



GAO

Accountability • Integrity • Reliability

United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-284458

January 27, 2000

The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Subject: Financial Management: Information on Agencies' Fiscal Years 1997 and 1998 FFMIA Remediation Plans

Dear Senator Lieberman:

This letter responds to your request for details on agency remediation plans for fiscal year 1997, as required by the Federal Financial Management Improvement Act of 1996 (FFMIA). You also asked which agencies have submitted remediation plans for fiscal year 1998. FFMIA requires auditors for each of the 24 major departments and agencies named in the Chief Financial Officers (CFO) Act to report, as part of their audit report on the agencies' annual financial statements, whether the agencies' financial management systems comply substantially with three requirements: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level.

FFMIA also requires an agency head to determine, based on a review of the auditor's report on the agency's financial statements and any other relevant information, whether the agency's financial management systems substantially comply with FFMIA's requirements. If the agency head determines that the systems do not substantially comply, FFMIA requires that the agency head, in consultation with the Director of the Office of Management and Budget (OMB), establish a remediation plan to bring the systems into substantial compliance with the act's requirements.

According to OMB guidance, and as required by the act, remediation plans are to include corrective actions, intermediate target dates, and resources necessary to achieve substantial compliance with FFMIA's requirements within 3 years of the date the noncompliance determination is made. If, with the concurrence of the Director of OMB, the agency head determines that substantial compliance cannot be reached within 3 years, the remediation plan must specify the most feasible date by which the agency will achieve compliance and designate an official responsible for effecting the necessary corrective actions. Per OMB

guidance.¹ agencies are to include remediation plans in their annual agency financial management status report and 5-year plans, which are to be submitted to OMB in September of each year.

The act also requires that we report annually on FFMIA implementation. In our most recent report on agencies' compliance with FFMIA,² we presented an assessment of agencies' fiscal year 1997 remediation plans.³ We reported that for at least 12 of the 18 remediation plans we reviewed, it was questionable whether the corrective actions, if successfully implemented, would bring the agencies' financial management systems into compliance with FFMIA's requirements. This letter contains information on (1) our assessments of agencies' fiscal year 1997 remediation plans and (2) the reported status of agencies' fiscal year 1998 remediation plans as of January 21, 2000.

Assessment of Fiscal Year 1997 Remediation Plans

In their fiscal year 1997 audit reports, auditors for 20 of the 24 CFO agencies reported that the agencies' financial management systems did not substantially comply with FFMIA's requirements. Of those 20 agencies, 2 agencies—the Department of State and the Social Security Administration (SSA)—did not submit remediation plans to OMB. The Department of State has since contracted for the preparation of a remediation plan to address problems with its financial management systems identified in fiscal year 1997. SSA did not submit a remediation plan to OMB because SSA management determined that its systems were in substantial compliance with FFMIA. However, SSA provided comments, including corrective actions, in response to the auditor's recommendations.

In our October 1999 report on agencies' compliance with FFMIA, we reported that based on our review of the 18 available remediation plans for fiscal year 1997, it is uncertain whether some of the corrective actions in at least 5 of the plans will resolve the problems that caused the agencies' systems not to be in substantial compliance with FFMIA. Seven other remediation plans did not contain key information to adequately assess the plans. Specifically, four of these plans did not contain corrective actions for all instances of noncompliance, nor did they contain sufficient information on target dates or resources. The other three plans contained corrective actions for all instances of noncompliance; however, the information on target dates and the resources needed to implement the corrective actions was insufficient. Without this key information, it is difficult, if not impossible, to determine whether the corrective actions are realistic and if the target dates are reasonable. For the six remaining plans, we determined that, if successfully implemented, the corrective actions may resolve the agencies' problems.

¹OMB issued this guidance on July 1, 1998, as part of Circular A-11 guidance.

²*Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1998* (GAO/AIMD-00-3, October 1, 1999).

³Fiscal year 1997 remediation plans, addressing instances of noncompliance with FFMIA identified in financial statement audits covering fiscal year 1997, were due to OMB in September 1998. Remediation plans covering fiscal year 1998 instances of noncompliance were due to OMB in September 1999.

Because several of these agencies' remediation plans included developing new core financial management systems to replace noncompliant systems, monitoring implementation of the plans will be very important. The federal government has historically had problems, including huge cost overruns and limited improvement in performance, when designing and implementing major information technology projects. Table 1 characterizes the remediation plans of the 18 agencies as being in three groups.

Table 1: Assessment of Agencies' Fiscal Year 1997 Remediation Plans

Assessment of agencies' remediation plans		
Remediation plan, if implemented, may resolve problems	Uncertain whether remediation plan will resolve problems	Remediation plan did not contain sufficient key information on corrective actions, resources, and/or target dates
Department of Agriculture	Department of Health and Human Services	Department of Commerce
Department of Education	Department of the Interior	Department of Defense
Department of Transportation	Department of the Treasury	Department of Housing and Urban Development
Environmental Protection Agency	Department of Veterans Affairs	Department of Justice
Nuclear Regulatory Commission	Agency for International Development	Department of Labor
Small Business Administration		Office of Personnel Management
		Federal Emergency Management Agency
Total	6	7

As requested, the enclosure presents more information on our assessments, as of May 1999, of the remediation plans of the 12 agencies listed in the second and third columns of table 1.

Status of Fiscal Year 1998 Remediation Plans

In their fiscal year 1998 audit reports, auditors for 21 of the 24 CFO agencies reported that the agencies' financial systems did not substantially comply with FFMIA's requirements. Agencies were to submit remediation plans addressing instances of noncompliance with FFMIA identified in financial statement audits covering fiscal year 1998 to OMB in September 1999. Table 2 summarizes the auditors' determinations of substantial compliance with the requirements of FFMIA for fiscal year 1998 and the status of the agencies' fiscal year 1998 remediation plans, as of January 21, 2000.

Table 2: Summary of Auditors' FFMIA Determinations and Status of Agencies' Fiscal Year 1998 Remediation Plans as of January 21, 2000

Agency	Auditor's determination of substantial compliance in fiscal year 1998		Status of fiscal year 1998 remediation plan
	Yes	No	
Department of Agriculture		X	Submitted to OMB in January 2000.
Department of Commerce		X	Submitted to OMB in January 2000.
Department of Defense		X	Submitted to OMB in January 2000.
Department of Education		X	Submitted to OMB in October 1999.
Department of Energy	X		Plan not required.
Department of Health and Human Services		X	Draft plan submitted to OMB in October 1999. Final plan submitted in January 2000.
Department of Housing and Urban Development		X	Initially submitted to OMB in September 1999. Plan being revised.
Department of the Interior		X	Submitted to OMB in September 1999.
Department of Justice		X	Submitted to OMB in October 1999.
Department of Labor		X	Submitted to OMB in November 1999.
Department of State		X	Plan not submitted yet.
Department of Transportation		X	Submitted to OMB in October 1999.
Department of the Treasury		X	Plan not submitted yet. ^a
Department of Veterans Affairs		X	Submitted to OMB in September 1999.
Agency for International Development (AID)		X	On December 17, 1999, OMB requested that AID revise its fiscal year 1997 plan for fiscal year 1998.
Environmental Protection Agency (EPA)		X	Plan not submitted yet. ^b
Federal Emergency Management Agency (FEMA)		X	No plan to be submitted for fiscal year 1998. ^c
General Services Administration		X	Plan not submitted. ^d
National Aeronautics and Space Administration	X		Plan not required.
National Science Foundation	X		Plan not required.
Nuclear Regulatory Commission		X	Submitted to OMB in September 1999.
Office of Personnel Management (OPM)		X	Plan not submitted. ^e
Small Business Administration (SBA)		X	No plan to be submitted for fiscal year 1998. ^f
Social Security Administration		X	No plan prepared. ^g
Totals	3	21	

^aAccording to a Treasury official, fiscal year 1997 remediation plans for some individual bureaus of the Department of the Treasury are being rewritten for fiscal year 1998, and Treasury intends to submit them to OMB once they are complete.

^bEPA's CFO stated that the problems identified during the audit of the fiscal year 1998 financial statements do not constitute a lack of substantial compliance with FFMIA; however, the CFO is taking steps to remedy the identified problems. In December 1999, EPA officials decided to update their fiscal year 1997 remediation plan to address problems identified by the auditors in fiscal year 1998 and additional weaknesses related to systems security that were identified after the audit report was issued in September 1999.

^cFEMA management did not agree with the auditors that their systems were not in substantial compliance with FFMIA for fiscal year 1998. Therefore, FEMA did not prepare a fiscal year 1998 remediation plan.

^dGSA did not submit a remediation plan; however, it did provide comments, including corrective actions, in response to the auditors' recommendations.

^eOPM did not submit a remediation plan; however, it did provide comments, including corrective actions, in response to the auditors' recommendations.

SBA officials stated that they do not plan to submit a remediation plan for fiscal year 1998 because the fiscal year 1998 audit report was not issued until late in September 1999, and the instances of noncompliance with FFMIA were the same as those in fiscal year 1997. Therefore, SBA considers its fiscal year 1997 plan to still be effective. SBA plans to update its remediation plan based on fiscal year 1999 audit results.

As was the case last year, SSA officials acknowledged that weaknesses in their systems exist, as reported by the auditors, but the officials did not agree that these weaknesses constituted a lack of substantial compliance with FFMIA. Therefore, SSA did not prepare a remediation plan; however, it did provide comments, including corrective actions, in response to the auditor's recommendations.

To assess fiscal year 1997 remediation plans, we reviewed (1) agency audit reports covering fiscal year 1997, (2) agency remediation plans that addressed issues identified in those fiscal year 1997 audit reports, and (3) Office of Inspector General reports on agency remediation plans. We also interviewed agency managers and auditors when we needed additional information. The assessments were done as part of our work for our October 1999 report on FFMIA compliance. To determine the status of agencies' fiscal year 1998 remediation plans, we made inquiries of the agencies. We also obtained available fiscal year 1998 remediation plans. We conducted our work from March through mid-September 1999 and performed follow-up work during January 2000 at the 24 CFO agencies and OMB in Washington, D.C., in accordance with generally accepted government auditing standards.

We are sending copies of this letter to Senator Fred Thompson, Chairman, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry A. Waxman, Ranking Minority Member, House Committee on Government Reform; the Honorable Jacob J. Lew, Director of the Office of Management and Budget; and the Honorable Lawrence H. Summers, Secretary of the Treasury.

Please contact me at (202) 512-4476 or by e-mail at jarmong.aimd@gao.gov if you or your staff have any questions concerning this letter. Key contributors to this report were Deborah A. Taylor, Diane N. Morris, and Sandra S. Silzer.

Sincerely yours,



Gloria L. Jarmon
Director, Health, Education, and Human Services
Accounting and Financial Management

Enclosure

Assessment of Remediation Plans

It is uncertain whether some of the corrective actions in at least five remediation plans will resolve the problems that caused the agencies' systems to lack substantial compliance with FFMLA in fiscal year 1997. For these five agencies, table 3 contains information regarding (1) the instances of noncompliance with FFMLA reported by auditors in fiscal year 1997, (2) the corresponding corrective actions contained in the agencies' remediation plans, and (3) our assessments of the corrective actions, as of May 1999. Not all instances of noncompliance identified by auditors are listed in table 3; the table includes only those instances of noncompliance for which we determined that it is uncertain that the corresponding corrective action will resolve the problem.

Table 3: Assessment of Those Five Agency Plans Whose Corrective Actions Are Uncertain to Resolve Problems

Instance of noncompliance*	Corrective action in remediation plan	Assessment
<p>Department of Health and Human Services (HHS)</p> <p>1. The processes HHS and its operating divisions use for preparing annual financial statements are manually intensive, involving a series of spreadsheets that incorporate general ledger data as well as Treasury information, Medicare contractor information, and adjustments made outside the automated accounting systems. HHS's six primary accounting systems are not electronically linked and cannot generate financial statements timely and efficiently. Also, the Health Care Financing Administration (HCFA) does not have an integrated accounting system to capture expenditures at the Medicare contractor level.</p>	<p>1. Investigate options for improving the automated processes for financial reporting. (Note: Not identified by management as a high priority.)</p>	<p>1. It is unlikely that investigating options would lead to improved automated processes given the severity and extent of system deficiencies. Further, because this action is not a high priority, it is unclear when management will begin investigating options.</p>
<p>2. The HCFA central office and Medicare contractor systems access and application control weaknesses are significant departures from requirements in OMB Circulars A-127, <i>Financial Management Systems</i>, and A-130, <i>Management of Federal Information Resources</i>.</p>	<p>2. Systems Access:</p> <ul style="list-style-type: none"> a. HCFA to apply immediate corrections to fiscal year 1997 OIG-cited incidents. b. HCFA to continue to enhance access controls through improvements in training, risk assessments, systems administration, and internal audits. <p>Application Controls:</p> <ul style="list-style-type: none"> a. HCFA to remove control of certain duplicate claim edit capability at local level. 	<p>2. It is unclear what specific actions HCFA intends to take to correct systems access weaknesses and whether the actions will address systemic problems or will focus only on problems with contractors included in the financial statement audit.</p>

Enclosure

Instance of noncompliance*	Corrective action in remediation plan	Assessment
<p>Department of the Interior</p> <p>1. The ineffective general controls^o over the automated information systems used by the Bureau of Indian Affairs (BIA) are significant departures from certain requirements of OMB Circulars A-127 and A-130. These departures are instances of substantial noncompliance with FFMIAs federal financial management systems requirements.</p>	<p>1. BIA agrees that the identified weaknesses do constitute an exception under FFMIAs. Corrective actions underway by BIA to address these instances of noncompliance were scheduled to be completed by September 30, 1998.</p>	<p>1. It is unclear what specific actions BIA is taking. Also, the target date has passed and audits continue to identify problems.</p>
<p>Department of the Treasury</p> <p>1. The Internal Revenue Service's (IRS) custodial financial management systems do not comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger. Specifically, material weaknesses were found regarding controls over refunds, revenue accounting and reporting, and computer security. Also, IRS lacks a subsidiary ledger for its unpaid assessments and an effective audit trail from its general ledger back to transaction source documents.</p>	<p>1. As part of IRS' <i>Modernization Blueprint</i>, the <i>Financial Reporting Release (FRR)</i> is to address IRS' custodial financial management systems weaknesses. FRR implements a commercial off-the-shelf software package that provides general ledger and budget execution activities and a standard general ledger and accounting classification structure that comply with current federal financial management systems requirements.</p>	<p>1. The actual status of the FRR project is questionable. We are unsure that the project will be implemented because IRS officials had indicated that the project may be canceled.</p>
<p>Department of Veterans Affairs (VA)</p> <p>1. VA's systems were not in compliance with FFMIAs requirement that security over financial information be provided in accordance with OMB Circular A-130.</p>	<p>1. Revise VA's departmental policy to ensure that it addresses (1) the safeguarding of operating systems and application software and (2) physical security for computer rooms. Ensure that the revised policy is in place at all VA field facilities. Record all critical system events for sensitive systems and review daily.</p>	<p>1. According to a VA official, VA had not revised its security policy. We are unsure that VA would be able to effectively revise the departmental security policy without first identifying risks. Plans to identify risks were contingent upon funding, which VA told us it was requesting in its 2001 budget proposal.</p>

Enclosure

Instance of noncompliance*	Corrective action in remediation plan	Assessment
<p>Agency for International Development (AID)</p> <p>1. AID's financial management system does not meet all three of FFMA's requirements. Specifically, AID relied on a combination of legacy systems, informal records, and its New Management System to prepare the financial statements. These multiple incompatible systems are not integrated.</p>	<p>1. Full implementation of a replacement core financial management system.</p>	<p>1. We agreed with AID's OIG that the remediation plan was inadequate. Because of a lack of an agencywide blueprint before beginning development, AID lacks assurance that new systems will operate effectively together, support business needs, and provide adequate security. Also, lack of supporting plans describing remedies, resources, and interim milestones needed to correct deficiencies creates a substantial risk of delays, cost increases, and system performance shortfalls.</p>

*Not all instances of noncompliance identified by auditors are included; the table includes only those instances of noncompliance for which we determined that it is unlikely that the corresponding corrective action will resolve the problem.

*General controls focus on systems security such as entitywide security program planning and management, access controls, software development and change management controls, separation of duties, system software controls, and service continuity.

Source: Our analysis of agency fiscal year 1997 audit reports and corresponding agency remediation plans addressing identified instances of noncompliance with FFMA.

Table 4 lists the information that was missing from the remediation plans of the seven agencies whose plans we determined did not contain key information to adequately assess them. Four plans did not contain corrective actions for all instances of noncompliance, nor did they contain sufficient information on target dates or resources. The other three plans contained corrective actions for all instances of noncompliance; however, the information on target dates and the resources needed to implement the corrective actions was insufficient.

Table 4: Key Information Not Contained in Remediation Plans for Seven Agencies

Agency	Assessment of key information
Department of Defense	Plan did not address all instances of noncompliance, specifically, it did not address actions to ensure feeder systems' data integrity. Target dates and resources included in the plan were insufficient.
Department of Labor	Plan did not contain corrective actions, target dates, and resources needed for all instances of noncompliance.
Office of Personnel Management	Plan did not contain corrective actions for all instances of noncompliance, and target dates and resource information were insufficient.
Federal Emergency Management Agency	Plan did not contain corrective actions, target dates, and resources for all instances of noncompliance.
Department of Commerce	Plan did not contain target dates for all corrective actions. Plan contained no resource information.
Department of Housing and Urban Development	Plan did not contain target dates and resources needed for all corrective actions.
Department of Justice	Plan did not contain target dates and resources needed for all corrective actions.

(916320)

Ordering Copies of GAO Reports

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Order by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touch-tone phone. A recorded menu will provide information on how to obtain these lists.

Viewing GAO Reports on the Internet

For information on how to access GAO reports on the INTERNET, send e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

Reporting Fraud, Waste, and Abuse in Federal Programs

To contact GAO FraudNET use:

Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-Mail: fraudnet@gao.gov

Telephone: 1-800-424-5454 (automated answering system)

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
