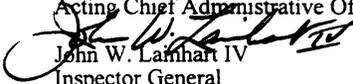


John W. Lambert IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: Jeff Trandahl
Acting Chief Administrative Officer

FROM: 
John W. Lambert IV
Inspector General

DATE: December 23, 1996

SUBJECT: Audit Report - The House Struggles With The Management Of The New
Financial Management System (Report No. 96-CAO-12)

This is our third report on the House's implementation of the Federal Financial System (FFS). The objective of this audit was to assess the completion of Phase II tasks of the FFS implementation and adequacy of the day-to-day operations since the implementation of FFS on June 4, 1996. We focused our review on the Phase II tasks that were not completed by the June 4, 1996 implementation and problems that the Office of Finance has experienced in managing the day-to-day operations under the new financial management system.

In response to our November 18, 1996, draft report, your office concurred with our findings and recommendations. The formal management response provided by your office is incorporated in this final report and included in its entirety as an appendix. The corrective actions planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations.

We appreciate your office's positive response and concurrence with the recommendations, and the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Craig Silverthorne at (202) 226-1250.

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Oversight
Ranking Minority Member, Committee on House Oversight
Members, Committee on House Oversight

**The House Struggles With The Management
Of The New Financial Management System**

*Report No. 96-CAO-12
December 23, 1996*

RESULTS IN BRIEF

CONCLUSIONS

Despite the implementation of the core components of the House's new financial management system (American Management System's Federal Financial System (FFS)) on June 4, 1996, a number of key tasks have still not been completed. Without the completion of these tasks, the House may not benefit fully from the use of FFS or correct previously identified financial management weaknesses with the implementation of additional features of the new system. Furthermore, as a result of the delayed completion of these tasks, user confidence in the new system has been negatively impacted. These tasks have not been completed because the Office of Finance (Finance) management did not provide enough resources to perform the day-to-day operational tasks required by the new system and complete the remaining Phase II implementation tasks.

In addition, Finance has experienced problems with the day-to-day operations of the new system. These problems include (1) untimely and incomplete financial reports, (2) backlogs of unprocessed payments, and (3) errors in processing transactions. As a result of these problems, the user community believes that the new system is the source of the problems, when in fact the problems are a result of weaknesses in the management of the new system and not the new system itself.

RECOMMENDATIONS

We recommend that the Chief Administrative Officer: (1) establish an infrastructure in Finance to support the new tasks associated with the day-to-day operations of FFS by taking the necessary steps to ensure that adequate resources with the proper qualifications are available in Finance to fill the roles and responsibilities under the new infrastructure; (2) establish a separate infrastructure in Finance to support the continuous FFS implementation project; (3) determine the level of effort required to complete Phase II tasks and establish realistic completion dates based on the amount of time required to complete tasks and taking into consideration available resources; (4) fully document requirements for changes to the Monthly Financial Statement and the Statement of Disbursements; (5) when planning to make changes to reports, prepare a level of effort analysis to determine how much time is needed to identify and document requirements (i.e., the changes), make the changes, and test the changes, and using information on available resources, identify realistic completion dates that support issuing reports by expected issuance dates; (6) devote more resources from Finance to produce and review the Monthly Financial Statement and the Statement of Disbursements; (7) identify and plan for additional support from data entry contractors to maintain the acceptable productivity rate during peak periods in the payment process by analyzing past years' workload levels and decreased productivity rates when changes to policies and operating procedures are implemented; (8) expeditiously complete policies and operating procedures associated with the Phase II implementation; (9) modify existing policies and operating procedures to add steps that will help minimize the errors experienced to date; (10) identify and use standard FFS reports, such as the daily FFS transaction report to monitor accuracy of data entered into FFS; and (11) establish an organization structure within Finance to review transactions processed in FFS on a regular basis.

MANAGEMENT RESPONSES

On December 23, 1996, the Acting Chief Administrative Officer (CAO) fully concurred with the findings and recommendations in this report, and indicated that corrective actions are planned (see Appendix).

Specifically, the Acting CAO plans to prepare for review by the Committee on House Oversight by January 15, 1997 an organization and staffing plan to optimize the day-to-day operations of FFS. As part of this organization and staffing plan, a separate group within Finance will be staffed to support the continuous FFS Implementation Project. Additionally, by January 15,

1997, the Acting CAO plans to prepare a schedule of level of effort by task required to complete the implementation of Phase II of FFS. The Acting CAO also plans to document, formally review, and present to the FFS Steering Committee for approval all changes to the Monthly Financial Statement, as well as the Statement of Obligations, and Statement of Disbursements. The Acting CAO also indicated that Finance will dedicate personnel to ensure the timeliness and accuracy of the statements. In addition, Finance plans to use its records on voucher flow and productivity, as well as historical data to ensure that forecasted periods of reduced productivity are properly addressed. The Acting CAO also plans to include in his plan to complete the implementation of Phase II the task to complete policies and operating procedures. Finance is also undertaking a plan to modify existing policies and procedures to add steps that will help minimize the errors experienced to date. Finance also plans to review all applicable standard FFS reports to identify their utility.

OFFICE OF INSPECTOR GENERAL COMMENTS

The Acting CAO's planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

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I. INTRODUCTION

Background

The implementation of a new financial system was mandated by the Committee on House Oversight (CHO) resolution--*Financial Management System*--on August 3, 1995. This new system was to replace the existing Financial Management System (FMS). FMS could be likened to a large personal checkbook, which was limited to keeping a running balance of cash receipts/expenditures as opposed to a fully functional accrual-based financial management system.

As a result, in September 1995, the Chief Administrative Officer (CAO) formally entered into a cross-servicing agreement with the U.S. Geological Survey (USGS), Washington Administrative Service Center (WASC), to implement USGS's Federal Financial System (FFS) for the House. The implementation of FFS would offer the House the ability to follow Federal accounting standards, because FFS complies with financial management requirements for Federal financial management systems. The FFS license that USGS has with American Management Systems (AMS) allows USGS to provide cross-servicing to external Federal government agencies. Full implementation was scheduled for four phases. Phase I involved identifying and setting up the functionality of FFS to support parallel processing of payment transactions and identifying the needs for custom interfaces and reports. This phase was completed on September 30, 1995. Phase II includes establishing the "Core" FFS system, custom interfaces, and custom reports at the House and is not complete. Phase III is currently being planned, and Phase IV is to be determined at a later date.

In September 1995, the CAO formed a Financial Management System Executive Steering Committee to oversee the implementation of the new financial management system. The committee includes various senior officials of the CAO, CHO, the Library of Congress, General Accounting Office, and WASC. The committee also includes the Inspector General and a partner from Price Waterhouse LLP (PW) as advisors.

Additionally, on September 29, 1995, the Office of Inspector General (OIG) engaged PW to review, evaluate, and provide advice on various aspects of the House's implementation of FFS. Since that time the OIG/PW team has worked closely with the FFS Implementation Team performing these tasks throughout Phases I and II. The OIG/PW team performed detailed reviews of and provided advice in the following areas:

- Project management infrastructure and activities.
- Implementation and transaction testing of FFS Subsystems.
- Documentation of user procedures for the FFS Subsystems.

- Development of training for users.
- Implementation and unit testing of custom interface programs.
- Implementation and unit testing of custom reports produced from FFS.
- Review of FFS technical architecture.
- Security setup of FFS.
- Conversion of FMS into FFS and verification of the conversion's accuracy.
- System acceptance testing.

On June 3, 1996, the OIG issued an audit report entitled *The House Is Ready To Implement The Core Federal Financial System* (Report No. 96-CAO-04, June 3, 1996) to the CAO. This audit verified that the critical Phase II implementation tasks had been completed and indicated that the House could cut-over to the new system on that date. However, the report also recognized that there were additional tasks from Phase II that were not fully completed that required completion expeditiously to maintain user confidence and trust in the new financial management system. Listed below are the tasks that were not fully completed at the time of the implementation of the core FFS on June 4, 1996.

- Resolution of problems with the custom reports identified during unit testing of the custom report programs.
- Enhancements and associated testing of custom reports to provide easier to read reports.
- Development of FFS security policies and procedures.
- Conversion and verification of remaining months of FMS data.
- Modifications and associated testing of custom interface programs.
- Development of operating policies and procedures for interface programs and reports.
- Establishment of a user support process to resolve user questions and problems.
- Development of user procedures for the remaining FFS subsystems: Budget Execution, Planning, Purchasing, Project Cost Accounting, and General Ledger.
- Development of training for the remaining FFS subsystems: Budget Execution, Planning,

Purchasing, Accounts Receivable, Automated Disbursements, Project Cost Accounting, and General Ledger.

- Execution of system acceptance testing for the above referenced modifications to custom interface programs and enhancements to custom reports.

Although these remaining tasks did not have direct impact on the system being ready for use on June 4, 1996, the OIG report recommended that the tasks be completed no later than the end of July 1996 to ensure user confidence in the new system.

On June 4, 1996, the CHO approved the CAO's request, dated June 4, 1996, to implement FFS as an interim accrual accounting system for the House. However, the CHO also instructed the CAO to take the necessary steps to ensure that all of the remaining Phase II tasks were completed according to the OIG's report. On June 4, 1996, the House began using FFS to process the House's financial transactions.

Objective, Scope, And Methodology

The objective of this audit was to assess the completion of Phase II tasks of the FFS implementation and adequacy of the day-to-day operations since the implementation of FFS on June 4, 1996. We focused our review on the Phase II tasks that were not completed by the June 4, 1996, implementation and problems that the Office of Finance (Finance) has experienced in managing the day-to-day operations under the new financial management system. We conducted our review during the period of June 4, 1996, through October 31, 1996.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In conducting this review, we attended FFS Implementation Team meetings, reviewed FFS Implementation Project-related documents, reviewed data entered into FFS, and interviewed FFS Implementation Team members. Our review included a comparison of FFS implementation activities to the following:

- System development life cycle methodologies.
 - - National Institute of Standards and Technology's (NIST) Special Publication 500-153 - Guide to Auditing for Controls and Security: A System Development Life Cycle Approach.
 - - Price Waterhouse LLP - System Management Methodology: Package Software Implementation.
- Standard project management practices.

- Recommendations contained in the OIG audit report issued on June 3, 1996.
- Instructions contained in the June 4, 1996 memorandum from the CHO concerning the implementation of FFS.

Internal Controls

Within the scope of this audit, we evaluated internal controls related to the implementation of FFS. The internal controls weaknesses we identified are described in Findings A and B of this report.

Prior Audit Coverage

The House Is Ready To Implement The Core Federal Financial System (Report No. 96-CAO-04, dated June 3, 1996): This report verified that critical FFS Phase II implementation tasks had been completed. However, the report identified additional actions needed to be taken to fully complete Phase II. In addition, the report identified planning and management recommendations for Phase III implementation of FFS. The CAO agreed with the report's findings and two recommendations and partially implemented one recommendation, but has not taken action on the remaining recommendation. (See Exhibit A for details.)

House Is Experiencing Problems With The Implementation Of The Core Federal Financial System (Report No. 96-CAO-02, dated March 1, 1996): This audit identified System Development Life Cycle (SDLC) methodology deficiencies and included recommendations to improve the SDLC methodology, quality assurance, and project management of the FFS implementation process. The CAO agreed with the report's findings and 16 recommendations and has implemented eight recommendations and partially implemented six recommendations, but has not taken action on the remaining two recommendations. (See Exhibit A for details.)

Proposed New Financial Management System Will Not Meet The House's Needs And Should Be Terminated (Report No. 95-CAO-02, dated May 12, 1995): This review evaluated the functional adequacy of the proposed Financial Management System and the SDLC procedures that were utilized in the development of the system. This report recommended that the system be terminated and also made recommendations to improve the SDLC practices within House Information Resources (HIR) as well as management oversight. The CAO agreed with the report's findings and five recommendations and has implemented three of the recommendations and partially implemented two recommendations. (See Exhibit A for details.)

I. FINDINGS AND RECOMMENDATIONS

Finding A: Slow Completion Of Phase II Tasks Delays Improvements To The House's Financial Management System

Despite the implementation of the core components of the House's new financial management system (American Management System's Federal Financial System (FFS)) on June 4, 1996, a number of key tasks have still not been completed. Without the completion of these tasks, the House may not benefit fully from the use of FFS or correct previously identified financial management weaknesses with the implementation of additional features of the new system. Furthermore, as a result of the delayed completion of these tasks, user confidence in the new system has been negatively impacted. These tasks have not been completed because Finance management did not provide enough resources to perform the day-to-day operational tasks required by the new system and complete the remaining Phase II implementation tasks.

Federal agencies that implement new financial management systems generally plan for a full-time team to perform implementation tasks. In addition, these organizations usually take the necessary steps to ensure that once the new financial system is up and running, the accounting or finance office has the necessary resources available to handle the day-to-day operations of the new system.

The FFS Implementation Team has completed three of the ten tasks that were outstanding at the time of the implementation of the core FFS system on June 4, 1996. Listed below are the tasks that remain uncompleted.

- Conversion and verification of remaining months of FMS data.
- Modification and associated testing of custom interface programs.
- Development of operating policies and procedures for interface programs and reports.
- Establishment of a user support process to resolve user questions and problems.
- Development of user procedures for the remaining FFS subsystems: Budget Execution, Planning, Purchasing, Project Cost Accounting, and General Ledger.
- Development of training for the remaining FFS subsystems: Budget Execution, Planning, Purchasing, Accounts Receivable, Automated Disbursement, Project Cost Accounting, and General Ledger.
- Execution of system acceptance testing for year-end closing processes.

See Exhibit B for more details on the completion status of Phase II tasks.

With the exception of the efforts to implement Procurement Desktop, Phase III of the FFS implementation is on hold until Phase II tasks are completed. Given the current resources dedicated by the House to complete the Phase II tasks, these tasks will probably not be completed until the beginning of 1997. As a result, Phase III will probably not fully start until early 1997, when it should have started beginning in October 1996. This slippage will cause many of the planned improvements in the House's financial management to be delayed until the middle or end of Calendar Year 1997. For example, it is a high priority for Member, Committee, and House offices to have on-line access to FFS data. By having on-line access to FFS data, Member, Committee, and House offices would be able to have timely access to information on their available balances and payments processed by Finance. Thus, allowing these offices to make better planning and spending decisions and avoid overspending allowances.

The workplan that the FFS Implementation Team has been using to manage the completion of these tasks was not developed considering the level of effort required to complete the tasks and the available resources. We made the recommendation in our March 1996 audit report (Report No. 96-CAO-02) to develop a level of effort work plan for the implementation of FFS. The CAO still has not implemented that recommendation (see Exhibit A). Therefore, the FFS Implementation Team could not easily determine that the Phase II tasks would not be completed expeditiously or when the tasks would be completed. In addition, because there has not been enough resources available in Finance to perform the day-to-day operational tasks associated with using a new financial management system, the FFS Implementation Team has been taking responsibility for tasks that Finance should have been performing. For example, the FFS Implementation Team has been focusing a majority of time on producing Finance's monthly and quarterly reports, instead of completing Phase II tasks. Consequently, the FFS Implementation Team could not complete the Phase II tasks that they originally thought could be done by the end of October 1996.

Recommendations

We recommend the Chief Administrative Officer:

1. Establish an infrastructure in the Office of Finance to support the new tasks associated with the day-to-day operations of FFS. Take the necessary steps to ensure that adequate resources with the proper qualifications are available in the Office of Finance to fill the roles and responsibilities under the new infrastructure.
2. Establish a separate infrastructure in the Office of Finance to support the continuous FFS implementation project.

3. Determine the level of effort required to complete Phase II tasks and establish realistic completion dates based on the amount of time required to complete tasks and taking into consideration available resources. Utilize as much as possible the cross-servicing contractor.

Management Response

On December 23, 1996, the Acting CAO fully concurred with the finding and recommendations (see Appendix). As indicated in the response, the Acting CAO intends to implement all aspects of the recommendations.

Specifically, the Acting CAO plans to prepare for review by the Committee on House Oversight by January 15, 1997 an organization and staffing plan to optimize the day-to-day operations of FFS. As part of this organization and staffing plan, a separate group within Finance will be staffed to support the continuous FFS Implementation Project. Additionally, by January 15, 1997, the Acting CAO plans to prepare a schedule of level of effort by task required to complete the implementation of Phase II of FFS.

Office of Inspector General Comments

The Acting CAO's planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

Finding B: House Experiences Problems With The Day-to-Day Operations Of the New Financial Management System

Finance has experienced problems with the day-to-day operations of the new system. These problems include (1) untimely and incomplete financial reports, (2) backlogs of unprocessed payments, and (3) errors in processing transactions. As a result of these problems, the user community believes that the new system is the source of the problems, when in fact the problems are a result of weaknesses in the management of the new system and not the new system itself.

It is normal for organizations that have recently implemented a new financial management system to experience problems in the day-to-day operations of the new system. However, these organizations typically respond to the problems by ensuring that adequate resources with the necessary skills are available to resolve the problems.

Untimely and incomplete financial reports

Since the implementation of FFS, the Monthly Financial Statement and Statement of Disbursements have not been completed and distributed in a timely manner by Finance. These reports are the main source of information for Member, Committee and House offices to use in determining what obligations and payments have been processed by Finance, and more importantly their available balances. Therefore, it is essential for these offices to receive this information in a timely manner to manage their finances and make sound business decisions.

In addition to the reports not being issued in a timely manner, the Monthly Financial Statement did not originally include essential information needed to understand the obligation information presented in the budget to actual section of the report. Specifically, the first three Monthly Financial Statements issued using FFS did not contain detailed information on outstanding obligations. Although the Monthly Financial Statement for the fourth month did include an additional section that presented detailed information on outstanding obligations, all of the information presented was not useful to users. This was because the new section did not present all the information needed (i.e., expended amounts) and had columns mislabeled (i.e., column for liquidated amount was labeled expended amount). Consequently, the new section on outstanding obligations requires additional modifications in order to present the expended information.

Since the implementation of FFS, Finance has not completed or distributed the Monthly Financial Statement and Statement of Disbursements on time. Normally, the Monthly Financial Statement is issued by the ninth business day after the end of the month that is presented in the report, while the Statement of Disbursements is typically issued two months after the close of the quarter that is presented in the report. However, for the months of June and September 1996, the Monthly Financial Statement was issued late by at least 11 and 9 days, respectively. Furthermore, the June report was incomplete in that it did not include the budget to actual section of the report. In

addition, the Statement of Disbursements was issued approximately a month and half late for the quarter April through June 1996. Because users have not been getting information in a timely manner, spending decisions may have been made without full knowledge of available balances. Furthermore, the users believe that the new system requires more time to produce the reports.

The delays are actually a result of weaknesses in the management of the FFS Implementation Team and Finance. The FFS Implementation Team did not develop thorough requirements for the Monthly Financial Statement or the Statement of Disbursements. Even after the implementation of FFS, these reports were being changed to accommodate requirements that were not identified or documented prior to the development of the complete programs used to produce the reports. In addition, Finance underestimated the amount of resources necessary to produce and review the Monthly Financial Statement and Statement of Disbursements.

Payment backlogs increased

Immediately following the implementation of the core FFS system on June 4, 1996, the backlog of unprocessed vouchers rose to higher levels than previously experienced. Figure 1 presents the daily backlog of unprocessed payment transactions during the period April through August 1996.

As indicated in Figure 1, the backlog increased substantially in June and still remained higher than normal in July. The backlog amounts reflected in Figure 1 were determined based on extensive analysis of the number of payment transactions submitted on vouchers by the initiating offices against those actually processed by Finance.

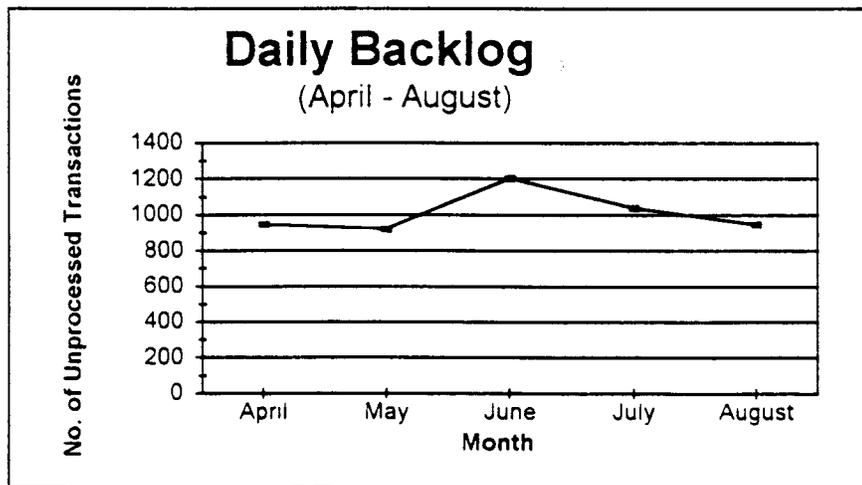


Figure 1 - Daily Backlog of Unprocessed Transactions (April - August 1996)

As a result of the backlogs of unprocessed payments, checks to vendors and reimbursements to Members and House employees were not issued in a timely manner. These problems resulted in the user community believing the new system was the cause for the delayed payments.

It is normal for organizations that recently implemented a new financial management system to require more time to process transactions. However, most organizations take the necessary steps to obtain additional resources to handle problems or increased processing time that may result from using a new system. These additional resources are used until users learn the new system, able to resolve problems, and process transactions as quickly as with the old system. Finance underestimated the amount of resources necessary to process payments in a timely manner during the first few months of using the new financial management system. Finance did not anticipate that the productivity rate would decrease as a result of the changes in policies and operating procedures that were required to implement FFS. Because of this, Finance did not obtain sufficient additional support from their data entry contractors or request the hiring of new House staff.

High occurrence of errors in processing transactions

During the first four months of processing under FFS, Finance and Office of Procurement and Purchasing staff experienced a number of errors. Listed below are examples of the errors experienced.

- Checks issued without information on the check stub explaining the reason for payment.
- Custom interfaces executed with the wrong parameters.
- Recurring payment program executed days after recurring payments were due.
- Recurring payment program executed with wrong date parameters.
- Payments issued without liquidating the obligation.
- Multiple checks issued to the same payee instead of combining payments into one check.
- Payments recorded without the full description of the purpose of the expense.

As a result of these errors, Finance resources were diverted from their primary duties to correct the errors. In addition, because of the errors, the Monthly Financial Statement and the Statement of Disbursements often contained inaccurate information. This also resulted in the user community losing confidence in the new system.

However, many of the errors were actually due to the absence of an established management review structure and the lack of completed policies and operating procedures. Specifically, Finance did not have staff available to review standard FFS reports to verify the accuracy of data entered into FFS. Errors such as checks issued without information on the check stub explaining the reason for payment and checks issued without utilizing the group check indicator could have been identified and corrected immediately if appropriate management review had occurred. Other errors such as executing the custom interfaces and recurring payment programs with the wrong parameters could have been prevented if proper procedures were fully implemented. Some errors occurred because documented policies and operating procedures did not always provide sufficient steps or details. For example, payments issued without liquidating the obligation and multiple checks issued to the same payee instead of combining payments into one check could have been avoided if the documented policies and procedures contained more steps and details on processing payments.

If all of the policies and operating procedures for the Phase II tasks had been completed in a timely manner, many of these errors would not have occurred. The errors would have also been minimized if a management review structure had been established to ensure FFS users were correctly following the policies and operating procedures that were developed prior to implementation. A management review structure was not established, because Finance staff were already overtasked with the implementation and not enough resources were available.

Recommendations

We recommend the Chief Administrative Officer:

1. Fully document requirements for changes to the Monthly Financial Statement and the Statement of Disbursements.
2. When planning to make changes to reports, prepare a level of effort analysis to determine how much time is needed to identify and document requirements (i.e., the changes), make the changes, and test the changes. Using information on available resources, identify realistic completion dates that support issuing reports by the expected issuance dates.
3. Devote more resources from Finance to produce and review the Monthly Financial Statement and the Statement of Disbursements.
4. Identify and plan for additional support from data entry contractors to maintain the acceptable productivity rate during peak periods in the payment process by analyzing past years' workload levels and decreased productivity periods when changes to policies and operating procedures are implemented.

5. Expediently complete policies and operating procedures associated with the Phase II implementation.
6. Modify existing policies and operating procedures to add steps that will help minimize the errors experienced to date.
7. Identify and use standard FFS reports, such as the daily FFS transaction report to monitor accuracy of data entered into FFS.
8. Establish an organization structure within the Office of Finance to review transactions processed in FFS on a regular basis.

Management Response

On December 23, 1996, the Acting CAO fully concurred with the finding and recommendations (see Appendix). As indicated in the response, the Acting CAO intends to implement all aspects of the recommendations.

Specifically, the Acting CAO plans to defer all changes to the Monthly Financial Statement and Statement of Disbursements until a System Development Life Cycle methodology is implemented.

At that time, changes to these statements, as well as the Statement of Obligations, will be documented, formally reviewed, and presented to the Steering Committee for approval before the statements are modified. In addition, cost and schedule envelopes will be developed for each proposed change. The Acting CAO also indicated that Finance will dedicate personnel to ensure the timeliness and accuracy of the statements. In addition, Finance plans to use its records on voucher flow and productivity, as well as historical data to ensure that forecasted periods of reduced productivity are properly addressed. The Acting CAO will also include in his plan to complete the implementation of Phase II the task to complete policies and operating procedures. The Acting CAO's response also noted that Finance is undertaking a plan to modify existing policies and procedures to add steps that will help minimize the errors experienced to date. Finance also plans to review all applicable standard FFS reports to identify their utility. Additionally, the organization and staffing plan described in the response to Finding A allows for a review of samples of processed transactions in FFS. This function will identify the cause of the error and the corrective actions required to eliminate the cause.

Office of Inspector General Comments

The Acting CAO's planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

STATUS OF PRIOR AUDIT RECOMMENDATIONSSUMMARY

The results of our follow-up work performed on the 23 prior report recommendations related to the House's financial management systems indicated that 11 were completed, 9 were still in process, and 3 were not started. As these statistics indicate, the Office of Finance has made some progress in implementing many of the report recommendations; however, additional work remains to be done.

OIG And Third Party Reports By Number and Titles	Implementation Status			Total
	Complete	In Process	Not Started	
No. 95-CAO-02: <i>Proposed New Financial Management System Will Not Meet The House's Needs And Should Be Terminated</i>	3	2	0	5
No. 96-CAO-02: <i>House Experiencing Problems With The Implementation Of The Core Federal Financial System</i>	8	6	2	16
No. 96-CAO-04: <i>The House Is Ready To Implement The Core Federal Financial System</i>	0	1	1	2
Total	11	9	3	23

The 23 recommendations are individually listed in the following tables, grouped by report, with the implementation status.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

*Proposed New Financial Management System Will Not Meet the House's Needs
And Should Be Terminated*
Report No. 95-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
A.1.	Terminate the new FMS and eliminate it as a viable option for a future FMS	1			The House entered into a cross-servicing agreement with the U. S. Geological Survey to implement American Management System's Federal Financial System (FFS) as the House's financial management system.	Not Applicable
A.2.	Develop a comprehensive set of functional requirements for a new FMS, taking into consideration the information and processing needs of the House, the U.S. Standard General Ledger, JFMIP's Federal Financial Management System Requirements, Generally Accepted Accounting Principles, Statement of Federal Financial Accounting Standards, and all applicable House regulations.		1		During Phase I and II of the FFS implementation project, a comprehensive set of functional requirements was not developed for the implementation of the core FFS system and custom interfaces and reports. However, the Joint Financial Management Improvement Program functional requirements were used for the implementation of the core FFS system and functional requirements were prepared for Procurement and check writing. In addition, the concept paper for the Phase III of the FFS implementation project indicates that functional requirements will be developed for any functionality implemented in Phase III.	To Be Determined (TBD)
A.3.	In the interim, explore options available for a new FMS, including commercial off-the-shelf software packages and cross-servicing arrangements with other Federal agencies.	1			FFS is a COTS package and has been acquired through a cross-servicing agreement with the U. S. Geological Survey.	Not Applicable
B.1.	Establish a top management steering committee to approve overall FMS goals and funding, monitor progress, resolve issues in a timeframe consistent with schedule commitments, and ensure that best practices are followed in the development of the new FMS.	1			A top management Steering Committee to approve and oversee the implementation of FFS was formed in Phase I of the FFS implementation project.	Not Applicable
B.2.	Adopt and implement a formal SDLC methodology to guide future FMS development efforts.		1		Although, the House has not fully implemented a formal SDLC methodology, the FFS Implementation Team used a SDLC methodology in the Phase II of the FFS implementation project to evaluate and test the core FFS system and custom interfaces and reports. The concept paper for the Phase III of the FFS implementation project indicates that a SDLC methodology will be used to implement additional functionality.	TBD

STATUS OF PRIOR AUDIT RECOMMENDATIONS*House Experiencing Problems With The Implementation Of The Core Federal Financial System*
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
A.1.	Identify and follow a formal SDLC methodology, such as NIST's Special Publication 500-153, for the implementation of FFS.	1			The FFS Implementation Team used a SDLC methodology in the Phase II of the FFS implementation project to evaluate and test the core FFS system and custom interfaces and reports. The concept paper for the Phase III of the FFS implementation project indicates that a SDLC methodology will be used to implement additional functionality in Phase III.	TBD
A.2.	Identify, analyze, and document functional requirements for the implementation of FFS.		1		During Phase I and II of the FFS implementation project, a comprehensive set of functional requirements was not developed for the implementation of the core FFS system and custom interfaces and reports. However, the Joint Financial Management Improvement Program functional requirements were used for the implementation of the core FFS system and functional requirements were prepared for Procurement and check writing. In addition, the concept paper for the Phase III of the FFS implementation project indicates that functional requirements will be developed for any functionality implemented in Phase III.	TBD
A.3.	Reorganize and staff the FFS Implementation Team to more effectively manage and support FFS implementation.	1			On January 16, 1996, a Project Coordinator was added in order to assure adequate support from and coordination with organizations outside of the Office of Finance. This allowed the Project Manager and Project Director to concentrate on implementation issues.	Not Applicable
A.4.	Monitor the progress of the project through tracking actual versus planned activities on the project work plan, maintain an issues log that includes key issues raised and their resolution, and present the status of the work plan and issues to the Executive Steering Committee on at least a bi-weekly basis.	1			During the latter months of Phase II of the FFS implementation project, a detailed project management tracking system was instituted as well as an issues log. Both were presented to the Steering Committee on a regular basis. However, since the implementation of Phase II, the issue log has not been maintained.	Not Applicable
A.5.	Develop a level of effort work plan for the implementation of FFS.			1	During the latter months of Phase II, increased detail was included in the work plan. However, all of the work plans prepared for the FFS	TBD

STATUS OF PRIOR AUDIT RECOMMENDATIONS

House Experiencing Problems With The Implementation Of The Core Federal Financial System
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
A.6.	<p>Review the work plan and prioritize tasks to focus on those tasks critical to implementing Phases I and II and meeting the March 4, 1996 implementation date. For example, the following critical tasks should be assigned higher priorities for completion by March 4, 1996:</p> <ul style="list-style-type: none"> • Reviewing all reference tables, and identifying and entering missing entries. • Testing all FFS on-line transactions and batch jobs and conversion programs. • Developing procedures and training staff concerning transaction processing (includes a plan of action for how documents will flow through the Office of Finance, and who will be responsible for entering and approving all types of transactions). • Establishing security for the mainframe and on-line processing (includes determining user profiles and assigning profiles to users). • Establishing the technical infrastructure required for FFS (includes identifying House Information Resources (HIR) staff to be responsible for running nightly job cycles, determining jobs in the nightly job cycles, and establishing procedures to handle nightly cycle problems). <p>Review the work plan and prioritize other tasks that are critical to implementing Phases I and II, but do not require completion until the end of March 1996, such as:</p>	1			<p>implementation project (pre and post Phase II implementation) have not been developed using a level of effort analysis.</p> <p>The Phase II work plan was reviewed and priority given to the tasks critical to implementing FFS on June 4, 1996.</p>	Not Applicable

STATUS OF PRIOR AUDIT RECOMMENDATIONS

House Experiencing Problems With The Implementation Of The Core Federal Financial System
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
A.7.	<ul style="list-style-type: none"> Completing conversion of FMS data to FFS and verifying the conversion of that data. Testing of interfaces and custom reports. <p>Add additional resources to critical tasks. We have identified the following critical tasks which appear to be behind schedule and are likely to require additional resources to ensure completion by March 4, 1996.</p> <ul style="list-style-type: none"> Reviewing all reference tables, and identifying and entering missing entries Testing all on-line transactions and batch jobs and conversion programs. Developing procedures and training staff concerning transaction processing (includes a plan of action for how documents will flow through the Office of Finance, and who will be responsible for entering and approving all types of transactions). 	1			During the latter months of the Phase II implementation, Finance assigned additional staff to complete the critical Phase II tasks. In addition, the U. S. Geological Survey arranged for additional staff for the first days of operation under FFS.	Not Applicable
B.1.	Continue to thoroughly perform all activities related to system testing, certification, and accreditation.		1		The FFS Implementation Team has performed all activities related to system testing, certification and accreditation except for one custom interface, General Services Administration (GSA). The program for the GSA has not been accepted and placed in production by the FFS Implementation Team. It is not clear when the FFS Implementation Team plans to complete testing and certification of this interface.	TBD
B.2.	Document and maintain the results of verifying reference tables and testing activities.		1		The FFS Implementation Team documented and maintained the results of verifying FFS reference tables and testing activities. However, this recommendation will not be closed until the testing of the GSA interface is completed. It is not clear when the FFS Implementation Team plans to complete the testing of the GSA interface.	TBD

STATUS OF PRIOR AUDIT RECOMMENDATIONS

House Experiencing Problems With The Implementation Of The Core Federal Financial System
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated implementation Date
		Complete	In Process	Not Started		
B.3.	Ensure the formal certification of FFS verification and testing activities by FFS Implementation Team members, who are responsible for overseeing the execution of FFS testing tasks.	-	1		The FFS Implementation Team certified the FFS verification and testing activities. However, this recommendation will not be closed until the testing of GSA interface is completed and the GSA interface testing is certified. It is not clear when the FFS Implementation Team plans to complete the testing of the GSA interface.	TBD
B.4.	Ensure the formal accreditation of FFS, prior to placing it into production, by an appropriate senior House official (e.g., Associate Administrator, Office of Finance).	1			The core FFS system was accredited by senior House officials before it was implemented on June 4, 1996.	Not Applicable
B.5.	Report the results of certification and accreditation to the Executive Steering Committee prior to FFS implementation.	1			The results of certification and accreditation were reported to the FFS Steering Committee prior to the FFS implementation on June 4, 1996.	Not Applicable
C.1.	Develop work flows to support the use of FFS in the Office of Finance and other CAO offices prior to March 4, 1996. This includes the following tasks: <ul style="list-style-type: none"> • Develop the work flows for receiving, validating, and entering payment vouchers into FFS, and approving payments in FFS. • Develop the work flows for entering cash receipts into FFS and approving the entry of the cash receipt transactions in FFS. • Determine the work flows for executing the check printing program, printing the checks, verifying the accuracy of printed checks, signing and stuffing checks, and mailing checks. • Determine the process for using FFS data to reconcile with the U.S. Department of Treasury's data on cash disbursements and receipts. • Determine what needs other House offices have for information produced by FFS and how and when they will receive this 	1			Work flows supporting the use of FFS were completed prior to the implementation of FFS on June 4, 1996.	Not Applicable

STATUS OF PRIOR AUDIT RECOMMENDATIONS

House Experiencing Problems With The Implementation Of The Core Federal Financial System
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
	information.					
C.2.	<p>Identify roles and responsibilities for staff in the Office of Finance and other CAO offices to support using FFS prior to March 4, 1996. Determine which positions will be responsible for new activities associated with using FFS. New roles and responsibilities should include, but not be limited to, the following:</p> <ul style="list-style-type: none"> • Approving and adding new vendors in FFS. • Entering payment transactions into FFS and approving the issuance of payments. • Entering cash receipt transactions into FFS and approving the entry of the cash receipt transactions in FFS. • Ensuring that all rejected FFS documents are corrected and accepted by FFS in a timely manner. • Reviewing daily FFS transaction reports to ensure the proper use of accounting classifications (e.g., budget fiscal year, legislative year, fund, organization, and budget object code). • Maintaining FFS reference tables (e.g., adding/deleting general ledger chart of accounts and budget object codes). • Reviewing monthly trial balances. 	1			The staff roles and responsibilities were defined in conjunction with the documentation of work flows and procedures and the reorganization of the Office of Finance and other CAO offices supporting FFS.	Not Applicable
C.3.	Align present staff to satisfy new roles and responsibilities (e.g., reassigning present staff to new positions because they have the experience and skills necessary to perform the required duties) and hire new staff, if necessary.			1	It is expected that this recommendation will be closed when the Office of Finance's reorganization plan is approved and implemented. The CAO plans to submit the reorganization plan to the Committee on House Oversight for approval during the month of November 1996.	TBD
C.4.	Establish financial management policies and procedures to complement the use of FFS prior to March 4, 1996 and to support the			1	The FFS Implementation Team needs to complete the policies and procedures for the following subsystems and custom interfaces: Budget	TBD

STATUS OF PRIOR AUDIT RECOMMENDATIONS

House Experiencing Problems With The Implementation Of The Core Federal Financial System
Report No. 96-CAO-02

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
	<p>implementation of additional functionality in future phases. Procedural changes needed as of March 4, 1996 include the following:</p> <ul style="list-style-type: none"> • Document numbering schemes for each type of FFS transaction. • Review and resolution of documents not accepted by FFS. • Determine revenue source codes and funds to which cash receipts should be recorded. • Determine correct budget object codes for recording expenses. • Determine correct budget fiscal and legislative years for recording transactions. <p>Procedural changes needed for future phases include the following:</p> <ul style="list-style-type: none"> • Redesign of the voucher form. • Implement obligation-based accounting through the Purchasing Subsystem and Procurement Desktop. • Establish policies and detailed procedures for recording accounts receivables. • Establish policies and detailed procedures covering the maintenance, administration, and documentation of equitable HIR charge back rates and billing processes for all customers. • Change payroll policies to implement a lag between the end of the pay period and the date the payroll is processed and paychecks are distributed. 				Execution, Planning, Purchasing, Project Cost Accounting, General Ledger and the GSA interface. It is not clear when these policies and procedures will be completed.	

STATUS OF PRIOR AUDIT RECOMMENDATIONS

The House Is Ready To Implement The Core Federal Financial System
Report No. 96-CAO-04

No.	Recommendations (Addressed to Chief Administrative Officer)	Implementation Status			Comments	Estimated Implementation Date
		Complete	In Process	Not Started		
1.	Prioritize and assign adequate resources to execute the remaining steps in the work plan to assure all Phase II tasks are completed no later than the end of July 1996.		1		The FFS Implementation Team has completed three of the ten tasks that were uncompleted at the time of the implementation of the core FFS on June 4, 1996. Because the FFS Implementation Team was needed to assist the Office of Finance in the day-to-day operations of FFS, the remaining Phase II tasks were not given the attention necessary to be completed in a timely manner. It is not clear when the remaining tasks will be prioritized and assigned with adequate resources.	TBD
2.	Adopt and follow a formal SDLC methodology for Phase III activities that applies proper procedures for defining user and functional requirements, detailed planning and work plan preparation, system verification, validation and testing, user procedures development, and user training.			1	The House has not implemented a formal SDLC methodology for Phase III activities. However, the concept paper for the Phase III of the FFS implementation project indicates that a SDLC methodology will be followed for any functionality implemented in Phase III.	TBD

COMPLETION STATUS OF PHASE II TASKS

Task	Completion Status		Comments	Estimated Completion Date
	Complete	In Process Not Started		
Resolution of problems with the custom reports identified during unit testing of the custom report programs.	1		This task was completed during the month of July 1996.	Not Applicable
Enhancements and associated testing of custom reports to provide easier to read reports.	1		This task was completed during the month of July 1996.	Not Applicable
Development of FFS security policies and procedures.	1		This task was completed during the month of July 1996.	Not Applicable
Conversion and verification of remaining months of FMS data.		1	At the time of the FFS implementation on June 4, 1996, FMS data from the months of January through May had not been converted or verified. Since the beginning of June, all of the data from FMS has been converted into FFS. However, the verification of the converted data identified various discrepancies that still require reconciliation and correction. It is not clear when this will be completed.	To Be Determined (TBD)
Modification and associated testing of custom interface programs.		1	At the time of the FFS implementation on June 4, 1996, the payroll and General Services Administration interface programs required modifications and testing of the modifications. The payroll interface program was modified, tested and implemented in production during the month of July 1996. The General Services Administration interface program has been modified, however, the testing is not complete. It is not clear when this task will be fully completed.	TBD
Development of operating policies and procedures for interface programs and reports.		1	Since the FFS implementation on June 4, 1996, interface policies and procedures have been finalized for the Office Telephone Support, Photography Office, Office Supply Service, and Office Equipment Services. The payroll interface policies and procedures have been drafted, but not finalized. The policies and procedures for the General Services Administration interface have not been drafted. The policies and procedures for the custom reports have been drafted, but not finalized. It is not clear when this task will be fully completed.	TBD
Development of user procedures for the remaining FFS subsystems: Budget Execution, Planning, Purchasing, Project Cost Accounting, and General Ledger.		1	The data entry portion of the user procedures have been drafted for all the subsystems except for the General Ledger. The data entry portion of these user procedures needs to be finalized. Additional sections are needed in these documents to include operating policies and procedures. The user procedure for the General Ledger subsystem also need to be completed. It is	TBD

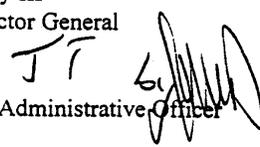
COMPLETION STATUS OF PHASE II TASKS

Task	Completion Status		Comments	Estimated Completion Date
	Complete	In Process Not Started		
			not clear when this task will be fully completed.	
Execution of system acceptance testing for modifications to custom interface programs and enhancements to custom reports.	1		System acceptance testing has been completed to validate the month-end closing process and the custom report programs. The system acceptance testing has not been performed for the year-end closing process. This process will not be tested until the FFS Implementation Team finalizes their year-end closing requirements and the necessary setup is completed.	TBD
Development of training for the remaining subsystems: Budget Execution, Planning, Purchasing, Accounts Receivable, Automated Disbursements, Project Cost Accounting, and General Ledger.		1	It is not clear when this task will be started.	TBD
Establishment of a user support process to resolve user questions and problems.		1	It is not clear when this task will be started.	TBD

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515

MEMORANDUM

TO: Robert B. Frey III
Deputy Inspector General

FROM: Jeff Trandahl 
Acting Chief Administrative Officer

SUBJECT: Response to Draft Audit Report - The House Struggles With The Management Of
The New Financial Management System

DATE: December 23, 1996

Thank you for the opportunity to comment on this draft audit report. We have carefully reviewed the draft audit report and the recommendations contained therein and are in general agreement. Specific comments on each recommendation follow.

Responses to Specific Recommendations

FINDING A:

Recommendation 1 -- Establish an infrastructure in the Office of Finance to support the new tasks associated with the day-to-day operations of FFS. Take the necessary steps to ensure that adequate resources with the proper qualifications are available in the Office of Finance to fill the roles and responsibilities under the new infrastructure.

We concur. The Chief Administrative Officer will prepare for review by the Committee on House Oversight (CHO) by January 15, 1997 an organization and staffing plan to optimize the day-to-day operations of the FFS. The staffing plan will provide for a full-time team to complete the pending implementation tasks. This team will provide for user support and training to ensure day-to-day operations are carried out in an effective and efficient manner.

Recommendation 2 -- Establish a separate infrastructure in the Office of Finance to support the continuous FFS implementation.

We concur. As part of the organization and staffing plan mentioned above, a separate group within the Office of Finance will be staffed to support the continuous FFS implementation project.

Recommendation 3 -- Determine the level of effort required to complete Phase II tasks and establish realistic completion dates based on the amount of time required to complete tasks and taking into consideration available resources. Utilize as much as possible the cross-servicing contractor.

We concur. By January 15, 1997 we will prepare a schedule of effort by task required to complete the implementation of Phase II of FFS.

Once the cross-servicing agreement is approved, contractor support will be authorized. This will greatly help in the near-term as new Office of Finance resources are hired and trained in the use of FFS. As a longer term goal, the Office of Finance will develop a team to reduce the dependency on contractor personnel.

FINDING B

Recommendation 1 -- Fully document requirements for changes to the Monthly Financial Statement and the Statement of Disbursements.

We concur. The Monthly Financial Statement (MFS) and Statement of Disbursements (SOD) have been undergoing an evolutionary development. Changes to these statements have been deferred until an SDLC discipline can be implemented. There have been a number of changes requested by various groups and these changes have not yet been fully documented and reviewed. The changes to these statements, as well as the Statement of Obligations, will be documented, formally reviewed, and presented to the Steering Committee for approval before the contractor is authorized to proceed with the changes.

Recommendation 2 -- When planning to make changes to reports, prepare a level of effort analysis to determine how much time is needed to identify and document requirements (i.e., the changes), make the changes, and test the changes. Using information on available resources, identify realistic completion dates that support issuing reports by the expected issuance dates.

We concur. The Office of Finance is implementing the SDLC discipline with the assistance of its cross-servicing contractor. Thus requirements will be developed and reviewed, cost and

schedule envelopes will be approved, and deliverables will be defined. Testing of the product will take place and will be documented before the product is accepted and put into production.

Recommendation 3 -- Devote more resources from Finance to produce and review the Monthly Financial Statement and Statement of Disbursements.

We concur. The Office of Finance will have personnel whose priority is ensuring the timeliness and accuracy of the MFS, the Statement of Obligations, and the SOD.

Recommendation 4 -- Identify and plan for additional support from data entry contractors to maintain the acceptable productivity rate during peak periods in the payment process by analyzing past years' workload levels and decreased productivity periods when changes to policies and operating procedures are implemented.

We concur. The Office of Finance maintains detailed records on voucher flow and productivity. This information, in addition to historical data, will be used to ensure that forecasted periods of reduced productivity are properly addressed. This is an ongoing effort which will assist in the management of the peaks and valleys of the data entry workloads.

Recommendation 5 -- Expeditiously complete policies and operating procedures associated with the Phase II implementation.

We concur. As indicated in our response to recommendation A.3, by January 15, 1997 the Office of Finance will prepare a schedule of effort by task required to complete the implementation of Phase II of FFS.

Recommendation 6 -- Modify existing policies and operating procedures to add steps that will help minimize the errors experienced to date.

We concur. The Office of Finance is undertaking a plan to complete the implementation of all tasks required to complete Phase II including modifying existing policies and procedures. Additionally, the Office of Finance has identified and continues to identify errors and analyze the cause of the errors. As these causes are identified, corrective actions are implemented, policies and procedures are upgraded, training is identified, and measures are installed to ensure long-term resolution. The addition of personnel resources to existing staff will aid in the reduction of errors as the heavy workload is shared among a larger workforce. Long term training needs will be addressed by the new infrastructure proposed by the Office of Finance.

Recommendation 7 -- Identify and use standard FFS reports, such as the daily FFS transaction report to monitor accuracy of data entered into FFS.

We concur. To improve the accuracy of the data entered into the FFS, the Office of Finance has been using standard and ad-hoc FFS reports. Additional reports which serve to identify errors

and to isolate the cause of the errors are being evaluated/defined to supplement standard FFS reports. All applicable standard FFS reports will be reviewed to identify their utility within our environment.

Recommendation 8 -- Establish an organization structure within the Office of Finance to review transactions processed in FFS on a regular basis.

We concur. The organization and staffing plan mentioned in the response to Finding A allows for a review of samples of processed transactions in the FFS. In addition, this function will identify the cause of the error and the corrective actions required to eliminate the cause.