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AID NEEDS TO DO MORE TO COMPLY WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

AUDIT REPORT NO. 85-07

December 7, 1984

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE INSPECTOR GENERAL

The Honorable Peter M. McPherson
Administrator
Agency for International Development
Washington, D.C. 20523

Dear Mr. McPherson:

This report describes the Agency for International Development's (AID's) progress in implementing the Federal Managers' Financial Integrity Act. My staff conducted a review to determine whether AID's fiscal year 1984 evaluation of its system of internal control was carried out in a reasonable and prudent manner in conformance with the Act and the Office of Management and Budget's (OMB's) internal control guidelines.

Our review disclosed a number of significant problems AID needs to address if it is to comply with the Act and OMB guidelines. Improvements are needed in the areas of (1) top level management involvement, (2) training, (3) agency segmentation, (4) vulnerability assessments, (5) internal control reviews, (6) corrective actions, (7) annual reporting, and (8) accounting system evaluations.

Improving the evaluative process will help strengthen internal accounting and administrative controls and thereby help prevent fraud, waste and abuse in AID programs, functions and activities. We have made nineteen recommendations, all of which will require some involvement at the Administrator level.

We are sending copies of this report to AID top level managers, the Office of Management and Budget, appropriate Congressional Committees, and the U.S. General Accounting Office.

Sincerely yours,

Herbert L. Beckington

EXECUTIVE SUMMARY

The Agency for International Development (AID) has an annual budget in excess of $5 billion that is administered by its headquarters offices and 69 missions located throughout the world. The very nature of its assistance programs and its geographic dispersion increases AID's vulnerability to fraud, waste, and abuse. Accordingly, it is very important for AID to adequately assess the internal controls over its multi-billion dollar programs and administrative functions and to evaluate its accounting system as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

The FMFIA requires Federal managers to evaluate the internal controls over the operations under their supervision. These evaluations form the foundation for the Administrator's annual statement to the President and the Congress on the adequacy of the Agency's internal control and accounting systems.

AID needs to put in place the basic framework required by Office of Management and Budget (OMB) guidelines which is necessary to implement the FMFIA. Two years after passage of the Act, AID still has not:

-- obtained sufficient top management involvement in the evaluative process: during fiscal year 1984, only one Internal Control Oversight Committee meeting was held, and only 5 of 13 members were present (see p. 5).

-- trained its managers to carry out their responsibilities under the Act: managers and other staff have not been provided training or technical assistance in conducting vulnerability assessments, internal control reviews, and other requirements of the Act and OMB guidelines (see p. 4).

-- properly segmented its operations into assessable units: for example, the AID mission in Cairo, classified as only one assessable unit, had 113 employees and a budget of over $1 billion (see p. 7).

-- determined the degree of vulnerability of its many organizational, program, and administrative components: vulnerability assessments were used with considerable effectiveness to identify internal control weaknesses of large

organizational units. However, OMB intended they be used to quickly assess the risk potential for fraud, waste, and abuse of smaller AID components. Also, AID's vulnerability assessments replaced the more rigorous internal control reviews envisioned by OMB (see p. 10).

-- properly planned, scheduled, and conducted internal control reviews: only one internal control review was conducted in fiscal year 1984 (see pp. 14 and 17).

-- corrected numerous internal control weaknesses: as of September 1, 1984, 145 of the 285 internal control weaknesses identified in the 1982 vulnerability assessments had still not been reported as corrected (see p. 20).

-- assured that all material weaknesses have been identified for inclusion in its annual report to the President and the Congress: out of 285 individual internal control weaknesses, only 7 areas of weaknesses were reported to the President and the Congress. Other weaknesses, such as inadequate monitoring of P.L. 480 commodities should also be reported (see p. 23).

-- conducted an evaluation of its accounting system: AID is in the process of installing a new accounting system. Unless interim evaluations are made, AID will not report on the adequacy of its new accounting system until at least December 31, 1986 due to a three year delay in system implementation. To address this problem, AID now plans to report on inadequacies of its current system and work closely with the contractor to assure that the system meets accounting principles established by the General Accounting Office (GAO) (see p. 26).

AID's first year approach to implementing FMFIA was developed before the OMB guidelines were finalized in December 1982. Although our November 1983 report pointed out several areas of non-compliance with these guidelines, we then concluded that AID made a good first year effort to implement the Act. AID reported that it had identified many internal control weaknesses which led to significant corrective actions. For example, AID has developed and begun implementation of 16 payment verification policy statements which could substantially improve internal controls over financial and administrative activities throughout the agency.

AID is now in the critical second year of reporting under the FMFIA--a time to build on the momentum of the progress made during initial implementation efforts. The first year's implementation of the Act has been characterized as a learning experience for federal agencies as well as the auditing community. For the second year, however, GAO, OMB, and the Inspectors General expected considerably more progress.

GAO recently issued a list of second year expectations which were endorsed by OMB (see Appendix I to the report). A comparison of our report findings and these expectations clearly shows that AID has fallen behind in properly implementing the FMFIA. In fact, many deficiencies outlined in our previous report have still not been corrected.

It is imperative that AID's top management ensures that this important legislation receives high priority attention. A positive step taken thus far is AID's Internal Control Oversight Committee's establishment of a goal to bring AID in compliance with OMB guidelines. AID informed OMB and the IG that this goal will be achieved in 1985.

We have made 19 recommendations to the Administrator that specifically relate to the OMB guidelines. Implementation of our recommendations will lay the proper foundation to fully implement the FMFIA.

MANAGEMENT COMMENTS AND IG RESPONSES

We provided a copy of our draft report to the Bureau for Management. Based on their written comments, included as Appendix III, we revised the report where we considered appropriate to do so. Overall, management generally agreed with our recommendations, although they believed two recommendations had already been implemented. The following sections describe key management comments and those situations where there is a lack of agreement between management and the IG.

Management Comment

In general, management acknowledged that AID's process differed from OMB's and stated that steps are being taken to comply with OMB guidance. Management explained the process used in 1982 and 1983 and cited some of the benefits that occurred to AID as a result of these early efforts. Management also identified what it considered to be a weakness in the report's logic: AID's vulnerability assessments were effective in identifying weaknesses, yet the IG was critical of these assessments because they went beyond the more general assessments intended by OMB. Finally, management stated that our executive summary was not consistent with the body of our report.

IG Response

A number of significant internal control improvements were reported as a result of AID's early efforts to implement the Act. These are cited in our report. Regarding the second point, we do not believe there is a weakness in the report's logic. While the Agency's more detailed vulnerability assessments were instrumental in identifying weaknesses, they did not provide a quick assessment of vulnerability of all assessable units and they were inappropriately used as a substitute for the more rigorous internal control reviews. Finally, information in the executive summary was derived from the body of the report. We do not see any inconsistency between the two nor did management elaborate on this issue.

Management Comment

Management stated that GAO, OMB, and the IG did not communicate their increased expectations for the second year's implementation of FMFIA.

IG Response

These expectations, included in Appendix I, are not new requirements. They are based on OMB guidelines dated December 1982. We are including them in the report to assist management in coming into full compliance with OMB guidance.

Management Comment

Management stated that the report should refer to internal control weaknesses identified in 1983, and not in 1982. Further, they noted that only 59 weaknesses had not been corrected as of September 30, 1984.

IG Response

Our audit showed that 285 weaknesses were in fact identified in the 1982 vulnerability assessment. These weaknesses were summarized and reported in 1983. At the end of our audit (September 1, 1984), ICOC's tracking system showed that 145 weaknesses were reported as uncorrected. Since then, AID reported that it had corrected 86 additional weaknesses. Although we did not audit this, we fully support AID's efforts in taking corrective actions.

Management Comment

Management stated that, contrary to our report, internal control actions are being monitored by ICOC through the internal control manager.

IG Response

Although the ICOC does monitor corrective actions taken, we found no evidence that ICOC monitors other activities mentioned in our report: prioritizing, planning, and scheduling ICRs and other actions.

Management Comment

Management believed that their current efforts to segment AID/W and missions into assessable units negated the need for Recommendation Nos. 4 and 6 relating to segmentation and establishment of an inventory of assessable units.

IG Response

On November 14, 1984, the IG's office submitted a memo to the Bureau for Management (see Appendix II) stating that a recent ICOC segmentation proposal did not comply with OMB guidelines. Under this segmentation proposal, the number of assessable units would be based solely on the number of organizational components rather than cross sections of both organizational components and administrative functions as called for in OMB guidance. We are therefore retaining Recommendation Nos. 4 and 6.

Management Comment

Management believed that the report section on ICOC's tracking system should be rewritten since our recommendation would only be applicable to the new vulnerability assessment/internal control review system being introduced in 1985. Management also stated that some of the data elements of the IG's proposed system were inapplicable or easily retrieved from the raw data.

IG Response

We do not agree that the recommended tracking system only applies to the 1985 vulnerability assessment/internal control review system. Previously identified weaknesses should also

be included in the new tracking system. Since management did not show which data elements were inapplicable or easily retrievable, we cannot respond to their second point. However, if the ICOC is to properly manage the FMFIA process, it must analyze the raw data on identified weaknesses and convert it into meaningful management information.

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BACKGROUND

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), Public Law 97-255, was passed by Congress to reassert the responsibility of Federal managers for overall financial integrity of programs under their supervision. Each agency is required to establish internal accounting and administrative controls, annually evaluate those controls, and prepare a statement to the President and the Congress identifying material weaknesses and plans for corrective actions. Also, the FMFIA requires a separate annual report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

The Office of Management and Budget (OMB) issued Circular No. A-123 Revised, to prescribe the policies and standards for evaluating and reporting on internal control systems by the agency. Also, OMB issued guidelines in December 1982 entitled "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government." These guidelines pertain to: organizing the evaluation; segmenting the agency; conducting vulnerability assessments; planning and scheduling internal control reviews and other actions; performing internal control reviews; taking corrective actions; and reporting at year end.

The Agency for International Development (AID) established the Internal Control Oversight Committee (ICOC) in 1982 to coordinate implementation of the Act. In December 1983, the Agency submitted to the President and the Congress the first annual statement on its internal control and accounting systems. Our prior audit report (No. 0-000-84-14 dated November 30, 1983) disclosed numerous improvements needed in AID's initial implementation of the evaluative process. We are now delineating the need for further improvements in the process and making specific recommendations for correcting deficiencies which are still outstanding.

Objectives, Scope and Methodology

The audit was conducted between June and September 1984 by the Office of the Regional Inspector General for Audit/ Washington. The objective of our review was to determine whether AID was complying with FMFIA and OMB guidelines. Specifically, we reviewed AID's implementation of the seven phases of the evaluative process outlined in the OMB internal control guidelines. We also reviewed AID's compliance with the FMFIA reporting requirement on whether the agency's accounting system was in accordance with the principles and standards of the Comptroller General.

Our review primarily covered the period October 1, 1983 through September 1, 1984 except in certain cases where we reviewed elements of the process as they were initially established. We examined pertinent documentation maintained by the ICOC and held discussions with responsible officials.

We did not review the adequacy of the Agency's internal control and accounting systems. Rather, we reviewed how AID conducted its own evaluations of such systems. Our work was done in accordance with the Comptroller General's Standards for Audit of Government Organizations, Programs, Activities and Functions.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ORGANIZING THE EVALUATION PROCESS

AID needs to improve the organization and management of its internal control evaluation program. The Agency designated an Internal Control Manager, established the ICOC, and took a number of other actions in response to the FMFIA. However, to fully implement the Act, AID needs to expand its internal policies and procedures commensurate with OMB guidelines, establish FMFIA training programs, and increase top management involvement in ICOC activities.

Criteria

OMB guidelines for organizing the evaluation process provides for certain key elements including: assignment of responsibilities for direction of the agency-wide internal evaluations; ensuring the monitoring of accomplishments; training to explain the objectives and procedures for conducting vulnerability assessments (VAs) and internal control reviews (ICRs); and technical assistance and supervision for employees assigned to perform the evaluation.

Actions Taken to Organize Implementation of the FMFIA

An AID Internal Control Directive dated September 30, 1983, was issued to help implement the FMFIA. The Directive included reference to the: OMB Circular A-123 incorporating provisions of the FMFIA; OMB guidelines for evaluating, improving, and reporting on internal control systems; and Comptroller General's internal control standards.

The Assistant to the Administrator for Management was designated as the Internal Control Manager to issue and clarify internal control policies, and monitor their application. The ICOC, composed of program, financial, and administrative management personnel, was designated to direct and monitor the execution of internal control practices, prescribe evaluation standards for the Agency, and advise the Internal Control Manager of the status of the Agency's internal control system. AID missions (USAIDs) and AID/Washington (AID/W) organization components designated internal control contacts who were responsible for establishing and maintaining internal control systems for their respective organizations.

Policies and Procedures Should Reflect OMB Guidelines

AID needs to expand its operating policies and procedures so that all elements of OMB's guidelines are institutionalized. AID developed its approach to implementing the FMFIA before

OMB guidelines were issued in December 1982. However, this initial approach was not subsequently revised to comply with OMB guidance. For example, contrary to current OMB guidance, each USAID was designated as one assessable unit. Although the VA questionnaires focused on ten functional areas, missions were not segmented by program and administrative functions. Also, prioritizing, planning and scheduling ICRs and other actions are not being monitored by ICOC. Monitoring these actions is necessary to ensure that the areas with the greatest potential for loss or abuse are identified and that appropriate evaluative action is taken for each vulnerable area.

Currently, policies and procedures on how to conduct the evaluation process are not available through the AID Internal Control Directive or any similar document. Specific agency guidelines should set forth procedures regarding each step in the process: organizing the evaluation, segmenting the agency, conducting vulnerability assessments, planning subsequent actions, performing internal control reviews, taking corrective actions, and reporting. In commenting on our draft report, management stated that the Agency's fragmented guidelines on this seven-step process will be formalized through an instructional module that will be distributed in the near future to all assessable units.

FMFIA Training Programs

The Agency needs to develop appropriate FMFIA training programs for the staff at AID/W and approximately 70 AID missions throughout third-world countries. Training general managers on how to evaluate internal controls is essential for implementation of the FMFIA. However, managers and other staff were not provided training or technical assistance in performing and reporting the results of vulnerability assessments and internal control reviews.

The lack of training was also disclosed in our prior report dated November 30, 1983, but no corrective action was taken. Based upon our discussions during this audit, the ICOC has recently ordered self-teaching modules for performing vulnerability assessments and internal control reviews.

In addition to the self-teaching modules, orientation and training should be available for managers to sufficiently acquaint them with the entire FMFIA evaluative process. In addition to performing VAs and ICRs they should be knowledgable about segmentation, scheduling appropriate subsequent actions, taking corrective actions, and reporting requirements. Also, ICOC staff should receive adequate training in the implementation of the OMB guidelines. In commenting on our draft report, management stated that the self-teaching

module will be introduced to managers in formal training sessions to fully acquaint them with the entire OMB process.

Top Level Involvement

Greater top level management involvement could substantially assist in implementing the FMFIA. Direct involvement by some agency heads have had a very positive impact on implementation of the Act. For example, the Secretary of the Treasury made a video tape for presentation on this subject which was shown Department wide. In its initial stages, such direct interest by top level officials may be necessary to ensure the successful implementation of the program.

ICOC Meetings and Activities

Top management involvement at ICOC meetings and activities needs improvement. During fiscal year 1984, only one meeting was held and there was poor attendance by the committee members. At this meeting on June 18, 1984, only five of thirteen members attended thus precluding an effective decision-making process. Also, the ICOC scheduled seven meetings between August 20, 1984, and December 1, 1985. However, the first three scheduled meetings passed their target dates and have not yet been held. Greater oversight and involvement by the Internal Control Manager and other top level management in ICOC activities is needed to successfully implement OMB guidelines.

The Internal Control Manager should also initiate improvements in ICOC operations. First, staff support is critical to the efficient operation of the ICOC. However, there are no ICOC staff responsibilities set forth in writing. We believe there is a need for a statement of ICOC staff responsibilities and functions in order that the scope of work to be performed can be planned and administered in a timely and effective manner.

Second, the ICOC has the responsibility to direct and monitor the evaluative process. Decision making is an integral part of the ICOC and should be well documented to ensure its policies are implemented. However, there is little evidence of members involvement in making decisions and records of meetings are skeletal as to issues discussed and decisions made. ICOC needs to help clarify the decison-making process by defining the manner in which decisions are made and who can make them. To assist in meeting this objective, complete committee meeting notes should be prepared and circulated to all members.

Third, it is important for the ICOC to establish a plan to ensure that quality control reviews are performed. We found no evidence of testing the input from USAIDs or AID/W assessable components. Quality control reviews should be made to disclose whether adequate written documentation is maintained to substantiate the validity of conclusions reached in the evaluative process. In commenting on our draft report, management stated that quality testing of future ICRs is included in its 1985 work plan.

Recommendation No. 1

We recommend the Administrator ensure that written operating policies and procedures are amended to fully institutionalize OMB's seven step evaluative process.

Recommendation No. 2

We recommend the Administrator ensure that a comprehensive FMFIA training program and schedule are developed for management and staff who oversee and conduct vulnerability assessments and internal control reviews.

Recommendation No. 3

We recommend the Administrator continue strong visible support for the FMFIA and ensure that the Internal Control Manager and all ICOC members are directly involved in ICOC meetings and other activities, including initiatives to: delineate ICOC staffing responsibilities; clarify ICOC's decision-making process; and establish ICOC quality control reviews.

SEGMENTING THE AGENCY

AID has not been segmented into assessable units as envisioned by the OMB guidelines. According to these guidelines, the agency should be segmented first into organizational or other components and then into the programs and administrative functions within each component. Also, a complete inventory of assessable units should be established and maintained by the Agency.

In Washington, some segmentation took place, but all organizational, program, and administrative components were not considered as assessable units. Furthermore, each overseas mission was categorized as only one assessable unit. This approach to segmentation was implemented prior to the availability of OMB guidelines issued in December 1982 and has not been subsequently modified to comply with them. As a result, AID managers were unable to conduct vulnerability assessments of all programs, functions, and organizational units. Consequently, managers' assurances of adequate internal controls are questionable.

Criteria

Segmenting the Agency into components and then into programs and administrative functions in accordance with OMB guidelines helps determine who should be responsible for providing assurances. According to OMB guidelines:

> "The basic goal ... is to develop an agency-wide inventory of 'assessable units,' each of which can be the subject of a vulnerability assessment. This inventory should provide complete coverage of all program and administrative functions .... The individual assessable units should be of an appropriate nature and size to facilitate the conduct of a meaningful vulnerability assessment.
>
> In developing the inventory of assessable units, reference should be made to such sources of information as the agency's budget and related materials, organization charts, agency manuals, and program and financial management information systems."

Segmentation at AID/W and USAIDs

Neither the USAIDs nor AID/W have been provided guidance for segmenting their organizations into assessable units either initially in 1982 or at any time thereafter. Very little segmentation took place in AID/W beyond the bureau and office levels. Further, each overseas mission was considered as

only one unit. Even where segmentation occurred in AID/W, it was done without the benefit of central guidance to ensure consistency.

This approach is not in accordance with OMB guidelines. Each of the AID/W bureaus and offices as well as most of the missions are much too large to facilitate a meaningful vulnerability assessment or internal control review and accordingly would need to be further segmented. For example USAID/Cairo, classified as only one assessable unit, has 113 employees and a budget of over one billion dollars. Similarly, the Bureau for Science and Technology, which was segmented into only 7 assessable units, has 332 employees and a budget of nearly $270 million and obligations and expenditures for ongoing projects of about $1.3 billion. This lack of proper segmentation undermined the effectiveness of the vulnerability assessment and internal control review processes.

As a result of inappropriate segmentation, assurance letters from AID/W bureaus and offices and from overseas missions were not based upon assessments of all significant and potentially vulnerable programs. For example, PL-480 Title II and participant training activities were omitted from USAID assessments. Both are very significant programs and assessments would probably have indicated high vulnerability. PL-480 Title II accounts for about $740 million annually in U.S. food products distributed overseas, and participant training is highly decentralized and budgeted at about $150 million annually. For AID/W organizations, missing functions included host-country owned currency, processing of Title II freight charges and AID sponsored research -- all very significant programs. Also, even those programs that were included in the assessments may not have been adequately assessed since they were not treated as separate units.

Additionally, the inadequate segmentation resulted in (i) line managers not being tasked with the responsibility of assessing vulnerability of their programs and (ii) a method of identifying and prioritizing vulnerable areas not being possible. These matters are discussed in other sections of this report.

Each USAID, AID/W bureau, and office should be segmented into program and administrative functions as provided for in the OMB guidelines, and also include functions not assessed previously. Uniform written guidance on segmentation procedures should also be established by ICOC and made available to USAIDs and AID/W.

Inventory of Assessable Units

Contrary to OMB guidelines, ICOC does not maintain an agency-wide inventory of assessable units. Instead, ICOC merely stored the various vulnerability assessment questionnaires in boxes and file cabinets without summarizing how each organization was segmented.

An inventory of assessable units is an important tool for centrally managing the evaluative process. ICOC should prepare this inventory to provide such basic information as a comparison of the extent of segmentation within similar organizations and a control list of assessable units that require future vulnerability assessments.

Recommendation No. 4

We recommend the Administrator ensure that each USAID and all bureaus and offices in Washington segment their respective organizational programs and administrative functions into assessable units of an appropriate nature and size.

Recommendation No. 5

We recommend the Administrator ensure that uniform guidance on segmentation procedures is available to all USAIDs, bureaus, and offices.

Recommendation No. 6

We recommend the Administrator ensure that an agency-wide inventory of assessable units is developed and maintained by ICOC.

VULNERABILITY ASSESSMENTS

AID's vulnerability assessments were somewhat effective in identifying significant weaknesses in internal controls, primarily of a financial nature. However, they did not achieve the objectives envisioned by OMB. Also, many of the bureaus, offices, and missions reported no weaknesses.

OMB guidelines and the AID Internal Control Directive state that VAs are not necessarily intended to identify internal control weaknesses or result in improvements. Rather, their purpose is to obtain a quick perception of the risk potential for waste, loss, unauthorized use, or misappropriation in each assessable unit.

AID, however, developed a detailed VA questionnaire which concentrated on identifying actual weaknesses rather than risk potential. Although this approach identified many internal control weaknesses, it did not meet the intended purpose of a quick assessment followed by a more rigorous evaluation of internal controls in targeted areas. Also, due to the lack of proper segmentation, some functions were not assessed and therefore, some managers did not conduct VAs of their operations.

Criteria

A vulnerability assessment is a review of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation. VAs do not necessarily identify weaknesses or result in improvements. Rather, they are the mechanism with which an agency can determine the relative potential for loss in programs and functions. A VA, according to OMB guidelines, consists of three steps with several factors to be considered under each step.

1. Analysis of the general control environment
   - Management attitude
   - Organizational structure
   - Personnel
   - Delegation and communication of authority and responsibility
   - Policies and procedures
   - Budgeting and reporting practices
   - Organizational checks and balances
   - ADP consideration

2. Analysis of inherent risks
   - Purpose and characteristics
   - Budget level
   - Impact outside the agency
   - Age and life expectancy

- o Degree of centralization
- o Special concerns
- o Prior reviews
- o Management responsiveness

3. Preliminary evaluation of safeguards
   - o Based on knowledge of existence and functioning of safeguards
   - o Thoughtful evaluations
   - o Based on working knowledge of program or administrative function

The completion of the three steps permits a conclusion as to the overall vulnerability of the assessable unit. Although not implemented, the AID Internal Control Directive parallels the OMB guidelines.

Vulnerability Assessments Different Than OMB Guidelines and AID Directive

AID developed a VA questionnaire in 1982, prior to the availability of OMB guidelines issued in December of that year. AID's questionnaire was not in accordance with OMB guidelines or the September 1983 AID directive that followed. Further, the questionnaire has not been subsequently changed. This questionnaire was used to conduct VAs at all USAIDs and was provided to each AID/W bureau and office for their consideration in developing a questionnaire for their respective organization. Contrary to OMB guidelines and the AID directive, this questionnaire concentrated on identifying actual weaknesses rather than assessing and categorizing potential risks. Although this process did help identify weaknesses, the objective of a fast overview of the potential for loss as envisioned by OMB was not met. We believe that adherence to OMB and AID guidance on future vulnerability assessments is critical for proper implementation of FMFIA.

In commenting on our draft report, management stated that AID is planning to conduct VAs early in 1985 upon delivery of the self-teaching modules and appropriate training.

Weaknesses Reported

Although OMB guidelines require that VAs be done at least biennially no assessments have been done since 1982. Also, many AID organizations did not report any weaknesses as a result of their 1982 assessments. ICOC did not question the lack of identified weaknesses and did not require these organizations to reevaluate their operations. In 1983 the ICOC did request each AID organization to update its initial assessment to determine if additional weaknesses existed. However, no additional weaknesses were reported by any of the

organizatons, another circumstance that should have led the ICOC to question the validity of this method.

In addition, AID's objective of quickly identifying control weaknesses through the use of their expanded vulnerability assessment was only partially successful. The initial assessments were completed by all 69 USAIDs and 18 AID/W bureaus and offices in 1982. However, the following 33 of the 87 organizations did not report any control weaknesses.

USAIDs

Near East

Italy
Portugal
Jordan

Asia

Nepal
Sri Lanka
India
Burma

Latin America and Caribbean

Costa Rica
Honduras
Mexico
Nicaragua
Paraguay

Africa

Lesotho
Ghana
Guinea-Bissau
Chad
Togo/Beni

AID/W

Bureau for Africa
Bureau for Program and Policy Coordination
Bureau for Food for Peace and Voluntary Assistance
Bureau for Science and Technology
Bureau for Asia
Bureau for Near East
Bureau for Management (Immediate Office of Assistant to the Administrator for Management)
Bureau for Latin America and Caribbean
Bureau for Private Enterprise
Office of Legislative Affairs
Office of the General Counsel
Office of Equal Opportunity Programs
Office of U.S. Foreign Disaster Assistance
External Relations
Public Affairs
BIFAD Support Staff

Collectively, the above organizational units manage multi-billion dollar operations. The lack of any reported internal control weaknesses is obviously questionable and underscores the need for ICOC to monitor and evaluate the results of the AID/W and USAID vulnerability assessments and the related assurance statements to the Administrator.

Recommendation No. 7

We recommend the Administrator ensure all USAIDs, bureaus and offices conduct vulnerability assessments in accordance with the AID directive and OMB guidelines for a quick perception of the potential for loss.

Recommendation No. 8

We recommend the Administrator ensure that ICOC monitor and evaluate the results of vulnerability assessments and the related assurance statements to promote consistency among similar assessable units.

PLANNING AND SCHEDULING INTERNAL CONTROL REVIEWS AND OTHER ACTIONS

AID needs to better plan and schedule internal control reviews and other actions. OMB guidelines provide for prioritizing ICRs and other actions for assessable units based upon results of vulnerability assessments. However, AID was not able to establish these priorities since the vulnerability assessments were oriented towards identifying weaknesses rather than assessing the degree of vulnerability. Further, AID did not provide guidance for factors to consider when determining if an ICR was necessary or if some other action would be more appropriate. As a result, AID does not have a composite listing of vulnerable areas prioritized by degree of vulnerability and type of evaluative or corrective action planned.

Criteria

The overall objective of the internal control evaluation process is to bring about a strengthening of internal control systems in a cost-effective manner. OMB guidelines provide for summarizing the vulnerability assessments to help determine the appropriate subsequent actions for the entire assessable unit.

OMB suggests two approaches to establish the subsequent actions to be taken. The first is to have a prioritized schedule for ICRs based on assessable units that are considered highly vulnerable, moderately vulnerable, or of low vulnerability.

The second approach is to consider a series of options for evaluating each of the programs and administrative functions. This option would call for the Agency to evaluate the degree and causes of the vulnerabilities, consider management priorities and availability of resources, and take into consideration other management initiatives underway. The Agency would then determine the appropriate courses of action which may include:

- Scheduling and conducting an ICR.
- Requesting and obtaining an audit.
- Scheduling and conducting a management review.
- Taking corrective actions identified based on an evaluation of the vulnerability assessment results. These actions may include:

--Establishing increased or improved monitoring procedures,

--developing and conducting training programs for the staff,

--issuing clarifying instructions, or

--modifying procedures or documents.

Subsequent Actions on Vulnerable Units

AID did not plan and schedule ICRs and other actions based on the degree of vulnerability of assessable units as required by the OMB guidelines. This occurred because managers of the assessable units that performed the 1982 vulnerability assessments identified weaknesses rather than determining degree of vulnerability. There was only one ICR scheduled and performed in fiscal year 1984. Other actions were limited to correcting weaknesses identified as a result of the 1982 VAs. No additional evaluative action was planned or has been taken. AID needs to establish a prioritized schedule of ICRs and other actions for each assessable unit determined to be vulnerable. (To accomplish this, AID will first need to properly segment the Agency and conduct assessments as prescribed by OMB).

Guidance to USAIDs and AID/W

AID did not furnish written guidance to its managers on: when to perform ICRs, and other actions; how to determine the nature of other actions to be taken; and how to determine the priority of the actions to be taken at each assessable unit. As a result, AID does not have a composite listing of proposed actions prioritized by degree of vulnerability and type of action planned.

A plan for subsequent actions should include:

- Classification of the vulnerability assessments as to each program's or function's susceptibility to waste, loss, unauthorized use or misappropriation.

- Prioritization of the vulnerable areas, i.e., identification of the areas with the greatest prospect for loss or abuse, and which should be examined first.

- Selection of courses of action - considering each vulnerable area, and selecting the action(s) to be taken to address the potential vulnerability.

- Development of a schedule of actions and the commitment of resources to address each highly or moderately vulnerable area.

Since ICOC did not furnish guidance there was insufficient scheduling of subsequent actions and therefore inadequate assurance that all material internal control weaknesses would be identified. Prompt action should be taken to fully develop and furnish this guidance.

Recommendation No. 9

We recommend the Administrator ensure that uniform guidance is made available to each assessable unit in USAIDs, bureaus, and offices to help plan and schedule ICRs and other appropriate actions in a priority manner based on the results of the vulnerability assessments.

INTERNAL CONTROL REVIEWS

AID managers need to perform more internal control reviews. OMB guidelines provide for performing ICRs to help identify whether adequate control measures exist to prevent or detect fraud, waste, or abuse. However, AID performed only one ICR during 1984. This was because, contrary to OMB criteria, AID designed their vulnerability assessments to be a substitute for ICRs. Also, a certified public accounting firm performed the ICR in a manner which severely limited AID managers' involvement. OMB stresses the need for active involvement in ICRs by management. While the one ICR performed fully met standards, more ICRs need to be performed with the active involvement of managers.

Criteria

An internal control review is a detailed examination of a system of internal control. OMB guidelines describe six steps for conducting such a review: 1) identification of the event cycles, 2) analysis of the general control environment, 3) documentation of the event cycle, 4) evaluation of the internal controls within the event cycle, 5) testing of the internal controls, and 6) reporting the results. Since responsibility for internal controls rests with management, OMB has stressed the need for active management involvement in each ICR. In fact in an August 1984 publication, OMB stated:

> "In the final analysis, agency management, not internal auditors, internal reviewers or contractors, is responsible for performing the internal control reviews. Because agency management may not currently have the expertise to adequately perform the reviews of the internal control process, it is sometimes appropriate to use contractors to assist in developing evaluation methods, performing the reviews, and training agency staff. However, management personnel should participate in the contractor conducted reviews to gain the experience and understanding necessary to permit them to perform the reviews in subsequent years. Indeed, any use of contractors to perform the reviews should include training for agency staff on how to perform the internal control reviews."

Performing and Utilizing Internal Control Reviews

Only one ICR was performed during fiscal year 1984. The ICR was conducted at USAID/Cairo, by a CPA firm and was an evaluation of the host country contract payment process. This ICR fully met OMB standards, identified a large number of serious control weaknesses, and made 13 specific

recommendations for corrective action. We believe that USAID/Cairo's experience supports our belief that AID should conduct more ICRs.

Also, many of the control weaknesses identified in this ICR are likely to be applicable to the other missions as well. However, ICOC has not required other missions to evaluate their controls with regard to the reported weaknesses and recommendations. We believe that due to the relative similarity of host country contract payment processes this would be a logical evaluative step under "other actions taken" rather than performing full scope ICR's of this process at all missions. Accordingly, we believe ICOC should review the results of all ICRs to determine their applicability to other organizational components.

Although OMB has stressed the need for management involvement in ICRs, this did not occur in the one ICR performed during fiscal year 1984. As a result, the ability of management to implement recommendations is made more difficult and an opportunity was missed to gain the understanding and experience that will be needed to perform ICRs in subsequent years. We believe that any ICR done by an outside organization should include a training requirement in the scope of work and have direct involvement by AID managers.

It appears that a greater number of ICRs were not done for several reasons. The major reason was probably AID's concept that vulnerability questionnaires would suffice for full scope ICRs. Although these questionnaires were valuable tools for quickly identifying control weaknesses, they did not approach the OMB standards established for ICRs. Other factors contributing to the lack of ICRs included inappropriate segmentation, the absence of AID directives and guidance for scheduling ICRs, and inadequate central control and direction. These matters are discussed more fully in other sections of this report.

Recommendation No. 10

We recommend the Administrator ensure that a sufficient number of internal control reviews are performed in accordance with OMB guidelines.

Recommendation No. 11

We recommend the Administrator ensure that ICOC review the results of all ICRs and instruct other AID components to consider applicable ICR recommendations for their operations.

Recommendation No. 12

We recommend the Administrator ensure that when ICRs are performed by a contractor, the scope of work include a training provision for agency staff.

Recommendation No. 13

We recommend the Administrator ensure that written guidance is established for performing internal control reviews including AID managers' involvement when contractors perform such reviews.

TAKING CORRECTIVE ACTIONS

AID needs to more effectively monitor corrective actions to ensure they are completed in a timely manner. OMB guidelines require management to take prompt corrective action on recommendations. The Agency reported that it corrected many weaknesses identified during the 1982 vulnerability assessment. However, a large number of weaknesses were still outstanding as of September 1, 1984. Many have not yet been corrected due to insufficient management attention and to a tracking system that could be improved. Therefore, AID operations continue to be vulnerable to fraud, waste and abuse due to weaknesses that have been identified but have gone uncorrected.

Criteria

OMB guidelines state that "Vulnerability assessments and internal control reviews and reports should not be an end in themselves." Thus, management should take appropriate corrective action as promptly as possible and establish a formal follow-up system that logs and tracks all planned corrective actions and target dates. This system should also assist in developing plans for implementation of corrections and in monitoring to ensure that changes are made as scheduled.

Many Corrective Actions Taken

The 1982 vulnerability assessment performed by the Agency disclosed 285 weaknesses. As of September 1, 1984, ICOC's tracking system showed that AID had corrected 140, or approximately 50 percent, of these weaknesses. Reported actions taken on some of these weaknesses have resulted in very significant benefits. For example, AID has developed and begun implementation of 16 payment verification policy statements which could substantially improve internal controls over financial and administrative activities throughout the agency. In December 1983, detailed guidance was issued for implementation of these policy statements recognizing that it would take several years for them to be fully implemented.

Progress toward strengthening internal controls through this guidance has already been reported. For example, payment verification policy guidance will be the vehicle for correcting two of the seven material weaknesses reported to the President and the Congress in 1983.

AID's accomplishments in the payment verification process clearly demonstrates the positive results that can be achieved through implementation of the FMFIA.

Substantial Number of Weaknesses Still Uncorrected

Although many corrective actions have been reported, more needs to be done. As of September 1, 1984, almost 2 years after the 1982 vulnerability assessments, 145 of the 285 identified weaknesses were not yet reported as corrected. Examples of these weaknesses include:

a. Can not certify that all direct and host country contract services are adequately monitored.

b. Deficiencies in the control and use of project funded commodities.

c. Centrally funded projects managed without adequate financial information.

d. Lack of inventory procedures, nonexpendable property not marked, and inadequate storage and control of nonexpendable property in warehouse facilities.

e. Inadequate project accounting, particularly accounting for advances of local currencies.

AID needs to devote more management attention to ensure corrective actions are taken in an expeditious manner so that AID programs will not continue to be vulnerable to fraud, waste and abuse because of known internal control weaknesses.

Tracking Corrective Actions Needs Improvement

AID also needs to improve its system for tracking corrective actions. The tracking system maintained by ICOC lists all weaknesses and planned corrective actions by major organizations (bureaus, offices, and missions). However, we believe AID's tracking system does not provide sufficient information to properly manage the corrective action process. Specifically, ICOC's tracking system does not show:

1. Individual assessable units and their degree of vulnerability.

2. Specific target dates for completing many planned corrective actions.

3. Planned versus actual dates of completion of corrective actions.

4. Summary information on the results and status of the evaluative process such as:

--how many units identified no control weaknesses.

--which weaknesses were the most prevalent.

--units' success in meeting target dates.

In order for ICOC to adequately direct and monitor corrective actions taken, it needs to improve its tracking system by eliminating these deficiencies.

Recommendation No. 14

We recommend the Administrator ensure that written guidance is established for taking corrective actions on identified weaknesses in an expeditious manner.

Recommendation No. 15

We recommend the Administrator ensure that ICOC improve its corrective action tracking system by including (a) all assessable units and their degree of vulnerability; (b) planned and actual target dates; and (c) summary information on the results and status of the evaluative process.

YEAR-END REPORTING

AID needs to consider including more identified weaknesses in its year-end reporting statement. OMB guidance states that material weaknesses included in the year-end statement should consist of matters of significance to the President and the Congress. In compliance with this requirement, AID reported 7 material weaknesses in its 1983 report. However, the Congressional Committee on Government Operations, in its August 1984 report on first-year implementation of FMFIA, favors a broadening of this reporting requirement. It suggests that material weaknesses reported to the President and the Congress should also include weaknesses that are significant to a program or individual agency component. We believe the Committee's suggestion has merit and should be fully considered by AID.

Criteria

The FMFIA and OMB guidelines require each agency to submit, by December 31 of each year, a statement to the President and the Congress as to whether the agency's systems of internal accounting and administrative control fully comply with the requirements of the Act. Any material weaknesses must be identified in the statement and the plans and schedule for correcting such weaknesses must be described. OMB guidance defined material weaknesses as those which would be considered significant to the President and the Congress.

OMB's definition of material weakness has recently been questioned in a Congressional report. The Congressional Committee on Government Operations issued a report on August 2, 1984, entitled "First-Year Implementation of the Federal Managers' Financial Integrity Act." The report provided the Committee's views regarding Federal agencies' progress in complying with the Act, problems encountered during the first year, and potential obstacles to the Acts' full implementation. The Committee interpreted as incorrect, agencies' practices of reporting only matters they considered of significance to the President and the Congress. The Committee suggested that a more useful interpretation of the Act would be that if a problem was significant to a program or individual agency component, it should be considered a major problem for the agency and reported to the President and the Congress.

AID's Report of Material Weaknesses

Of the total 285 individual internal control weaknesses identified through the vulnerability assessments, AID only considered 7 areas to be sufficiently "material" to warrant

reporting to the President and the Congress in December 1983--4 at AID/W and 3 at USAIDs:

AID/W

1. Enforcement of Regulation 1 for the procurement of commodities;

2. Control over the holders of federal reserve letters of credit to assure compliance with cash management requirements;

3. Control and accountability over Agency and contractor non-expendable property; and

4. Policy direction to guide host country institutions in exercising financial and administrative controls.

USAID's

1. Scope of audit capability in order to assure expanded financial compliance audit coverage of mission implemented programs and projects;

2. Control over evaluating the contracting and contract management capabilities of host country agencies responsible for AID-funded contracts; and

3. Complicated project designs resulting in inefficient project implementation.

This approach complied with OMB guidelines. However, if the Committee on Government Operation's suggested reporting requirements were implemented, the following types of reported weaknesses could be included in future year-end reports:

USAID/Egypt

Mission lacks evaluation of the contracting and contract management capabilities of all host country agencies.

USAID/Kenya

Monitoring of PL-480 commodities from arrival at port through point of sale is not well documented by host government.

Inspector General

> Audit coverage of AID's organizations and programs is inadequate because employment of additional staff is constrained by personnel ceilings.

We believe the Congressional suggestion has merit and should be considered by AID in future reporting of material weaknesses to the President and the Congress.

Recommendation No. 16

> We recommend the Administrator ensure that consideration be given to the Congressional Committee on Government Operation's suggestion that material weaknesses reported in the year-end statement to the President and the Congress include problems that are significant to a program or individual agency component.

ACCOUNTING SYSTEM

AID needs to evaluate each phase of its new accounting system as it becomes operational. The FMFIA requires a separate annual report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General. However, AID decided in 1983 not to evaluate and report on its existing accounting system since it was in the process of installing a new one. Due to extensive delays in implementing this system, AID will not report on conformance of its new accounting system until at least December 31, 1986--four years after passage of the FMFIA.

Criteria

The FMFIA requires an annual report to the President and the Congress on whether AID's accounting system is in conformance with the principles, standards, and related requirements prescribed by the Comptroller General. This report is included in the annual statement to the President and the Congress on the results of the internal control evaluation.

AID Did Not Report on Its Existing Accounting System

AID decided in 1983 not to evaluate its existing accounting system because a new accounting system had been designed, was in the process of being installed, and was expected to be fully implemented during January 1986. AID described, in its 1983 report to the President and the Congress, the accounting system contract, its rationale for not evaluating the new accounting system, and future plans for conducting the required evaluations.

New Accounting System Delayed and Costs Doubled

The study for a new computerized accounting system began during August 1978 and recommended a four phase implementation plan. The ensuing fixed price contract for implementing the system was set at $5.4 million with a completion date of October 1982. However, the contract cost was increased almost twofold to $9.9 million and the estimated completion date was extended over 3 years to January 1986.

The most significant reason for the cost escalation and the 3 year delay was numerous changes in the design and installation of the system. For example, the contractor submitted an $8.2 million claim during December 1982 covering changes involving 115,000 contract hours. The claim was ultimately settled for $3.1 million in April 1984.

Both Phase I and Phase II of the system were to be operational as of October 1984. However, AID plans to operate the old and new accounting systems parallel until January 1985 when they expect to be finished with their evaluation and to be satisfied the old system can be discontinued. Both Phase III and Phase IV are scheduled for completion in January 1986.

AID Could Perform Interim Evaluations of Its New Accounting System

Due to these delays in system implementation, AID will not be able to evaluate and report on the complete new accounting system until December 1986--four years after passage of the FMFIA. After discussions between AID, OMB, and our office, AID plans to issue in December 1984, a report on weaknesses in its existing accounting system which were identified in a 1977 study by a certified public accounting firm. This report will also provide a status report on implementation of the new accounting system.

In addition, we believe that AID should perform interim evaluations of each phase of the new accounting system and report the results to the President and the Congress beginning in December 1985. Due to the substantial increases in the accounting system's contract costs and period of implementation, we also believe that closer monitoring of contractor performance is warranted. Further, to ensure high level visibility of any future contract cost increases and delays, we believe the Administrator should receive periodic progress reports on accounting system implementation.

Recommendation No. 17

We recommend the Administrator report to the President and the Congress, beginning in December 1984, weaknesses in AID's existing accounting system and the status of the new accounting system implementation.

Recommendation No. 18

We recommend the Administrator ensure that AID evaluate each phase of the new accounting system as it becomes operational and, beginning in December 1985, include the results in the annual statement to the President and the Congress.

Recommendation No. 19

We recommend the Administrator receive periodic progress reports regarding contractor performance in implementing the remaining phases of the new accounting system.

FILE: FIS 3-4

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

vj
ACTION: FM as appropriate
INFO: R/logs, AA/M, M/SER
AA/PPC, IG, IG/PPP
GC

October 15, 1984

M-85-5

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: JOSEPH R. WRIGHT, JR.
DEPUTY DIRECTOR

SUBJECT: Second-Year Implementation of the Financial Integrity Act

Attached is a summary of GAO expectations for second-year implementation of the Federal Managers Financial Integrity Act. The summary was prepared as guidance to the GAO staff for use in assessing the progress made by individual agencies. It was furnished to us by the Comptroller General.

As you know, OMB has been working closely with GAO to ensure early and full implementation of the Act. Our partnership with GAO has the objective of achieving fundamental changes in the way the government operates. We too have high expectations for real accomplishments in upgrading and strengthening systems of internal control and financial management. Under the Administration's Management Improvement Program: Reform '88, this effort coupled with numerous other broad-based management reforms is expected to result in a modernized, efficient government that operates in a business-like manner.

Your continued full support of the efforts in your agency to meet the expectations described in the attached summary is needed to ensure that the management reform objectives are realized at the earliest possible time.

Attachment

8500600

GAO Expectations for Agencies' Implementation of the Federal Managers' Financial Integrity Act - Year 2

The first year's implementation of the Federal Managers' Financial Integrity Act has been characterized as a learning experience--from not only the perspective of the federal agencies, but also GAO as well. The process steps required by the legislation, let alone the results that could be expected, were new to many.

For the second year, GAO expects considerably more progress, and we have specified a set of expectations as to what each federal agency should reasonably be able to accomplish as a basis for the assurances supporting their required second year reporting. These second-year expectations are based on what we have learned as a result of our prior experience with internal control and accounting systems in the federal government, our evaluation of the first year's implementation of the act, and specific "baseline" information we developed on each of the 22 agencies during the first year review. They reflect GAO's view that the problems that gave rise to this legislation will not be solved overnight, and therefore we cannot realistically expect full implementation this year. On the other hand, these expectations also reflect our view that it is reasonable for agencies, as a basis for their second year reporting, to begin to demonstrate that effective systems are in place and working, or that significant, cost beneficial improvements in internal controls and accounting systems are being made as a result of this legislation.

GAO's expectations for agencies' second year efforts to implement the act are divided into two groups; one for the act's section 2 requirements (internal controls), and one for the act's section 4 requirements (accounting systems). Annual statements are required for each of these two sections. In addition, while federal agencies have had OMB's final guidelines to direct their required section 2 evaluations since December 1982, the OMB guidance to date concerning their section 4 efforts consists of the OMB September 1983 draft guidelines and several meetings to describe its expectations.

The GAO expectations should be used as "benchmarks" against which to measure agency progress at the end of the second year. The expectations should not be viewed as hard and fast standards. Rather, when evaluating an agency's second year performance, they should be used, along with the progress and problems encountered during the first year, to judge the "reasonableness" of agency progress. Thus, an agency whose performance fails to meet these benchmarks may still be judged to be "reasonable" based on that agency's first year problems or other extenuating circumstances.

Section 2 Expectations

GAO expects that as a basis for their second annual statement required by section 2 of the act, agencies should have:

1. Organized to establish and maintain effective internal control systems, including

   --appropriate assignment of overall responsibility

   --appropriate resources to monitor, train, and provide technical assistance and quality assurance

   --appropriate policies and procedures

   --appropriate tracking and followup systems in place. (All ((100%)) evaluation process problems identified by GAO, the IGs and OMB during the first year should be corrected).

2. Completed vulnerability assessments of all (100%) assessable units, and verified that the total agency has been covered.

3. Developed an overall plan of action to perform internal control reviews, or other appropriate actions, in accordance with the relative vulnerability of the assessable units (with necessary resources allocated to the evaluation of the most vulnerable units as a first priority).

4. Completed or scheduled on a priority basis for next year, internal control reviews or other appropriate actions for all (100%) assessable units characterized as highly vulnerable.

5. Developed a cost effective approach for conducting internal control reviews, or alternatives (along with appropriate justification).

6. Made a concerted effort to identify material internal control weaknesses, or determine that they have effective systems of internal controls, as a result of the internal control reviews conducted this year. If it is determined that weaknesses exist (not merely restating weaknesses previously identified in GAO or IG reports), agencies should have established plans including timetables for correcting those weaknesses.

7. Substantially completed corrective actions on material internal control weaknesses identified in the first year (demonstrated significant internal control improvements). In the event that improvements are of a long term nature, the agency should have developed comprehensive corrective action plans and be able to demonstrate progress toward resolving the problems.

Section 4 Expectations

GAO expects that as a basis for their second annual statement required by section 4 of the act, agencies should have:

1. Developed and validated a complete inventory of accounting systems.

2. Documented their overall accounting systems' structure.

3. Developed a reasonable approach to evaluating their accounting systems' conformance with principles, standards, and related requirements (including appropriate testing of system operation).

4. Evaluated their accounting systems' compliance with GAO's principles, standards and related requirements, or at least demonstrated meaningful progress in evaluating their major systems.

5. Made a concerted effort to identify significant instances of noncompliance, or determined that their accounting systems comply, as a result of accounting system evaluations conducted this year (not merely listing known instances of noncompliance identified in GAO or IG reports).

6. Substantially completed corrective actions for instances of noncompliance identified in the first year (i.e., demonstrated significant accounting system improvements). In the event that corrective actions are of a long term nature, initiated major systems upgrade projects that are likely to correct identified problems.

7. Developed reasonable short-term and long-term plans to bring any instances of significant accounting system noncompliance into conformance with requirements.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE INSPECTOR GENERAL

Office of the
Assistant Inspector General
for Audit

November 14, 1984

MEMORANDUM

FOR: M/FM/CONT, Curtis M. Christensen

FROM: AIG/A, James B. Durnil

SUBJECT: Federal Managers' Financial Integrity Act of 1982 (FMFIA)

On October 30, 1984, the Internal Control Oversight Committee (ICOC) staff issued a memorandum outlining how AID will go about segmenting itself for the 1985 vulnerability assessments (see Attachment A). Although there is some flexibility in implementing OMB's internal control guidelines, the approach outlined in the ICOC memorandum does not fully meet OMB's segmentation guidance. Also, it does not correct the weaknesses identified in our recent draft report or our 1983 report on AID's implementation of the FMFIA. I therefore believe that the ICOC should issue a new memorandum on segmentation.

Segmentation, which identifies assessable units, is the most critical element of OMB's seven step process to implementing FMFIA. As stated in our recent draft report, assessable units should be of an appropriate nature and size to (1) facilitate the conduct of meaningful vulnerability assessments and internal control reviews and (2) establish accountability for individual managers to evaluate the operations under their control.

Although we did not perform a detailed analysis of the ICOC's proposed AID-wide approach to segmentation, there are several areas of concern.

It appears that the total number of assessable units will be based solely on the number of organizational components. This will result in assessable units which will be, in most cases, too large to conduct meaningful vulnerability assessments. For example, there are many programs, activities and cross-cutting functions within each of the organizations,

however, the organization is classified as only one assessable unit. Some of these elements may have high vulnerability and others low vulnerability. However, since each organization is considered as one assessable unit, these differing vulnerabilities would be averaged thereby negating the purpose of the entire process.

Chapter III of OMB Internal Control Guidelines provides that the most effective way to systematically perform an evaluation is to segment the agency first into organizational or other components and then into the programs and administrative functons within each component. Applying this approach would result in more comprehensive segmentation. There would be multiple, and therefore more meaningful, assessable units consisting of individual programs and administrative functions within most of the organizational components outlined in Attachment A of the ICOC memorandum. Accordingly, I believe ICOC should request the AID/W offices and missions to further segment their organizational components using, as a guide, a comprehensive list of program and administrative functions.

In fact, the list of programs and administrative functions found in Attachment B of the ICOC memorandum could be used as a guide for this purpose; however this list should be expanded. Some of the assessable functions for AID/W and missions listed in Exhibits A and B of our prior report on FMFIA (Report No. 0-000-84-14 dated November 30, 1983) are not included in Attachment B. For example, participant training, U.S. owned local currency, and agency sponsored research could be appropriately classified as assessable units in some organizational components. I believe that all of the assessable functions listed in our prior report should be included in the list of programs and administrative functions. Further, I believe that ICOC should request the Internal Control Working Group to add to this list any programs and administrative functions that they feel would be appropriate assessable units.

I am also concerned about the potential inconsistency in segmentation without more specific guidance to the missions. While a certain amount of flexibility at the mission level is needed, consistency would aid in a wider applicability of subsequent internal control review recommendations. For example, all missions could spot check for weaknesses found during an internal control review at another mission. If, as stated in its October 30, 1984, memorandum, the ICOC can only provide the missions with general guidance, I believe the ICOC should closely monitor proposed segmentation by each mission and make appropriate recommendations to promote consistency where possible.

One additional suggestion regarding the tone of the memorandum. Rather than the concept that this must be done because of OMB

and the IG it seems a more constructive tone would be preferred. For example, there are some very good reasons the Act was established, i.e. improved management through strengthened controls, reduce fraud, waste, abuse, etc. A reference to the interest and involvement of top management might also be helpful. In this regard, the designated internal control official may wish to sign the memorandum.

I am pleased that the ICOC is striving to comply with OMB guidelines on implementing FMFIA. I hope you will find the above suggestions helpful in finalizing your segmentation efforts.

Attachment
M/FM Memo dtd 10/30/84

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ATTACHMENT A

October 30, 1984

MEMORANDUM

To : Internal Control Working Group (See Distribution)

From : Donald F. Walls, M/FM

Ref. : State 274742

Subject: Vulnerability Assessments and Internal Control Reviews Under the Federal Managers Financial Integrity Act of 1982 and OMB Circular A-123

As you know, we have commenced preparations for the Administrator's Annual report to the President and the Congress affirming the reasonable assurance of the adequacy of internal controls, disclosing any material weaknesses and identifying planned corrective actions. The first such certification was prepared for the Administrator's signature last year based on individual certifications from each U.S.A.I.D. Mission Director and AID/W Bureau and Division and we will follow a similar course this year.

You will remember that in the fall of 1982, USAIDs and Washington offices completed Internal Control Vulnerability Assessment questionnaires which provided consolidated schedules of internal control weaknesses. For our prompt action to implement the internal control provisions of the FMFIA, A.I.D. received compliments and high ratings from the OMB. Subsequently, however, OMB issued Internal Control Guidelines in December 1982 and Circular A-123 in August 1983 amplifying the FMFIA and delineating a uniform process for all agencies to follow in complying. While the system is flexible enough to accommodate differing approaches by different agencies, it does specify a process of seven steps:

- Organizing the Process
- Segmenting the Agency into organizational components, and then identifying the programs and administrative functions conducted in each component.
- Assessing the vulnerability to waste, loss, unauthorized use or misappropriation of the funds, property or other assets within each component.
- Designing phases and schedules for the performance of internal control reviews and other actions.
- Reviewing the internal controls for selected programs and administrative functions.

- o Determining, scheduling and taking the necessary corrective actions.
- o Preparing the annual statement to the President and the Congress.

While agreeing that our early initiative has enabled A.I.D. to make significant strides in improving internal control, OMB and the IG have become insistent that we adopt the process incorporated in the Guidelines and summarized above. This we have agreed to fully comply with in 1985 and are currently evaluating a self-teaching program developed by a contractor for another Federal agency for possible distribution to the field and AID/W offices.

A major concern of the OMB, and the IG was that our initial assessment, based as it was on each USAID Mission and AID/W Bureau as an assessable unit, was not sufficiently segmented (Step 2 in the process above) to provide detailed review of all programs and functions. The Guidelines provide that Agencies may segment either along organizational or program lines as long as all programs and administrative functions are reviewed. We have made an initial effort to segment AID/W along organizational lines and have arrived at the list of 176 assessable units which are appended hereto as Attachment A. We would like you to review these and provide any additions, deletions or comments you may have to Don Walls, M/FM, Room 525 SA-12, telephone 632-0184 by November 9, 1984. If sufficient difference of opinion exists, we will have a meeting of the working group to arrive at a consensus. On the basis of this poll or such meeting, we will provide a final list for ICOC approval. This list will then be distributed to each Assessable Unit manager along with a listing of cross-cutting program responsibilities (Attachment B) and additional guidance which should be considered in the Vulnerability Assessments and Internal Control Reviews which we must perform in 1985.

USAID Missions will also be expected to segment into more manageable Assessable Units. Our thinking is that although we will provide more guidance we will leave the actual segmentation to individual USAIDs since organizational structures within each mission vary widely. We will furnish the AID/W Assessable Unit listing and provide general guidance for the segmentation exercise. This decision is, of course, subject to ICOC ratification.

We cannot stress too heavily how much importance the OMB is putting on internal control generally and this process specifically. Please give it your priority attention and let us have your comments as soon as possible.

Attachments: a/s

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AGENCY FOR INTERNATIONAL DEVELOPMENT
AID/W ASSESSABLE UNITS

Office of the Administrator, A/AID
1. Administrator
2. Deputy Administrator
3. Counselor

Office of the Executive Secretary, ES
4. Immediate Office
5. Communications Coordination Staff

Bureau for Program and Policy Coordination, PPC
6. Assistant Administrator
7. Executive Management Staff
8. Office of Policy Development and Program Review
9. Office of Economic Affairs
10. Center for Development Information and Evaluation
11. Office of Planning and Budgeting
12. Office of Women in Development
13. Office of Donor Coordination

Bureau for Science and Technology
14. Office of the Senior Assistant Administrator
15. Office of Program
16. Office of Management
17. Office of Technical Review and Information
18. Directorate for Food and Agriculture
19. Office of Agriculture
20. Office of Nutrition
21. Directorate for Energy and Natural Resources
22. Office of Forestry Environment and Natural Resources
23. Office of Energy
24. Directorate for Human Resources
25. Office of Rural and Institutional Development
26. Office of Education
27. Office of International Training
28. Directorate for Health and Population
29. Office of Health
30. Office of Population

Bureau for Management
31. Office of the Assistant to the Administrator for Management

Office of Personnel Management
32. Office of the Director
33. Labor Relations Staff
34. Executive Personnel Management Staff
35. Executive Placement and Recruitment Staff
36. Civil Service Personnel
37. Policy Planning Staff
38. Resources Planning Staff
39. Foreign Service Personnel
40. Employee Relations and Services Division
41. Position Management and Classification Division
42. Administrative Officer

Office of Financial Management
43. Controller
44. Deputy Controller for Overseas Operations
45. Executive Officer
46. Accounting Systems Division
47. Budget Division
48. Central Accounting Division
49. Employee Services Division
50. Loan Management Division
51. Program Accounting and Finance Division
52. Support Services Division

Bureau for Food for Peace and Voluntary Assistance
53. Assistant Administrator and Coordinator
54. Administrative Officer
55. Office of Program Policy and Evaluation
56. Office of Private and Voluntary Cooperation
57. Office of Food for Peace
58. Office of American Schools and Hospitals Abroad

Directorate for Program and Management Services
59. Associate Assistant to the Administrator for Management
60. Administrative Operations Assistant
61. Executive and Overseas Management Service
62. Office of Information Resources Management
63. Planning and Evaluation Division
64. Mission and Program Services Division
65. Technical Support Division
66. AID/W Client Services Division
67. Mandated Management Programs Division
68. Automation Support Division

69. Office of Management Operations
70. Communications and Records Management Division
71. Resources Management Division
72. Publications Management Division
73. Travel and Transportation Management Division
74. Office of Contract Management
75. Services Operations Division
76. Regional Operations Division
77. Central Operations Division
78. Support Division
79. Office of Commodity Management
80. Africa, Latin America and the Caribbean and Interregional Division
81. Near East and Asia Division
82. Commodity and Procurement Support Division
83. Government Property Resources Division
84. Transportation Support Division
85. Surveillance and Evaluation Division

Bureau for Private Enterprise
86. Assistant Administrator
87. Administrative Office
88. Office of Policy and Program Review
89. Office of Investment
90. Office of Housing and Urban Programs
91. The President's Task Force on International Private Enterprise

Bureau for Africa
92. Assistant Administrator
93. Office of Program Management Resources
94. Executive Management Staff
95. Office of Development Planning
96. Office of Technical Resources
97. Office of Project Development
98. Office of Sahel and West African Affairs
99. Office of Southern Africa Affairs
100. Office of Central Africa Affairs
101. Office of Coastal West Africa Affairs
102. Office of Eastern Africa Affairs
103. Office of Regional Affairs

Bureau for Asia
104. Assistant Administrator
105. Executive Management Staff
106. Office of Development Planning
107. Finance Division
108. Office of Project Development
109. Office of Technical Resources
110. Office of Bangladesh and India Affairs
111. Office of Pakistan, Nepal and Sri Lanka Affairs
112. Office of Philippines, Thailand and Burma Affairs
113. Office of Indonesia and South Pacific/ASEAN Affairs

Bureau for Latin America and the Caribbean
114. Assistant Administrator
115. Executive Management Staff
116. Controller Staff
117. Office of Development Resources
118. Office of Development Programs
119. Office of Caribbean Affairs
120. Office of Central American an Panamerican Affairs
121. Office of South American and Mexican Affairs

Bureau for Near East
122. Assistant Administrator
123. Executive Management Staff
124. Office of Development Planning
125. Controller
126. Office of Project Development
127. Office of Technical Support
128. Office of Near Eastern/North African Affairs
129. Office of Egypt Affairs
130. Office of Middle East Affairs
131. Office of European Affairs

Bureau for External Affairs
132. Assistant to the Administrator for External Affairs
133. Administrative Officer
134. Office of Media
135. Office of Publications
136. Office of Public Inquiries
137. Office of Interbureau Affairs and Special Projects

Office of Legislative Affairs
138. Director
139. Congressional Liaison Staff
140. Program Presentation and Legislative Projects Division

Office of the Inspector General
141. Inspector General
142. Executive Management Staff
143. Office of Policy, Plans and Programs
144. Regional Inspector General for Audit/Washington
145. Regional Inspector General for Audit/Latin Ameri
146. Office of Investigations and Inspections
147. Office of Security

Office of the General Counsel
148. General Counsel
149. Assistant General Counsel for Africa
150. Assistant General Counsel for Latin American and
151. Assistant General Counsel for Asia
152. Assistant General Counsel for Near East
153. Assistant General Counsel for Legislation and Po
154. Assistant General Counsel for Employee and Publi
155. Assistant General Counsel for Central Programs
156. Assistant General Counsel for Litigation and Enf
157. Assistant General Counsel for Contract and Commo
158. Assistant General Counsel for Housing
159. Assistant General Counsel for Private Enterprise
160. Administrative Operations Assistant

Office of Equal Opportunity Programs
161. Equal Opportunity Programs

Office of Small an Disadvantaged Business Utilization
162. Small and Disadvantaged Business Utilization

Office of U.S. Foreign Disaster Assistance
163. Director
164. Asia and Pacific Division
165. Latin American, Caribbean an Africa Division
166. Operations Support Division
167. Administrative Officer
168. Congressional Liaison Officer

Office of the Science Advisor
169. Science Advisor

BIFAD Support Staff
170. Executive Director
171. Country Programs Division
172. Research Division
173. Institutional and Human Resources Division

Advisory Committee on Voluntary Foreign Aid
174. Chairman

Board for International Food and Agricultural Development
175. Chairman

AID Research Advisory Committee
176. Chairman

Attachment B

GENERAL AND ADMINISTRATIVE

- General policy and direction

  - management plans and policies
  - formal plan of organization
  - program administration/management

- Budget

  - planning and formulation
  - execution

- Financial management

  - organization and management
  - fund accounting/fund control
  - general ledger/maintenance of accounts
  - cost accounting
  - property accounting
  - advances
  - memorandum accounting
  - cash management
  - travel
  - pay, leave, allowances
  - voucher examination
  - collections
  - FACS/MACS

- Administrative support

  audit
  communications
  health care
  legal
  printing and reproduction
  public affairs
  security

- Logistics management

  maintenance activities
  supplies and inventories
  transportation

- Personnel

  staffing
  training
  morale and welfare
  PERs
  Assignment

2

- o Procurement

  - management
  - contract award
  - contract administration
  - small purchases

- o Property

  - personal property
  - equipment
  - real property and facilities

- o ADP

  - systems analysis and design
  - programming services/software support
  - operation and maintenance of computer systems
  - security

PROGRAM AND MISSION

- o Third parties

  - grants
  - contractors
  - PVOs
  - debt collection

- o Program Management

  - project design
  - project evaluation
  - program guidance, plans, and policies
  - resource management (funds, personnel, etc.)
  - tracking systems/data management
  - cost analysis activities
  - program effectiveness activities (oversight and evaluation)
  - security
  - PL 480

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

MEMORANDUM

16 NOV 1984

TO: RIG/A/W, E. John Eckman

FROM: AA/M, R. T. Rollis, Jr.

SUBJECT: Draft Audit Report "AID Needs to do More to Comply With the Federal Managers' Financial Integrity Act"

It is unfortunate that the report criticizes AID for addressing known weaknesses or emphasizing substance over process, implying the lack of an institutionalized approach to internal controls. We recognize the differences between these two approaches and the advantages of institutionalizing the internal control process. In fact, at the entrance conference, we readily agreed that our process differed from OMB's and that we are taking steps to more closely comply with the OMB process. Nevertheless, we believe the approach taken by AID should be acknowledged and recognized for its accomplishments, especially at our overseas missions.

When the internal control efforts first started in 1982, I used AID's senior Controllers, with extensive knowledge of AID's operations together with the Deputy Bureau AAs to do an extensive review and analysis of AID's payment policies and the various levels of vulnerability in using these payment policies. This group was called the Payment Verification Task Force and during the early months of A-123 also served as the Internal Control Oversight Committee. Based upon this extensive knowledge base, two significant efforts were developed for improving internal controls.

1. A detailed mission questionnaire was prepared which asked many very specific internal control type questions to determine if safeguards existed in several internal control areas which these senior Controllers already knew from experience were susceptible to abuse. This questionnaire concentrated on safeguards and went considerably beyond the more general vulnerability assessments proposed by OMB in later guidance. In an agency like AID, where several internal control weaknesses were already known, it did not appear to make much sense to do the more cursory general assessment to determine the existence of a possible weakness when you already had knowledge of significant areas of weaknesses.

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2. In addition, the Payment Verification Task Force developed several broad cross cutting policy changes that the Administrator endorsed in 1983. These policy changes, like the questionnaires, were developed by senior knowledgeable AID employees and addressed the need for assessing the appropriate methods of implementation and financing for use in specific countries and missions early in the planning process. Other policy changes dealt with the need to do overall assessments of procedures used by host country governments and policy changes to strengthen AID's verification, auditing and other monitoring procedures.

The IG report does not fairly describe the efforts at improving internal control that have taken place within AID, and instead presents a report criticising AID for failing to follow a "process". It is somewhat amusing to be criticised as we are on page ii of the Executive Summary where it first says "...vulnerability assessments were used with effectiveness to identify internal control weaknesses..." but then imply criticism because they went beyond the more general assessments intended by OMB.

I would expect the IG report to recognize the knowledge base that does exist in AID and commend the Administrator's efforts at getting to the heart of some of these known weaknesses early in the effort, especially when AID's overall direct hire staff has been declining. We do not see where the report recognizes the realities of the foreign aid program and its complexities and the serious effort AID has been making in getting the missions to address seriously the matter of internal control. Rather than reporting our efforts, which have been acknowledged as different, plus our subsequent efforts to mesh that approach with that of OMB, AID has been depicted as being out of step with the government efforts on strengthening internal control.

Finally, the Executive Summary is inconsistent with the body of the report. At the minimum, we request that the summary accurately reflect your findings with more fairness and perspective.

Our specific comments on the draft audit report are included in the attachment.

ATTACHMENT

Specific Comments on IG Draft Report on Internal Controls

Executive Summary:

We feel that the matter at the end of this section (pages iii to v) should precede the listing of "AID still has not" beginning at the bottom of page i and include the fact that AID has developed a timetable for conversion to the OMB promulgated system commencing in 1985 and communicated such intention to OMB.

The statement in the first full paragraph on page iv that GAO, OMB and IG expected considerably more progress is not supported by any communication to us during the year. Appendix I to the report is dated October 15, 1984 - after completion of the audit and states that the expectations listed are only "benchmarks" and not hard and fast standards. It makes clear that the "reasonableness" of an Agency's performance is to be judged on the particular circumstances. In light of the effort and progress we were recording in correcting identified weaknesses during 1984 we believed and have every reason to believe our performance to be reasonable. The bottom line of this program is to correct weaknesses and we will confidently match our record with other Agencies' performance. The executive summary should reflect this.

The second paragraph on page iii should refer to internal control weaknesses identified in 1983, and not 1982. Our count is 283 rather than 285 and as of September 30, 1984 only 59 had not been corrected; we consider this to be worthy of favorable comment rather then the criticism which appears as written.

The third paragraph on page iii is mixing apples and oranges. Individual weaknesses were repeated in many units and certain weaknesses perceived as important at individual missions were not considered material weaknesses of the Agency as a whole. If you believe we have failed to report material weaknesses, this paragraph should highlight them but the report does not disclose this to be the case.

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PAGE 2

The fourth paragraph on page iii, in order not to be misleading, should be changed. Our new accounting system is in process of installation. We will report on the inadequacies of our current system and are working with our contractor to assure that the new system possesses all the criteria of adequacy when fully implemented.

Policies and Procedures Should Reflect OMB Guidelines:

The carryover paragraph at the top of page 6 is incorrect in saying "contrary to OMB guidance" The internal control vulnerability assessment questionnaire was distributed prior to the promulgation of the OMB guidelines so could not be in contravention of them. In any event, the questionnaire directed the missions' review efforts into ten functional areas and so anticipated the guidelines. Further, internal control actions are being monitored by ICOC through the Internal Control Manager.

The first full paragraph on page 6 should disclose that the Agency's fragmented guidelines on the seven steps listed are being brought together and formalized through an instruction module just coming off the presses and will be distributed to all assessable units in the near future.

FMFIA Training Programs:

The second full paragraph on page 7 should make clear that the self-teaching module will be introduced to managers in formal training sessions to fully acquaint them with the entire OMB process.

ICOC Meetings and Activities:

The first paragraph on page 8 under this heading should point out that the IG representative to the ICOC is among those not attending meetings.

The second paragraph is inaccurate in stating that staff responsibilities are not set forth in writing. In addition to the overall responsibilities described in AID's Internal Control Directive, several individuals have specific internal control responsibilities included in their annual performance plans.

The first full paragraph on page 9 should be expanded to indicate that quality testing is included in the 1985 work plan after there are ICRs to review.

Segmenting the Agency:

On October 30, 1984 a proposed segmentation of AID/W into 176 assessable units was distributed for comment to AID/W bureaus internal control contacts. Very few changes were suggested and we expect to submit a final list to the ICOC for ratification shortly. This will be followed by guidance to overseas missions, instructing them to segment each USAID into assessable units appropriate to its size and organization. We believe this information should be substituted for the suggested material under this heading. As we indicated earlier, it is not correct to state that each overseas mission was categorized as only one assessable unit.

We believe Recommendation Nos. 4 and 6 are no longer necessary.

Vulnerability Assessments:

We have no quarrel with this material including Recommendation Nos. 7 and 8 but believe it should be made clear early on that AID is planning to conduct Vulnerability Assessments early in 1985 upon distribution of the self-teaching module and appropriate training.

Planning and Scheduling Internal Control Reviews and Other Actions:

The material leading to Recommendation Nos. 9 and 10 is subject to the same observation as Vulnerability Assessments above.

Many Corrective Actions Taken:

This first paragraph on page 33 should indicate that 224 of the 283 weaknesses (80%) identified in 1983 were corrected as of September 30, 1984. The carryover paragraph at the top of page 34 is now redundant, especially since we cannot predict how many weaknesses may be corrected during the last quarter of 1984.

Tracking Corrective Actions Needs Improvement:

While we have no objections to Recommendation Nos. 14 and 15, we believe this section should be re-written. The recommended new tracking system will be applicable to the

ATTACHMENT
PAGE 4

new VA/ICR system we are introducing in 1985. The current tracking system is satisfactory in the current circumstances. Among the items listed, some are clearly inapplicable and the other data may be easily retrieved, if useful.

AID NEEDS TO DO MORE TO COMPLY WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

LIST OF REPORT RECOMMENDATIONS

Page

Recommendation No. 1 — 6

We recommend the Administrator ensure that written operating policies and procedures are amended to fully institutionalize OMB's seven step evaluative process.

Recommendation No. 2 — 6

We recommend the Administrator ensure that a comprehensive FMFIA training program and schedule are developed for management and staff who oversee and conduct vulnerability assessments and internal control reviews.

Recommendation No. 3 — 6

We recommend the Administrator continue strong visible support for the FMFIA and ensure that the Internal Control Manager and all ICOC members are directly involved in ICOC meetings and other activities, including initiatives to: delineate ICOC staffing responsibilities; clarify ICOC's decision-making process; and establish ICOC quality control reviews.

Recommendation No. 4 — 9

We recommend the Administrator ensure that each USAID and all bureaus and offices in Washington segment their respective organizational programs and administrative functions into assessable units of an appropriate nature and size.

LIST OF REPORT RECOMMENDATIONS (Cont.)

	Page
Recommendation No. 5 We recommend the Administrator ensure that uniform guidance on segmentation procedures is available to all USAIDs, bureaus, and offices.	9
Recommendation No. 6 We recommend the Administrator ensure that an agency-wide inventory of assessable units is developed and maintained by ICOC.	9
Recommendation No. 7 We recommend the Administrator ensure all USAIDs, bureaus and offices conduct vulnerability assessments in accordance with the AID directive and OMB guidelines for a quick perception of the potential for loss.	13
Recommendation No. 8 We recommend the Administrator ensure that ICOC monitor and evaluate the results of vulnerability assessments and the related assurance statements to promote consistency among similar assessable units.	13
Recommendation No. 9 We recommend the Administrator ensure that uniform guidance is made available to each assessable unit in USAIDs, bureaus, and offices to help plan and schedule ICRs and other appropriate actions in a priority manner based on the results of the vulnerability assessments.	16

LIST OF REPORT RECOMMENDATIONS (Cont.)

	Page
Recommendation No. 10	18
We recommend the Administrator ensure that a sufficient number of internal control reviews are performed in accordance with OMB guidelines.	
Recommendation No. 11	18
We recommend the Administrator ensure that ICOC review the results of all ICRs and instruct other AID components to consider applicable ICR recommendations for their operations.	
Recommendation No. 12	19
We recommend the Administrator ensure that when ICRs are performed by a contractor, the scope of work include a training provision for agency staff.	
Recommendation No. 13	19
We recommend the Administrator ensure that written guidance is established for performing internal control reviews including AID managers' involvement when contractors perform such reviews.	
Recommendation No. 14	22
We recommend the Administrator ensure that written guidance is established for taking corrective actions on identified weaknesses in an expeditious manner.	

LIST OF REPORT RECOMMENDATIONS (Cont.)

Page

Recommendation No. 15 22

We recommend the Administrator ensure that ICOC improve its corrective action tracking system by including: (a) all assessable units and their degree of vulnerability; (b) planned and actual target dates; and (c) summary information on the results and status of the evaluative process.

Recommendation No. 16 25

We recommend the Administrator ensure that consideration be given to the Congressional Committee on Government Operation's suggestion that material weaknesses reported in the year-end statement to the President and the Congress include problems that are significant to a program or individual agency component.

Recommendation No. 17 27

We recommend the Administrator report to the President and the Congress, beginning in December 1984, weaknesses in AID's existing accounting system and the status of the new accounting system implementation.

Recommendation No. 18 27

We recommend the Administrator ensure that AID evaluate each phase of the new accounting system as it becomes operational and, beginning in December 1985, include the results in the annual statement to the President and the Congress.

Recommendation No. 19 28

We recommend the Administrator receive periodic progress reports regarding contractor performance in implementing the remaining phases of the new accounting system.

AID NEEDS TO DO MORE TO COMPLY WITH THE
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

LIST OF REPORT RECIPIENTS

The Administrator	1
Office of the Executive Secretary, ES	1
Internal Control Oversight Committee	14
Bureau for Management, AA/M	1
Bureau for Africa, AA/AFR	1
Bureau for Asia, AA/ASIA	1
Bureau for Latin America and the Caribbean, AA/LAC	1
Bureau for Near East, AA/NE	1
Bureau for External Affairs, AA/XA	1
Office of Press Relations, XA/PR	1
Bureau for Food for Peace and Voluntary Assistance, AA/FVA	1
Bureau for Private Enterprise, AA/PRE	1
Bureau for Program and Policy Coordination, AA/PPC	1
PPC/CDIE/DI	2
Bureau for Science and Technology, SAA/S&T	1
BIFAD Support Staff, BIFAD/S	1
Office of Financial Management, M/FM/ASD	2
Office of Equal Opportunity Programs, EOP	1
Office of the General Counsel, GC	1
Office of Legislative Affairs, LEG	1
Office of the Science Advisor, SCI	1
Office of Small and Disadvantaged Business Utilization, SDB	1
Office of U.S. Foreign Disaster Assistance, OFDA	1
Directorate for Program and Management Services,	
M/SER/MO	1
M/SER/ECMS	1
AID Overseas Missions	69
Office of the Inspector General	1
AIG/Audit	1
IG/PPP	1
AIG/II	1
AIG/SEC	1
IG/EMS/C&R	16
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Karachi	1
RIG/A/LA	1
RIG/A/Manila	1
RIG/A Nairobi	1