assure that managers are provided increased time to perform internal control evaluations;
- establish quality control checks within the evaluation process to reinforce the need for managers to comply with evaluation requirements;
- provide managers feedback on the results of the evaluation process and benefits obtained; and
- assure the timely completion of the internal control reviews of identified highly vulnerable areas.

AGENCY COMMENTS AND
OUR EVALUATION

In commenting on this report (see pp. 35 to 39), GSA agreed with our recommendations and described actions, taken and planned, to implement them. For example, consistent with our recommendation, GSA has required the services and staff offices to identify control objectives as the basis for evaluating the adequacy of internal controls. GSA also invited our views on the value of its revised management control matrix--the document that identifies the control objectives and techniques to be evaluated by GSA managers.

As stated on page 21, we believe the appropriate development of control objectives through the matrix can provide GSA managers with a better basis for evaluating the adequacy of internal controls. Our opinion is, in part, based on a study performed for GAO by a Task Force of the Association of Government Accountants entitled Financial Reporting On Internal Controls In Government, December 8, 1980. That study reported that the development of meaningful control objectives is critical to the successful performance of a control evaluation. Once the objectives of a control system are identified, an evaluation to determine whether they are being achieved can begin.

The success of such an evaluation process, however, is dependent on the development of control objectives that can serve as benchmarks for reliably determining if they are met. As discussed on pages 18 and 19, the objectives (called performance requirements) used in GSA's fiscal 1984 evaluation process were not developed to the point where they could serve as meaningful benchmarks; they were too general. For example,

the following performance requirement was established for the program component wholesale supply, "Establishes internal storage and distribution procedures." To help assure that control objectives under the revised matrix are appropriately developed, GSA may want to answer questions such as the following:

- Have control objectives been established to deal with the significant risks of program component operations? Examples of such risks in a wholesale supply program component could include (1) inaccurate inventory records, (2) loss of supplies through deterioration or theft, and (3) untimely shipment of supplies to other federal agencies.

- Do established control objectives identify minimum standards of performance or conditions desired and are they measurable? Examples relative to the above risks could include (1) x percent of the inventory records agree with supplies-on-hand as determined by annual physical counts, (2) x percent of supplies are lost because of deterioration and/or theft, and (3) x percent of supplies are shipped within x days of receipt of customer's order.

In general, if control objectives do not identify, whenever practical, minimum levels of acceptable performance or desired conditions as determined by GSA management, little improvement will have been made over the previously used performance requirements.

With respect to ADP matters, GSA agreed in principle with our approach to the evaluation of ADP controls and concurred with our recommendation. GSA agreed to add narrative material relating to ADP general and application controls to its evaluation instructions. If this additional guidance adequately addresses ADP general and application controls and is applied conscientiously, GSA should have the means to sufficiently evaluate and document ADP controls for those GSA program components that contain ADP work processes.

GSA also stated, however, that the managers' evaluations envisioned by OMB are not necessarily meant to be detailed reviews of all controls in any particular system and that the general evaluations required from its managers, if done conscientiously, should be adequate for components that contain ADP work processes.

Our report does not propose that ADP evaluations be done in more detail than evaluations of other program component controls. However, our report recognizes that OMB's December 1982 Internal Control Guidelines require agencies to evaluate their systems of internal control--both manual and automated--to judge whether adequate controls exist and are functioning. Moreover, OMB's 1984 guidance states that agencies must assure

"that proper controls are in place in automated systems themselves, as well as in the management of the ADP function." Accordingly, we believe that during managers' evaluations, ADP controls should be examined in the same depth as other program component controls. As such, the evaluation is dependent on the appropriate identification of ADP control objectives in the management control matrix as discussed earlier.

GSA also stated that our report indicates that the use of ADP risk analyses, required under another OMB program, is not sufficient to meet Financial Integrity Act requirements. GSA stated it believes integrity act reviews should be consolidated with other types of reviews to the extent possible. We agree that other types of reviews should be used to meet the act's requirements whenever possible. However, we believe that the ADP risk analyses done by the Office of Information Resources Management were not comprehensive enough to be a total substitute for managers' evaluations required under the act. By design, the managers' evaluations provide a broader coverage of ADP activities, whereas risk analyses provide indepth, but narrowly focused coverage of specific ADP activities. (See p. 17.) Nevertheless, we recognize that they both assess control and security, and work conducted under each effort may meet some of the evaluation requirements of the other. We therefore agree that GSA should take advantage of other reviews so long as Financial Integrity Act requirements are met.

CHAPTER 3

FURTHER WORK IS NEEDED TO IMPROVE GSA'S ACCOUNTING SYSTEMS

GSA reported that, for fiscal 1984, its accounting systems do not conform to the Comptroller General's requirements. Nonetheless, GSA is making progress in improving its accounting systems in that a number of accounting system problems that adversely affect agency operations have been identified and some have been corrected. Also, longer term efforts to address the remaining more complex problems are underway.

GSA, however, has not yet done sufficient evaluation work to know the extent to which its accounting system problems have been identified. Of 47 accounting systems, 30 have been preliminarily reviewed and none have been sufficiently tested in operation. Such testing is needed to determine whether the systems will detect and reject transactions that are illegal, incomplete, or inaccurate. Although GSA developed an improved evaluation program for 1984, a late start prevented GSA's managers from completing the detailed testing that was scheduled. Furthermore, weaknesses in the design of GSA's systems evaluation program will, in our opinion, limit its future effectiveness in identifying system problems.

GSA IS TAKING ACTION TO BRING ITS ACCOUNTING SYSTEMS INTO CONFORMANCE

In its fiscal 1984 report, GSA concluded that its accounting systems did not conform to the Comptroller General's requirements. In essence, GSA's systems do not always deliver reliable or timely information. Of its 47 systems that account for \$5.5 billion, GSA identified 20 problem areas requiring corrective action; 3 involving material deviations from applicable principles and standards; and 17 containing lesser problems.⁸ To bring its accounting systems into conformance, GSA is working to correct these problems as it worked to successfully correct two problems identified during its first year evaluation effort.

Some instances of nonconformance affect GSA's summary accounting records. GSA considers two systems, the National Electronic Accounting and Reporting System and the Daily Accounting Cycle System in the Office of the Comptroller as

⁸GSA also reported two problems that it identified and corrected during 1984.

having the agency's summary accounting records.⁹ Operation of these systems are adversely affected by two of the three reported material deviations from the Comptroller General's requirements.¹⁰ Specifically,

--Weaknesses in documentation controls for the National Electronic Accounting and Reporting System hinder an understanding of system-related operations (system documentation has not been kept current since inception in 1974) and result in frequent errors, loss of time, and use of staff resources.

--Weaknesses in the financial management systems (data are not fully available, of consistent quality and reliability, and not always available on a timely basis) limit the availability of financial data to support effective decisionmaking throughout the agency.

The other 17 areas of nonconformance that GSA categorized as less than material are comprised of nine problems in the property accounting area and eight in areas such as accounting for intra-GSA transactions, budget activity categories, and cash transactions. Of these, 6 were identified during the 1984 process and 11 remained uncorrected from 1983.

GSA has corrected four areas of nonconformance. Each of these involved problems that were not considered to be material. For example, they involved recording annual leave expenses in the Consumer Information Revolving Fund and properly recording tax withholdings for re-employed annuitants.

One of the material deviations and 10 other areas of nonconformance are scheduled to be corrected by the end of 1985. For example, the National Electronic Accounting and Reporting System documentation effort is being prepared by a contractor and is scheduled for completion by October 1985. Three other areas of nonconformance should also be corrected in October 1985 when the Daily Accounting Cycle System is merged into the National Electronic Accounting and Reporting System.

⁹To establish a single official summary accounting system, GSA plans to merge the Daily Accounting Cycle System into the National Electronic and Accounting Reporting System by October 1985.

¹⁰The third material deviation pertains to the manner in which GSA finances equipment purchases through the General Supply Fund. Instead of immediately reimbursing the fund, GSA finances the purchases over the useful lives of the equipment. The Comptroller General issued a decision stating that this was in violation of applicable legislation. GSA is seeking legislative authority to continue its financing practices.

Progress is also being made in the area of improved financial data reporting as needed accounting policies and procedures manuals are being prepared under contract.

Correction of some areas involve long-term efforts because they relate to large, complex functions. For example, improving financial data is scheduled for completion in 1988 and will involve all organizations within GSA at several management levels. This comprehensive approach is designed to enhance financial administration by linking budget preparation and analysis, accounting policies and procedures, and management reporting and evaluation. Another corrective action, also scheduled for completion in 1988, involves updating the systems to state-of-the-art computer technology.

INSUFFICIENT EVALUATION WORK COMPLETED

GSA developed a new evaluation program, but the evaluations started so late in the year that there was not sufficient time to complete the evaluation steps scheduled for 1984. As a result, none of GSA's accounting systems were sufficiently tested to adequately determine if they were in conformance with the Comptroller General's requirements.

Improvements made to the evaluation program

GSA recognized that certain shortcomings in its evaluation program needed to be overcome before it could embark on a 1984 accounting system evaluation effort. Managers needed better guidance, all accounting systems needed to be evaluated, and systems needed to be tested in operation.

GSA's 1983 evaluation effort consisted of using a checklist questionnaire, reviewing inspector general and GAO audit reports and other available information, and surveying service and staff office executives to identify accounting system weaknesses. The checklist was a restatement of the Comptroller General's requirements and did not provide explanations of how they should be applied in evaluating accounting systems. Furthermore, in implementation, the checklist was to be limited to the systems in the Office of the Comptroller. As a result, 16 of the 38 systems then in GSA's inventory of accounting systems were covered by the process while 22 service and staff office systems were excluded. Moreover, no system testing was performed; the systems were evaluated on the basis of the personal knowledge of the reviewer at the time the questionnaire was completed.

For 1984, the checklist questionnaire was revised to incorporate greater detail. The revised questionnaire helps the reviewer understand the applicability of a principle and standard by including examples of system functions or other attributes with each principle and standard. Moreover, the checklist was to be applied to all 47 accounting systems. Also,

the opinions of affected central and field office managers were surveyed to determine the usefulness of the centralized accounting systems' outputs.

More importantly, for 1984, the checklist questionnaire was to serve as a preliminary review of the accounting systems. All of the 47 systems were scheduled for detailed review--that is, tested in operation--by the end of fiscal year 1986; of these, 7 were scheduled for completion in 1984. Such detailed reviews of the systems were to be conducted by teams consisting of the systems' managers and individuals outside the managers' span of control. The actual testing methods to be used were to be selected by the review teams based on the systems' characteristics and consistent with GSA's established guidelines.

Limited evaluation work performed

GSA produced guidelines for using the checklist questionnaire by mid-September 1984 and detailed review guidelines by mid-October. Because the evaluation work had to be completed by November 30, 1984, however, insufficient time was available for managers to test the accounting systems as planned. Moreover, GSA managers did not complete the preliminary evaluation work of all systems as required; 17 of the 47 accounting systems were not so evaluated.

Although questionnaires are a useful first step to provide managers with a quick overview of agency system operations, they cannot be relied on as the primary means for determining system conformance with the Comptroller General's requirements. As recognized by GSA's newly developed evaluation program, testing a system in operation is the best means for determining system conformance.

GSA's concept of detailed reviews to test systems is good, and its guidelines are consistent with what we would expect to be used. Those guidelines recognize that to determine whether an accounting system conforms to the requirements prescribed by the Comptroller General, it is necessary to review and test the system in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system, and may include (1) interviewing persons who operate the system, (2) observing operating procedures, (3) examining system documentation, (4) applying procedures to live transactions and comparing results, (5) using simulated transactions to directly test computer-based systems, and (6) reviewing error reports and evaluating error followup procedures.

Tests should be designed to disclose whether valid transactions are processed properly, and whether the system rejects invalid transactions. The tests should cover the entire

transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, consideration should be given to the results of any prior system testing.

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

Despite the apparent adequacy of GSA's plans for detailed reviews, little evaluation work was done. GSA managers reported completing detailed reviews of two of the seven systems scheduled. Our work, however, showed that testing was not done on one of these two systems and the testing on the other system was inadequate.

Although the Real Property Receipt System was scheduled for detailed review, only the checklist questionnaire was used. According to GSA personnel in charge of this system's evaluation, the system consists mainly of controls over receipts for sales of government real property and associated data input processes. Testing was not done because the related financial records are maintained by the National Electronic and Accounting Reporting System which will undergo its own system testing. However, GSA should have tested the Real Property Receipt System's controls over data origination and input of collection and deposit transactions. These transactions totaled over \$120 million in fiscal 1984.

The National Archives and Records Service reported that the Service Order Processing System was tested and no weaknesses were identified. In total, five transactions were traced through the system. The transactions were selected to include those that would involve various system processes. However, our review showed that the system was not tested to determine the system's capability for identifying and rejecting invalid transactions--a critical component of system testing.

To illustrate the importance of such testing, the GSA inspector general's testing revealed that the Telephone Inventory Accounting System could neither detect duplicate billings made by the commercial telephone company nor verify billings for lines in use. The inspector general reported that GSA was paying nearly \$2 million for duplicate invoices and unused telephone lines. These problems could not have been identified by using the checklist questionnaire because, before the audit, the problems were not known by the personnel who prepared the questionnaire responses.

The remaining five systems scheduled for detailed review in 1984 were still being evaluated at year end. One of the five systems was being reviewed under contract and there was insufficient time for contract award, contractor performance, and reporting before the end of the year. Two of the five systems were being audited by the inspector general at the time they were selected for evaluation by management. It was therefore decided to use the results of the audits, when finished, as a substitute for the two detailed reviews. The remaining two systems were not completed because of the limited time and staff available to do the work. Therefore, the final results were not available to GSA officials for consideration during preparation of GSA's annual report on accounting system conformance.

Furthermore, the adequacy of ADP controls affecting GSA's accounting systems is unknown, because, as discussed in chapter 2, ADP controls were not adequately evaluated. Of GSA's 47 accounting systems, 36 were recognized by GSA officials as having major automated processes. Because of the potential for inaccurate accounting data, ADP controls must be evaluated to determine whether the accounting system conforms with the Comptroller General's requirements.

WEAKNESSES IN GSA'S EVALUATION PROGRAM

Our review also identified two weaknesses in GSA's accounting system evaluation program design that limit the effectiveness of GSA's evaluations. GSA needs to (1) evaluate accounting system functions carried out by the regional offices and (2) review the quality of completed evaluations.

Regional accounting system evaluations needed

GSA's regional offices perform several accounting activities. These activities range from properly accounting for accounts receivable to performing accounting functions, such as payroll, for the entire agency. Also, these regional accounting functions frequently provide input to GSA's centralized accounting systems. During 1984, however, these regional functions were neither preliminarily reviewed using the questionnaire checklist nor tested in operation.

The results of a recent GAO audit illustrate the need for GSA to examine all regional office accounting functions. Our evaluation and testing of accounting functions in four of GSA's eight regional accounting stations identified significant internal control weaknesses that reduce the reliability of GSA's

accounting data.¹¹ These include problems in controlling accounts receivable, collections, disbursements, and obligations that can cause accounting systems to be in nonconformance with the Comptroller General's requirements. The specific weaknesses included:

- \$6.5 million, or 44 percent, of nonfederal accounts receivable were delinquent;
- collections were not properly recorded or safeguarded and collection duties were not properly segregated; and
- disbursement documents were not adequately reviewed before payment.

While GSA reported that most of these weaknesses have been corrected, all regional operations should be evaluated (including being tested during operation) to determine if their accounting functions are operating properly.

Quality control checks needed

The Office of Oversight was responsible for the quality control function; however, it did not adequately oversee the evaluation methods used by the services and staff offices to ensure that the work was of good quality.¹² For the most part, the Office of Oversight relied on documents prepared by the services and staff offices which reported the results of the evaluations. These reports then served as the basis for determining overall agency conformance with the Comptroller General's requirements.

GSA needs an effective quality control check in the evaluation process. As discussed earlier (see p. 30), one of the two detailed reviews did not include testing of the system's capability to reject invalid transactions as required by GSA's guidelines, and the other did not include any testing. Furthermore, GSA's year-end report was prepared, in part, on the basis that all 47 accounting systems were evaluated by managers using the checklist questionnaire. However, our review showed that 17 of the systems were not so evaluated. A quality review function would help ensure that GSA's evaluation requirements are complied with. Such a quality review effort was recognized as being needed by GSA in its year-end report.

¹¹Internal Control Weaknesses at GSA (GAO/AFMD-84-27, June 1, 1984).

¹²During May 1985, responsibility for accounting system evaluation and reporting was transferred to the Office of the Comptroller.

Additionally, a quality review function may serve as a check to assure that all internal control weaknesses identified by GSA managers are considered when accounting system conformance is determined. Some internal control weaknesses that affect the operation of accounting systems were not identified as areas of nonconformance in GSA's year-end report under section 4 of the act. Such examples include

- inaccurate inventory, billing, and payment for agency telephone services in the Telephone Inventory Accounting System and
- ineffective agency-wide implementation of ADP security program policies and standards.

Identifying all significant internal control weaknesses that affect the operation of accounting systems will more accurately disclose the status of GSA's systems conformance with the Comptroller General's requirements.

CONCLUSIONS

GSA is making progress in improving its accounting systems. GSA identified a number of accounting system problems that adversely affect agency operations, corrected some of these, and scheduled longer term efforts to address the remaining more complex problems. Until GSA progresses further in implementing its revised system evaluation program, however, the full extent of its accounting system problems will not be known. Therefore, it is important that GSA adhere to its plans to test its systems by the end of fiscal year 1986. Furthermore, GSA needs to refine its revised accounting system evaluation program to improve its effectiveness.

RECOMMENDATIONS TO THE ADMINISTRATOR OF GENERAL SERVICES

We recommend that the Administrator of General Services direct the Comptroller to work with the various services and staff offices to ensure that

- evaluation schedules for testing accounting systems in operation are adhered to;
- accounting system functions carried out by the regional offices are evaluated; and
- accounting system evaluations are reviewed for quality.

AGENCY COMMENTS AND
OUR EVALUATION

GSA is in general agreement with our recommendations and stated that it has either taken actions to implement corrections or plans to do so. (See pp. 35 to 39.) With respect to our recommendation calling for adherence to evaluation schedules for testing accounting systems in operation, GSA stated that it had developed revised evaluation guidelines because of the issuance of OMB Circular A-127 entitled Financial Management Systems. That circular, in part, requires the detailed evaluation of accounting systems, including testing, on a cyclical basis. Such evaluations, if properly done, will fulfill the intent of our recommendation provided that GSA adheres to its 3-year evaluation cycle established in accordance with the circular. As demonstrated in our report, GSA did not meet its prior schedule for testing systems in operation.

Also, GSA stated that, during the coming year, it will continue to review and strengthen its evaluations to produce quality work. GSA believes that the transfer of the system evaluation responsibility to the Office of the Comptroller is a step toward quality control because of the Comptroller's technical experience with accounting systems. We agree that technical knowledge of systems could help improve assessment quality. However, the Comptroller should establish quality checks in the system evaluation process to help ensure that the review results are reliable and to prevent the conditions we reported. For example, our report showed that internal control weaknesses in the services and staff offices which affect the operation of accounting systems were not identified as areas of nonconformance with the Comptroller General's accounting principles, standards, and related requirements.

ADVANCE COMMENTS FROM THE
GENERAL SERVICES ADMINISTRATION



Administrator
General Services Administration
Washington, DC 20405

September 26, 1985

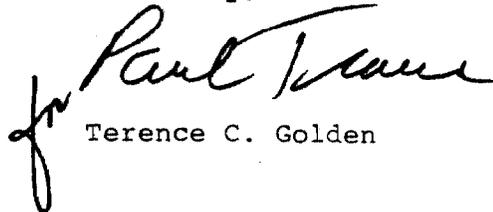
Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

We have reviewed your draft report, dated August 16, 1985, of the General Services Administration (GSA) FY 1984 implementation of the Federal Managers' Financial Integrity Act (FMFIA). We are in general agreement with your recommendations and, throughout the course of this year, completed actions which have already led to many of the corrections recommended. The attachment explains in specific terms how improvements for implementing both Sections 2 and 4 of the FMFIA have already addressed most of the recommendations you are now making.

Thank you for the opportunity to review the draft report. We appreciate the time and effort your staff expended in compiling the report, and we look forward to working with them throughout the course of next year's FMFIA process. If you have questions, please contact Anthony Artigliere, Director of Program Oversight, on 535-8089.

Sincerely,


Terence C. Golden

Enclosure

ADVANCE COMMENTS FROM THE
GENERAL SERVICES ADMINISTRATION

Draft GAO Audit

GSA'S SECOND YEAR IMPLEMENTATION OF THE FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT: FURTHER PROGRESS NEEDED TO ASSURE
INTERNAL CONTROL AND ACCOUNTING SYSTEM ADEQUACY

COMMENTS ON SPECIFIC RECOMMENDATIONS

GAO Recommendation: Assure evaluation criteria contain control objectives and techniques.

Comment: We concur in the importance of documenting and using control objectives and techniques in our evaluations.

Action Already Taken: We are working actively to implement this recommendation, and we have already made progress in strengthening our evaluation procedure. The management control matrix (catalogue), which forms part of the basis of the management control evaluations, has been revised to include control objectives and techniques. Current agency policy, published in March 1985, requires Central Office managers to provide a list of control objectives and techniques to any operations managers from whom they require input for a Management Control Evaluation (MCE). Our standard MCE process, originally used during this year's cycle, requires our managers to use control objective information prior to developing their vulnerability assessment, whether or not they are requiring input from operations managers. We invite GAO's views on the value of the matrix as a management tool.

Planned Action: Maintain and update, as necessary, the Management Control Matrix and use it in Management Control Evaluations.

GAO Recommendation: Develop more explicit guidance covering ADP control evaluations under this program.

Comment: We concur in principle in GAO's approach to the evaluation of ADP controls under this program. However, we feel that the vulnerability assessments (VA's) envisioned by OMB are not necessarily meant to be detailed reviews of all controls in any particular system or type of system. The general evaluations provided for by the VA/MCE process, if they are applied conscientiously, should be as adequate for those GSA program components that contain ADP work processes as they are for those components that do not.

On a related note, we believe that, as much as possible, we should consolidate FMFIA reviews with other types of reviews. The GAO audit report indicates that the use of ADP risk analysis studies, required under another OMB program, are not sufficient to meet the FMFIA requirements.

ADVANCE COMMENTS FROM THE
GENERAL SERVICES ADMINISTRATION

Specifically, GAO feels that the risk analyses done by the Office of Information Resources Management (OIRM) did not provide for assessments of system design, development, and modifications; installation management; or installation security controls. We feel that the OIRM reviews, as long as they include a broad evaluation of controls within the program component, should have served to meet the VA requirement as well as other OMB review requirements. Nonetheless, the GAO point that the process should be strengthened is well taken, and GSA will continue to work toward this goal while concurrently using the same analyses to serve as many purposes as possible.

Planned Action: We will add to our MCE and MCR instructions narrative material relating to general and application controls, to ensure that program component managers consider ADP matters in their evaluations.

GAO Recommendation: Train managers.

Comment: We agree that training is a vital aspect of the program.

Action Already Taken: We have prepared a handbook covering all aspects of GSA's Management Control Improvement Program, including introductory material on the concept of control. Because the handbook is comprehensive, and because it provides for a simpler process than was used in the 1984 cycle, we have revised our approach to the issue of training.

Planned Action:

- Once the handbook is distributed, we will publicize the availability of training in various aspects of the program.
- We will stress to our senior managers the availability for their subordinate managers of training that is available to supplement GSA's internal training efforts, such as Office of Personnel Management courses in management. Many of these, including "Basic Management Techniques," cover the concept of control as an essential management function.

GAO Recommendation: Provide managers increased time to perform management control evaluations.

Comment: We agree that sufficient time should be provided for this process and we have taken steps to ensure timely evaluations.

ADVANCE COMMENTS FROM THE
GENERAL SERVICES ADMINISTRATION

GAO Recommendation: Establish quality control checks within the evaluation process.

Comment: We concur in the importance of quality control in this program.

Action Already Taken: We have built into this year's process a requirement for reports regarding the work that managers throughout the agency are doing, the approach that they are taking regarding MCE's, and how their work is progressing. We are involving the Office of the Inspector General, with its expertise in quality assurance, in as much of this type of work relating to the FMFIA as possible.

Planned Action: We will analyze the results of this year's process and develop an appropriate quality control program.

GAO Recommendation: Provide managers feedback on the results of the evaluation process.

Comment: We agree that it is important for managers to be aware of the end result of their evaluations.

Action Already Taken: By decentralizing the GSA process this year, we hope to have reinforced the feedback concept. Instead of managers preparing forms that are to be submitted to the Office of Oversight, they are preparing forms whose sole purpose is to help them identify control deficiencies in their own area, and form the basis for their own assurance statement and corrective action plans. Thus they, in and of themselves, provide a measure of feedback on the results of their own evaluations.

Planned Action: We will analyze the results of this year's process to determine if additional feedback mechanisms are needed.

GAO Recommendation: Assure timely completion of internal control reviews.

Comment: Management Control Reviews (MCR's) are an integral part of GSA's Management Control Improvement Program. We agree that they need more emphasis if the program is to be fully successful.

Action Already Taken: The new form for documenting management control reviews (MCR's) requires that managers commit themselves to a completion date for the review. Prior to the availability of this form, MCR plans had to be documented in terms of several milestones. Throughout the year, HSSO's have been advised of the importance of MCR's.

ADVANCE COMMENTS FROM THE
GENERAL SERVICES ADMINISTRATION

Planned Action: We intend to continue to emphasize the importance of Management Control Reviews.

GAO Recommendation: Adhere to evaluation schedules for testing accounting systems in operation.

Comment: The issuance of OMB Circular A-127 altered the direction of the financial system review program and required development of revised evaluation guidelines.

Action Already Taken: GSA has conducted detailed reviews that include testing systems in operation. These reviews included the National Electronic Accounting and Reporting (NEAR) System common processes (which was begun in FY 1984), the NEAR Federal Buildings Fund, and the Payroll Information Processing System (PIPS).

Planned Action: Future detailed reviews are planned which will give consideration to the testing criteria adopted by OMB ("Guidelines for Evaluating Financial Management/Accounting Systems," Appendix H, May 20, 1985).

GAO Recommendation: Evaluate accounting system functions carried out by the regional offices.

Action Already Taken: GSA conducts regional reviews of accounting operations within the regional Finance Division. These reviews include accounts receivable and payable and accounting control. Also, we have recently conducted surveys of certain service accounting interface systems at the National Capital Region. We recognize that additional work must be done in this area.

Planned Action: We will be expanding our review process to include the regional functions where appropriate.

GAO Recommendation: Review accounting system evaluations for quality.

Action Already Taken: GSA has already moved in this direction. As noted in your report, during May 1985, responsibility for accounting system evaluation and reporting was transferred to the Office of the Comptroller. This office has day-to-day technical experience with the accounting system (NEAR) and, therefore, will be able to more easily relate the accounting interface systems of the services and staff offices to it in order to make sure that the overall agency conforms with appropriate accounting requirements.

Planned Action: During the coming year, we will continue to review and strengthen our evaluations.

DESCRIPTION OF GSA MANAGER EVALUATIONS SELECTED FOR REVIEW BY GAO

Table II.1: Listing of the GSA Manager Evaluations Selected for Review by GAO

Service	Program	Program Component	Evaluations by Location			
			Central Office	National Capital Region	Chicago Region	Kansas City Region
Office of Federal Supply and Services	Supply	Inventory management	X	X	X	X ^a
		Requisition management	X	X	X	X ^a
		Self-service store	X	X	X	X
		Customer supply center	X	X	X	X
		Wholesale supply	X	X	X ^a	X
	Property Management	Utilization	X	X		X
		Donation	X	X		X
		Sale	X	X		X
		Financial management ^b	X	X		X
		Data systems management ^b	X	X	X	X
		Procurement management ^b	X	X		X
		Procurement support ^b	X	X		X
		Procurement operations ^b	X	X		X
		Quality assurance ^b	X	N/A ^c	N/A ^c	N/A ^c
		Contract administration ^b	X	X ^a	X	N/A ^c
Public Buildings Service	Leasing	Appraisal	X	X	X	X
		Lease acquisition	X	X	X	X
		Lease alterations	X	X	X	X
		Total Evaluations	18	18	11	18

^aTwo evaluations were prepared and reviewed for this program component.
^bComponent supports the supply and property management programs.
^cFunction not performed at this location.

DESCRIPTION OF ADP GENERAL
AND APPLICATION CONTROLS COVERED
BY THE GAO ASSIGNMENT

GENERAL CONTROLS

To determine the extent to which GSA managers evaluated ADP controls dealing with the management of computer centers and ADP systems--"general controls"--we compared the results of certain managerial evaluations with evaluation guidance published by OMB¹³ and GAO.¹⁴ This guidance calls for reviews of the following types of general controls:

- organizational controls for the ADP unit, such as those to assure that policies and procedures are clearly defined, personnel duties and responsibilities are adequately separated, and personnel are properly skilled and supervised;
- system design, development, and modification controls, such as those to assure that ADP systems are properly authorized, designed, developed, tested, documented, and approved by both ADP users and ADP systems managers;
- installation management controls, such as those to assure that computer operations are efficient, effective, and limited to authorized purposes;
- installation security controls, such as those to assure that adequate physical security over the computer facilities is present, access to computer operations is restricted to authorized personnel, and back-up data files and programs are available in the event of an unanticipated disaster or interruption; and

¹³Executive Office of the President, Office of Management and Budget, Questions and Answers on Circular A-123 (Revised) (Aug. 1984).

¹⁴General Accounting Office, Evaluating Internal Controls in Computer-Based Systems--Audit Guide (June 1981).

--system hardware controls, such as those to assure the detection of data lost during processing, and system software controls, such as those to assure that all system software changes are properly documented, tested, and approved before implementation.

Our review covered the one evaluation of two GSA computer centers in Washington, D.C., and five other evaluations of computer systems. These 6 evaluations covered 2 of 4 major GSA computer centers nationwide, all ADP related program components in GSA's Federal Supply Service and Public Buildings Service, and 2 of 17 automated information service components in the Office of Information Resources Management. Our analysis of each of these evaluations was supplemented with discussions with the affected managers, 14 in all.

APPLICATION CONTROLS

To determine the extent to which GSA managers of components supported by ADP systems evaluated relevant ADP "application controls"--those essentially dealing with assuring the accuracy and reliability of computer-processed data--we compared the results of certain managerial evaluations with the previously cited evaluation guidance published by OMB and GAO. This guidance calls for reviews of the following types of application controls:

- controls over data origination, such as those to assure that source documents are authorized, complete, accurate, properly accounted for, and transmitted in a timely manner for input to the computer system;
- controls over data input, such as those to assure that only authorized and properly prepared data are entered into the computer system;
- controls over data processing, such as those to assure that data are not lost or modified during computer processing; and
- controls over data output, such as those to assure results of computer processing (reports and data files) are complete, accurate, authorized, consistent, and properly and timely distributed to users.

The scope of this segment of our work was limited to analyzing the 65 managerial evaluations of 18 program components located in GSA's central office and in its Chicago, Kansas City,

and national capital regional offices. Our discussion with the 39 affected managers showed that 54 of the evaluations involved components that were substantially dependent on computer-processed information.

The evaluation of application controls is the responsibility of such program component managers, not computer center managers. Program component managers are responsible for originating the data, preparing the data for entry into the computer system, and/or receiving and reviewing the output from the system.

Table IV.1: Internal Control Deficiencies Identified
By GSA in Fiscal 1984 According to Source^a

Material and Significant Deficiencies Reported by GSA	Senior Mgt. Review Committee ^b	Service & Staff Office Assurance Letters	Central Office Evaluation	Regional Administrator Assurance Letters	Regional Evaluation
1. Strategic Planning: Absence of an agencywide strategic plan on which to base development of appropriate control objectives and standards.	X				
2. Performance Measurement: Absence of a means to measure agency performance against control objectives and standards.	X		X		
3. General Supply Fund: Financing operating and administrative equipment purchases through the General Supply Fund without legislative authority.	X			c	c
4. Space Acquisition: Need for a strategy for achieving the optimal mix (lease or purchase) of real property as a result of the expected nationwide surge in expiring leases during the period 1986-1990.	X				
5. ADP Security: Ineffective implementation of policies, standards, and compliance assurance associated with the agencywide ADP security program.	X	X		x ^d	
6. Asbestos Abatement: Need to contain and/or remove asbestos from identified GSA controlled space in a timely manner.	X				

DESCRIPTION OF INTERNAL CONTROL DEFICIENCIES IDENTIFIED IN GSA'S ANNUAL REPORT FOR FISCAL 1984

44

Table IV.1: Internal Control Deficiencies Identified
By GSA in Fiscal 1984 According to Source^a

Material and Significant Deficiencies Reported by GSA	Senior Mgt. Review Committee ^b	Service & Staff Office Assurance Letters	Central Office Evaluation	Regional Administrator Assurance Letters	Regional Evaluation
7. Real Property Appraisal Quality: Existing standards and controls are insufficient to ensure appraisals are timely and developed in a manner sufficiently independent to support objective and cost-effective decisionmaking.	X	X			
8. Employee Fraud and Abuse Awareness: There is a need to strengthen employee awareness responsibilities to prevent fraud, waste, and abuse, and mismanagement of resources.	X		X		
9. Contracting Officer Training: The minimum levels of contracting officer training are not being met.	X				e
10. Leasing Program: Multiple deficiencies cited					
(1) Inadequate training of the lease acquisition and administration employees.	X	X	f	x ⁹	
11. (2) Noncompliance with GSA rules by other Federal agencies having delegated leasing authority.	X	X	f		
12. (3) Limited separation of duties among leasing employees.	X				

DESCRIPTION OF INTERNAL CONTROL
DEFICIENCIES IDENTIFIED IN GSA'S
ANNUAL REPORT FOR FISCAL 1984

DESCRIPTION OF INTERNAL CONTROL DEFICIENCIES IDENTIFIED IN GSA'S ANNUAL REPORT FOR FISCAL 1984

Table IV.1: Internal Control Deficiencies Identified
By GSA in Fiscal 1984 According to Source^a

Material and Significant Deficiencies Reported by GSA	Senior Mgt. Review Committee ^b	Service & Staff Office Assurance Letters	Central Office Evaluation	Regional Administrator Assurance Letters	Regional Evaluation
13. Space Assignment: Government space requirements are not being met on an adequate or timely basis.	X	X			
14. Building Operations: Multiple deficiencies cited.					
(1) Insufficient inspection to assure custodial services fully meet contract specifications.	X	X	f		
15. (2) Existing delegation of authority to tenant agencies too restrictive to assure timely space alterations.	X	X	f		
16. Repair and Alteration: Current policies and procedures are not sufficient to ensure sound program, project, and financial management.	X	X	x ^h		
17. Government Cost Estimates: Contracts have been entered into without the benefit of sound cost estimates.	X	i	j		
18. Commodity Management: Outdated procurement operating procedures do not assure uniform processing of deviation requests or compliance with policies or intended operations.	X	X	x ^h		

Table IV.1: Internal Control Deficiencies Identified
By GSA in Fiscal 1984 According to Source^a

<u>Material and Significant Deficiencies Reported by GSA</u>	<u>Senior Mgt. Review Committee^h</u>	<u>Service & Staff Office Assurance Letters</u>	<u>Central Office Evaluation</u>	<u>Regional Administrator Assurance Letters</u>	<u>Regional Evaluation</u>
19. Requisition Management: Lack of a fully automated discrepancy report processing system affects productivity and response to customers.	X	X	x ^h		
20. Property Management: Need better controls to safeguard proceeds from spot bids and auction sales as well as personnel involved.	X	X	x ^h		x ^g
21. Self-Service Store Inventory: Inaccurate and unreliable inventory balances in the use and application of the line item accountability ADP system.	X	k	k	x ^d	
22. Telephone Bill Validation: Current inventory, billing, and payment procedures do not assure that only equipment and services ordered are paid for.	X				
TOTAL	<u>22</u> ===	<u>11</u> ===	<u>6</u> ==	<u>3</u> ==	<u>1</u> ==

DESCRIPTION OF INTERNAL CONTROL
DEFICIENCIES IDENTIFIED IN GSA'S
ANNUAL REPORT FOR FISCAL 1984

Table IV.1: Internal Control Deficiencies Identified
By GSA in Fiscal 1984 According to Source^a

NOTES:

^aOur criteria for determining whether the management control evaluation correctly identified the GSA-reported deficiency as a control deficiency was as follows: First, we reviewed the vulnerability section of the evaluation. According to evaluation instructions, managers were to make a preliminary decision as to whether a control deficiency or potential deficiency existed by checking a block to indicate where they believed a deficiency may exist and to generally describe the deficiency. Second, we reviewed the control deficiency identification section of the evaluation. Managers were required to complete this section after making the preliminary decision so that a control deficiency could be more definitively pinpointed. If the description of the deficiency in either section of the evaluation approximated the deficiency cited in GSA's annual report, the evaluation was credited with identifying the deficiency even if the two sections of the evaluation were contradictory.

^bThe reported deficiencies identified only in this column and in no others were identified by the Inspector general and/or Office of Oversight. In accordance with their responsibilities, the Senior Management Review Committee discussed these deficiencies along with others to determine which ones should be reported to the President and Congress.

^cNot applicable, is only a central office component.

^dReported by 2 of the 11 regions.

^eOne region noted a regional problem with personnel qualifications and development, but no further explanation was reported.

^fEvaluation identified no deficiencies, but reported improvement plans in the area of the deficiency reported by GSA.

^gReported by 1 of the 11 regions.

^hContradictory information contained in file; vulnerability assessment reports no deficiencies while the internal control deficiency report, which should only be completed if the vulnerability assessment reports a deficiency, indicates the presence of the reported control deficiency.

ⁱScheduled an internal control review to evaluate for deficiencies.

^jEvaluation file recommended that a study (internal control review) be performed to determine if there are problems.

^kEvaluation file indicated that an internal control review of the area was being performed. This was one of the 41 planned internal control reviews to be done in 1984.



32588.

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300

**BULK RATE
POSTAGE & FEES PAID
GAO
PERMIT No. G100**