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REPORT TO THE HOUSE COMMITTEE
ON THE DISTRICT OF COLUMBIA
BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



LM090820

Improvements Needed In
Accounting Systems
And Suggestions For
Their Accomplishment

District of Columbia

At the request of the Committee, GAO has:

- Identified major improvements needed to get the District government's financial systems in order.
- Evaluated the District government's plans for revising its accounting systems.
- Proposed priorities for accounting system improvement work that might be accomplished by a contractor in the next 2 years.
- Suggested how the Congress, GAO, and the District government can best proceed to improve financial management and reporting by the District government.

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FEB. 27, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D. C. 20548

B-118638

The Honorable Charles C. Diggs, Jr.
Chairman, Committee on the District
of Columbia
House of Representatives

WCF 00960

Dear Mr. Chairman:

The information requested in your December 19, 1975, letter--the improvements needed in the District of Columbia government's accounting systems, our evaluation of plans to improve the systems, and our suggestions for improving the accounting systems and for improving financial management and reporting by the District government--is provided in this report.

Because of the limited time available to prepare the report, District government officials have not been given the opportunity to review and comment on it. To the extent possible, however, we discussed the information in the report with District officials.

Sincerely yours,

Comptroller General
of the United States

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ABBREVIATIONS

CAS	Central accounting system
FMIS	Financial Management Information System
GAO	General Accounting Office
OBMS	Office of Budget and Management Systems

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COMPTROLLER GENERAL'S
REPORT TO THE COMMITTEE ON
THE DISTRICT OF COLUMBIA
HOUSE OF REPRESENTATIVES

IMPROVEMENTS NEEDED IN
ACCOUNTING SYSTEMS AND
SUGGESTIONS FOR THEIR
ACCOMPLISHMENT
District of Columbia

D I G E S T

In 1972, the Commission on the Organization of the Government of the District of Columbia (the Nelsen Commission) completed a comprehensive review of the District government. It called for a complete redesign of the District government's accounting system, among other things.

The Commission recommended that the Mayor expedite the design and application of a new integrated accounting system that would produce timely and reliable financial information at the operating level as well as the executive level and which would eliminate the existing duplication of effort.

Since that time, the District government has made a number of improvements but the accomplishments have not been nearly as extensive as envisioned by the Nelsen Commission. Audits of selected accounting operations since that date have shown a continued need for accounting system improvement.

As the Comptroller General indicated in his testimony before the Committee on December 8, 1975, the problems are so severe that if an audit of the District government's financial operations and statements were made, the auditor would most likely say that the records and controls were not adequate to enable him to conclude whether the financial statements derived from them presented fairly the District government's financial condition and results of operations.

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Problems identified by the Commission (see pp. 8 to 10) and subsequently by GAO and others (see pp. 11 to 12) which affect the validity of the financial statements include:

- Omission from financial statements of important assets and liabilities, such as real property and the unfunded liability for employees' retirement.
- Incomplete records of amounts invested in inventories of materials, supplies, and equipment.
- Procedures for paying bills which have resulted in duplicate and erroneous payments to vendors.
- Payroll procedures which have permitted payments to former employees after they have left District government's employ.
- Differences between records of District government agencies and central accounting records.

Although the District government has been working on a new system, as recommended by the Nelsen Commission, the results have been disappointingly slow, the time for completion has been unacceptably lengthened, and the integration of the agency systems with the central system is far from being achieved.

Progress has been slow because the District government has tried to do this difficult task without sufficient staff. The District government is planning to request funds for additional staff for the remainder of this year and for next year. Progress will be slow unless additional effort is put into this work.

As requested, GAO has proposed priorities for the accounting system improvement work it believes might be performed by a contractor during the next 2 years. (See pp. 23 to 24.)

Although a contractor could assign enough people to complete all the tasks GAO has outlined in 2 years, this is not probable. However, the design could be completed and at least partly implemented. Any remaining work could be finished in a short time by a contractor or by the District government.

The Congress should enact legislation requiring the District government to improve its accounting systems within a stated period and see that the money needed for that purpose is made available. GAO will continue to provide consultative service to help the District government. For the District government, GAO has proposed changes in organizational structure to facilitate design and implementation of needed system changes.

Because of the limited time available to prepare this report, District government officials have not been given the opportunity to review and comment on it. To the extent possible, however, the information contained in the report was discussed with District government officials.

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INTRODUCTIONOBJECTIVE OF REPORT

In his December 19, 1975, letter, the Chairman of the House Committee on the District of Columbia requested that we:

- Summarize the major improvements the District government must make to get its financial systems in order. (See pp. 6 to 12.)
- Evaluate the District government's plans for revising its accounting systems. (See pp. 17 to 22.)
- Determine the priorities for the work which can best be done in the next 2 years by a contractor. (See pp. 23 to 24.)
- Suggest how we, the Congress, and the District government can best proceed to meet the objective of good financial management and financial reporting by the District government. (See pp. 25 to 27.)

SCOPE OF REVIEW

To identify the needed improvements, we reviewed the August 1972 report of the Commission on the Organization of the Government of the District of Columbia (Nelsen Commission) and reports issued since 1972 by our Office, the District of Columbia Auditor, the District government's Office of Municipal Audit and Inspection, and the District of Columbia Municipal Research Bureau, Inc.^{1/} We then discussed the improvements called for in these reports and other needed improvements of which we were aware with a District government official who knew of the improvements which had been made. The needed improvements listed in the report are those which, we were informed, had not been implemented as of February 13, 1976.

^{1/} The District of Columbia Municipal Research Bureau, Inc., is an organization of citizens dedicated to improving governmental services and operations in the District of Columbia.

Since our work was based on previous work performed at different times and since the District government's financial operations are so widespread and varied, the improvements discussed in our report should not be considered all inclusive.

PRESENT ACCOUNTING SYSTEM STRUCTURE

The District government's present accounting system structure consists of three centralized accounting systems--the principal central accounting system (CAS), payroll, and revenue accounting--and an unidentified number of decentralized systems which serve the specialized needs of the agencies.

The accounting principles and standards for the District government were approved by the Comptroller General in February 1972. These principles and standards provide the general guidance for design of accounting systems which will be followed in actually performing accounting operations. As of February 20, 1976, none of the accounting systems designs for the District government had been approved.

The District government's present accounting systems are discussed below.

Central accounting system

This system is under the direction of the District Accounting Office of the Office of Budget and Management Systems (OBMS). CAS (1) maintains the District government's official accounts and records, (2) prepares the District government's financial statements and reports, (3) maintains obligation records and prepares reports on the status of funds for each District agency, and (4) processes documentation for all check disbursements for the District government.

Some of the operations of this accounting system are done centrally and some are done by the agencies. The principal operations and the places at which they are performed follow.

1. Statement and report preparation. This function consists of obtaining the necessary financial information from various sources and preparing the statements and

reports. The principal source of information is the general ledger. Other information is provided by the Office of General Operations, OMS; revenue accounting system; payroll system; the various District government personnel systems; and the District agencies. With the exception of preparing and submitting requested information by the District agencies, the entire function is performed centrally.

2. General ledger maintenance. This function consists of accumulating and summarizing financial information; preparing journal vouchers (documents authorizing entries in the general ledger); and, at the end of each month, recording financial information in the general ledger. Financial information sources include summarizations of financial information processed by CAS, reports prepared by the District Treasury Office on revenues collected, and reports from District agencies.

The reports from District agencies provide information on financial transactions not processed centrally, such as accounts receivable, inventory balances, accounts payable, and capitalized fixed assets. To provide this information, the agencies must perform extensive accounting operations, such as documenting transactions, processing documents, summarizing and recording financial information, and preparing reports required to manage the accounting operations themselves and to provide the information needed to post to the general ledger.

3. Maintenance of obligation records. This function consists of major operations at both central and agency levels. Central operations include recording the financial plan for each agency, checking each obligation document for accuracy and legality, determining the availability of funds, recording each obligation, and preparing reports comparing the obligations and financial plan for each agency.

The operations performed by the agencies generally consist of a prevalidation procedure (to determine the availability of funds before incurring an obligation), preparing obligating documents, maintaining records or files of obligations incurred, submitting obligating documents to the central level, and verifying the accuracy of obligations reported by the central level.

4. Check disbursements. This function also consists of central and agency operations. The central operations consist of reviewing and certifying vouchers and preparing checks or computer tapes used to prepare checks. The tapes--used for public assistance and certain other payments--are sent to the U.S. Treasury Department, which prepares the checks and submits them to the District Treasury

Office for distribution. The checks prepared by CAS are sent to the District Treasury Office, where they are signed and distributed.

The operations performed by the agencies include receiving vendors' invoices or initiating documents supporting payments, verifying the accuracy of the invoices and other payment documents, preparing vouchers, and submitting vouchers and supporting documents to the central level.

Payroll system

This system is under the direction of the OBMS District Accounting Office. It prepares the District government's various payrolls, maintains payroll and leave records, prepares payroll-related reports, and administers the District government's retirement programs.

The payroll system consists of both central and agency operations. Central operations include maintaining the customary payroll documents and records; reviewing notifications of personnel actions and time and attendance reports to insure their accuracy and proper approval; computing payroll and retirement payments; preparing vouchers for payment of payrolls, retirement payments, and amounts due to other organizations from amounts withheld from employees and contributed to benefits by the District government; and preparing reports on payroll matters for other District government offices and Federal agencies.

The payroll vouchers are sent to CAS, where the data is recorded on computer tapes. One tape is used to post the general ledger and another is sent to the U.S. Treasury Department, which prepares the payroll checks and submits them to the District Treasury Office for distribution.

Operations conducted by the agencies consist of initiating personnel actions; transmitting employees' authorizations for nonstatutory deductions to the central level; maintaining, certifying, and accumulating time and attendance reports and transmitting them to the central level; and distributing payroll checks, savings bonds, and statements of withholdings to employees.

Revenue accounting system

This system is under the direction of the Department of Finance and Revenue. The revenue accounting system (1) prepares and sends bills for certain taxes, (2) maintains records of uncollected taxes, (3) establishes physical and accounting control over all cash received by the District government, (4) maintains records of cash collections,

(5) deposits collected cash with the U.S. Treasury Department, and (6) provides reports on cash collections to CAS and to various officials of the District government.

Collections for certain purposes are made by District agencies and then transmitted to cashiers in the Department of Finance and Revenue. All other functions of this system are performed at the central level.

Agency accounting systems

In addition to the accounting operations performed with the centralized accounting systems, many District agencies operate internal accounting systems which serve the specialized needs of management. Although the exact number of agency systems is not known by the District government, 28 such systems have been identified to the present time. A list of these systems is included as appendix I.

The primary function of most of the accounting systems operated by the agencies is to accumulate financial information--often costs--for a specific program or function. Although the agency systems may use financial information in reports prepared by the central systems, all accounting operations for these systems are performed by the agencies.

CHAPTER 2

IMPROVEMENTS NEEDED IN THE DISTRICT

GOVERNMENT'S ACCOUNTING SYSTEMS

The Nelsen Commission recommended that the District government design and implement new accounting systems rather than improve its existing systems. The Commission apparently made this recommendation because of the numerous and serious nature of the needed improvements which it had identified.

The improvements identified by the Commission are listed below, followed by the improvements identified since the Commission's report was issued in August 1972. Some of the improvements identified after August 1972 were referred to in reports issued by our Office, the District of Columbia Auditor, the District government's Office of Municipal Audit and Inspection, and the District of Columbia Municipal Research Bureau, Inc. Other improvements are those which were observed by our staff during the performance of assignments at the District government.

NELSEN COMMISSION RECOMMENDED THAT PRESENT ACCOUNTING SYSTEMS BE REPLACED

The Nelsen Commission recommended that the Mayor " * * * expedite the design and application of an integrated accounting system which will produce timely and reliable financial information at the operating level as well as the executive level and which will avoid the present duplication of effort."

The Nelsen Commission apparently intended that the new accounting system perform all of the accounting operations required by the District agencies except cost accounting. The Commission's report stated that cost accounting systems " * * * should be in conformance with and auxiliary to the overall (central) system of accounting" and recommended that criteria and guidelines be provided to the District agencies to insure the effective development and operation of cost accounting systems.

The design of new accounting systems was considered necessary by the Commission to correct some of the basic

weaknesses in the District government's accounting operations. The Commission's report summarized the accounting operations containing weaknesses as follows:

"* * * fundamental long-range changes are still required with respect to: organization; fixing accounting policy; designing systems; eliminating duplicate accounting efforts; improving financial discipline and accounting integrity; cost accounting; property accounting; revolving funds; and, most important, redesigning the management reporting system."

Most of the weaknesses disclosed by the Commission have not been corrected. The agencies' accounting operations are still being conducted with only minimal direction from the central level; the design of new accounting systems has been limited to a system to replace CAS; many agencies still perform accounting operations for obligations which duplicate accounting operations at the central level; accounting controls needed to improve financial discipline and accounting integrity have not been implemented in the agencies' operations; the cost accounting systems, all of which are operated by the agencies, have not been improved; improvements have not been made in the procedures for accounting for property; and certain types of property still have not been recorded in the accounting records.

In our opinion, these weaknesses in accounting operations contributed to the financial problems disclosed by our audits during the past 2 years. Some examples of the problems which have been disclosed follow.

- Accounting records were unavailable and accounting data were unreliable and inaccurate at the Forest Haven Home for the Retarded.
- Because of inadequate followup procedures, the Public Schools and Department of Human Resources had not collected 41 travel advances which had been outstanding between 4 and 14 months.
- Controls over the receipt, storage, and issue of supplies by the Public Schools were inadequate, and differences between inventory records and physical inventories were not investigated to determine whether changes in procedures were needed.

--The Redevelopment Land Agency had inadequate records on the number of properties acquired and their acquisition costs. In addition, rent accounts included duplicate charges for some properties as well as improper charges for vacant properties.

--The Department of Human Resources had not requested Medicaid reimbursements for 8,000 patient accounts totaling \$5 million because of incomplete addresses for patients.

--The Department of Human Resources had not promptly posted collections to accounts, bad debts had not been written off, and collection efforts had been minimal.

As shown in the above quotation from its report, the Commission considered the improvement of financial reporting to be very important. It recommended that the District government " * * * develop and implement an effective reporting system which, in coordination with an integrated accounting system, will provide complete and timely financial information for operating management, for executive review and decision-making by the Mayor-Commissioner and his principal staff and line subordinates, and for the information of the public." This recommendation has not been implemented, nor has the need to provide such information been adequately considered during the design of the system to replace CAS.

NEEDED IMPROVEMENTS IDENTIFIED
BY THE NELSEN COMMISSION

The Nelsen Commission's report identified the following needed improvements in the District government's accounting systems.

Needed improvements applicable
to more than one system

--Employ accounting techniques, such as accrual accounting (the recognition of accounting transactions as they occur), which achieve an appropriate matching of revenue and costs.

--Correct the ineffectiveness of the central and agencies' systems caused by the lack of integration and accounting discipline governing operation of the systems.

- Implement controls over documents in transit and those being processed through the accounts.
- Implement procedures for reconciling accounting data entered in more than one accounting system.
- Identify the financial information needed at the various management levels.
- Promote the use of unit costs.
- Issue a new accounting manual to replace the present obsolete and incomplete manual.

The Commission also recommended a number of organizational changes which it believed would strengthen the financial management of the District government. Many of these changes have been made but some have not, such as (1) transferring the administration of comprehensive health planning from the Department of Human Resources to a new Municipal Planning Office, (2) creating a unified manpower agency in the Department of Human Resources, (3) creating a separate Youth Services Administration in the Department of Human Resources, (4) consolidating the Department of Corrections and Board of Parole into a new Department of Correctional Services, and (5) consolidating the various economic development functions of the District government into a new Department of Commerce.

CAS report preparation

- Improve the accuracy of the annual financial statements so that they fairly reflect current financial conditions.
- Include such items as the unfunded retirement liability, the current status of capital outlay and real property accounts, and the status of all assets and liabilities in the published statements.
- Implement a systematic procedure whereby the Mayor is provided with routine written financial information evaluating the District government's effectiveness and efficiency in the services it renders, its progress in major projects underway, and the developing trends which require attention.
- Place more emphasis on financial reports on acquisitions, dispositions, and inventories of both real and personal property.

CAS general ledger maintenance

- Make major improvements needed in the current practices and procedures for maintaining the central accounts.
- Accumulate accounting information needed to provide effective backup support for the budget justification.
- Record all real and personal property which has not been recorded in the central accounts, including the cost of roads, streets, and bridges.
- Implement controls at the central level to assure that reports on inventory balances for materials, supplies, and equipment are received for applicable agencies and posted in the central accounts.
- Integrate cost accounts maintained by the agencies with the central system.

CAS maintenance of obligation records

- Improve administrative control of funds procedures to provide centralized project approval control over capital outlay projects and effective control over incurring obligations.

Agency accounting systems

- Eliminate the duplication caused by operating separate systems at the central and agency levels.
- Revise account titles and codes in the agencies' systems to agree with those used in the central system.
- Improve personal property records maintained by some agencies.
- Implement controls to provide positive assurance that purchases are entered in the agencies' inventory accounts.
- Improve cost accounting for special services and products for which user charges are collected.
- Tailor cost accounting techniques to the needs of each different operation.
- Prepare periodic cost reports, which are almost totally lacking.

NEEDED IMPROVEMENTS IDENTIFIED
BY CAO AND OTHERS

Listed below are improvements needed in the District government's accounting systems which have been identified since the Nelsen Commission's report was issued in August 1972.

CAS report preparation

- Include additional financial statements in the District government's annual published report, including a statement of estimated and actual revenue, a statement of estimated and actual disbursements, and a balance sheet and statement of operations for each revolving fund.
- Improve the combined balance sheet included in the annual published report to improve its completeness and accuracy.

CAS general ledger maintenance

- Improve the agencies' timeliness in submitting to CAS documents of cash receipts and disbursements.
- Post more than once a year the general ledger controlling accounts for accounts receivable, accounts payable, and inventories.

CAS maintenance of obligation records

- Improve fund control for personnel compensation to identify shortages of funds before the end of the fiscal year.
- Implement procedures to insure that employees assigned to grant programs are reassigned before the amount of the grant is exceeded.
- Record advances from the District agencies to the various District government revolving funds as advances rather than as obligations.

CAS check disbursements

- Implement procedures to prevent duplicate and other erroneous payments to vendors.

Payroll system

- Establish controls to insure that personnel are included in and removed from the payroll at the proper time.
- Correct the causes of reported deficiencies in time and attendance reporting and leave accounting.

Revenue accounting system

- Implement procedures in the agencies and the Department of Finance and Revenue to reduce the considerable delay in recording revenue and depositing collections.
- Record revenue, where appropriate, on the accrual basis (when it becomes owed to the District government).

Agency accounting systems

- Identify all accounting systems operated by the agencies and eliminate those which are unneeded.
- Establish policies and procedures to govern the agencies' accounting systems to promote uniformity in the District government's accounting operations.
- Prepare instructions for each employee performing accounting operations.
- Prepare financial statements for revolving funds and other operations and functions.
- Eliminate agency accounting operations for fund control as soon as the C.S reports meet the agency's needs.
- Reconcile accounting information produced by an agency system to that produced by the central systems.
- Improve procedures for identifying and taking action on delinquent accounts receivable.
- Require the agencies to base their annual statement of inventory on a physical inventory, as required by existing instructions.

CHAPTER 3

DISTRICT GOVERNMENT'S PLAN FOR IMPROVING ITS ACCOUNTING SYSTEMS

The District government established a plan for improving its accounting systems in 1971 which has remained substantially unchanged. The plan provided for developing a new centralized system to replace CAS, a new payroll system, and a new revenue accounting system; for eliminating as many accounting operations in the agencies as possible; and for improving those accounting operations which the agencies must retain.

The responsibility for improving accounting systems was assigned to the Systems Development Division of CBMS on April 5, 1972.

IMPROVEMENTS THROUGH 1975

In October 1972 a project team composed of District government and GAO employees was established to (1) identify the specific accounting information needed by each District office and agency, (2) determine an appropriate source for each type of accounting information identified, and (3) design or redesign each accounting system identified as a source of information to conform with the District government's accounting principles and standards, which we approved in February 1972.

The team identified the accounting information needed by many District offices and agencies before District government officials discontinued the project in early 1974. They determined that the objectives of the accounting systems development program could best be met by initially concentrating on replacing CAS with a new principal accounting system--the financial management information system (FMIS). During fiscal year 1975 the financial information that could be provided by FMIS was identified, formats of proposed reports were provided to all District offices and agencies to solicit suggestions for improvement, the concept of the system was documented, and work on implementing the first of 12 subsystems was started.

RECENT CHANGES IN PLANS

At the end of 1975, the District government's plans for improving its accounting systems was to extend into fiscal year 1982. On January 26, 1976, a District government official informed us that a proposed supplemental appropriation

for fiscal year 1976 and the District government's budget for fiscal year 1977 were recently increased by approximately \$1 million and \$3 million, respectively, to provide the funds necessary to expedite needed improvements in the accounting systems.

If the increases in funds are provided, the District government plans to increase from 11 to 48 the Systems Development Division staff working on accounting systems improvements. Twenty of the additional staff would design, implement, and operate a new payroll-personnel system and 17 would work on other systems. The additional funds would also permit the District government to increase its use of contractors.

Since it is not known whether the additional funding will be provided, we have considered both the nonexpedited and the expedited plan in preparing this report.

POLICIES AFFECTING THE IMPROVEMENT OF ACCOUNTING SYSTEMS

District government officials responsible for developing accounting systems have established many policies which directly affect the accounting systems' development. We believe that these policies--most of which have not been set forth in writing--should be considered part of the accounting systems improvement plan. The policies are as follows:

- Correcting weaknesses in CAS will be given priority over developing new accounting systems.
- Most of the accounting systems work will be performed in-house; contractors will be engaged primarily for consultation purposes.
- The District agencies will be responsible for independently making needed improvements in their accounting operations. The agencies will be required to submit designs of their systems to the Systems Development Division for approval before they are submitted for our approval.
- The central accounting systems will be replaced or improved before the agencies will be required to improve their accounting operations.
- FMIS will perform as much accounting for the agencies as possible.

PLANS FOR IMPROVING SPECIFIC
ACCOUNTING SYSTEMS

The District government's plans for improving specific accounting systems follow.

Central accounting system

CAS is to be replaced with the new system FMIS. The concept of the new system has been documented and the Systems Development Division is preparing design documentation, including computer programs, for the first of 12 subsystems.

Before January 1976 the District government planned to design the subsystems one at a time, implementing each subsystem before starting the design of the next subsystem. Under the January 1976 plan, however, more than one subsystem will be designed at a time if the requests for additional funds are approved. As the design documentation is completed the District government plans to submit each subsystem for our review and approval, which is required by section 112(f) of the Budget and Accounting Procedures Act of 1950.

The target date established before January 1976 by CBMS for completing the design of each of the 12 FMIS subsystems follows.

<u>Subsystem</u>	<u>Completion date</u>
Obligating authority management	Oct. 1976
General ledger	FY 1977
Cash receipts	FY 1977
Federal grants	FY 1978
Capital projects	FY 1978
Accrual processes	FY 1978
Subsidiary ledgers	FY 1978
Long-term debt	FY 1979
Labor distribution	FY 1979
Capitalized personal property	FY 1980
Cost accounting	FY 1981
Material and supply	FY 1982

Under the January 1976 plan the obligating authority management, general ledger, cash receipts, Federal grants, capital projects, and long-term debt subsystems would be implemented in fiscal year 1977 and all other subsystems would be implemented in fiscal year 1978.

Payroll system

Before January 1976 the District government planned to make needed improvements in the existing payroll system. Under the January 1976 plan, the payroll system is to be replaced by a new payroll-position management system. The design of the new system is to start in February 1976 and, if the requests for additional funds are approved, is scheduled to be implemented early in fiscal year 1977.

Revenue accounting system

In the fall of 1975, at the request of OBMS, Department of Finance and Revenue officials evaluated the present revenue accounting system and determined that a new system was required.

Before January 1976 plans had not been established for developing the new system, nor had it been determined whether the new system would be designed by the OBMS Systems Development Division or by the Department of Finance and Revenue. The January 1976 plan, however, provides for work on the design to begin in fiscal year 1977 and for the design to be prepared by the Systems Development Division.

Agency accounting systems

The District government has not established a plan for improving the accounting systems operated by the agencies.

A team of District government and GAO employees was established in the fall of 1975 to identify all the accounting operations performed in each agency to determine the number of agency accounting systems that will be needed after FMIS is implemented. District officials estimate that this task will be completed early in fiscal year 1977. After the accounting systems are identified, the District government is expected to establish plans for documenting these systems and for submitting the documentation for our approval.

CHAPTER 4

EVALUATION OF THE DISTRICT GOVERNMENT'S PLANS

FOR IMPROVING ITS ACCOUNTING SYSTEMS

We evaluated the District government's plans for improving its accounting systems in terms of time, cost, and technical approach. We concluded that (1) the planned time frame for making the needed improvements could have been shortened, (2) the cost of implementing the needed improvements had not been determined, and (3) the planned technical approach involved the risk of needing extensive changes after the new systems have been implemented.

The bases for our conclusions are presented below.

EVALUATION OF THE PLANNED TIME FRAME

We reviewed the District government's planned time frame for making needed improvements in its accounting systems to determine whether the improvements were to be made as expeditiously as possible.

Before January 1976 the District government planned to complete the implementation of FMIS in fiscal year 1982 but had not established completion dates for improving the payroll system, implementing the new revenue accounting system, and improving the agency accounting systems. The plan established in January 1976 provided for completing the implementation of FMIS in fiscal year 1978 and for implementing the payroll-position management system early in fiscal year 1977. Completion dates were not established for the revenue accounting system or the agency accounting systems.

In our opinion, fiscal year 1976 is a reasonable target for completing FMIS, considering the size and complexity of the system, and early fiscal year 1977 is a reasonable target for completing the payroll-position management system. We were unable to evaluate the time frame for the revenue accounting system and the agency accounting systems because target completion dates have not been established.

Under present plans the agency systems will be identified in fiscal year 1977, after which the agencies will be required to improve and document the systems. In a letter to the Mayor dated September 23, 1975, we commented on the slow progress in improving the accounting systems and suggested that the agencies' accounting systems be identified so that design

documentation for several systems could be prepared simultaneously. (See app. II.) In his October 21, 1975, reply, the Mayor agreed to attempt to identify the agencies' accounting systems but indicated that the agencies may not be able to assess their needs until the FMIS obligation authority management subsystem is implemented. (See app. III.)

We believe the time required to complete the needed improvements in the District government's accounting systems could be shortened by several years if improvements in the agencies' systems were started now and several were improved simultaneously. This could be done if a complete description of FMIS were prepared to inform agency personnel of its scope and if additional personnel were used to identify the agency systems that will be required after FMIS is implemented.

EVALUATION OF COST

The District government has not determined the cost of making needed improvements in its accounting systems, nor will it be able to do so until it has identified the agency accounting systems that will be needed after FMIS is implemented.

Before January 1976 the District government planned to make the needed improvements in its accounting systems without increasing its staff and, with the exception of consultative services, without using a contractor. The Systems Development Division was to design FMIS and make needed improvements in the payroll system, either the Systems Development Division or the Department of Finance and Revenue was to design the new revenue accounting system, and each District agency was to improve its systems. The District government planned to improve its systems in this manner because it was the least costly way to make the improvements.

We consider the District government's plans to improve the accounting systems with its existing staff to be unrealistic, considering the size and complexity of the systems and the urgency for making the improvements. The Systems Development Division staff assigned to systems improvement work has been increased by only five since early 1972. Six people were assigned to such work in February 1972 whereas 11 are presently assigned.

We have been concerned for some time about the number of employees assigned to the improvement of the accounting systems. In a November 1974 report to the Congress (E-115398, November 12, 1974), we stated:

"To accomplish this most difficult task even within a period of several years will require the assignment by the District Government of additional qualified personnel. The District Government is aware of our views."

The District government's January 1976 plan provides for (1) 17 additional employees to work on FMIS and the revenue accounting system, (2) 20 additional employees to design, implement, and operate the new payroll-position management system, and (3) the increased use of contractors. These changes will, if approved, increase the cost of accounting systems improvement work in fiscal years 1976 and 1977.

We believe the District government has not budgeted for adequate resources for improving the District agencies' accounting systems. These systems urgently need improvement because they provide a large amount of input to the central systems and because they produce all of the District government's cost information.

EVALUATION OF TECHNICAL APPROACH

To evaluate the District government's technical approach for improving its accounting systems, we compared the sequence of work, actual and planned, on FMIS to the sequence of work usually followed by experienced designers of accounting systems. We used FMIS in the comparison because the plans for the other systems did not contain the detail necessary for evaluation.

The sequence generally followed in accounting systems development follows.

- Identify all financial information that must be produced by the system.
- Design report formats and obtain verification from potential users that the reports will meet their needs.
- Identify the most logical source for each item of financial information needed to prepare the reports, considering the new accounting system, other accounting and nonaccounting systems, and cost ascertainment techniques.
- Design a structure of general ledger accounts and subsidiary accounts and records that will provide the financial information to be produced by the new accounting system.

- Design a coding structure which will result in accumulating financial transactions in the proper accounts.
- Design the flow of documents and internal controls for processing accounting transactions.
- Design the computerized aspects of the accounting system.
- Implement the system.

We evaluated the approach followed on FMIS for each of these tasks.

Identify needed financial information

This is a logical first step in designing an accounting system, because the purpose of the system is to provide needed financial information.

In designing FMIS, officials of District offices and agencies were contacted about their needs for financial information. We were informed, however, that many other potential users of financial information from the system were not contacted, including the congressional committees having responsibilities for the District government, City Council, Mayor, and his staff and those responsible for preparing the District government's financial statements. Substantial changes could be required in FMIS at some future date to enable it to produce the financial information needed by these parties.

Design and verify report formats

This step is important in designing an accounting system because it provides assurance that all needs for financial information have been identified and will receive consideration when the account structure is established.

The Systems Development Division staff prepared formats of the reports to be produced by FMIS and gave them to the District offices and agencies for suggestions on improving the reports. The formats were subsequently revised to incorporate suggested changes.

Identify sources of information

A logical source for each item of financial information on the report formats should be identified at this point so that the new accounting system account structure can be designed to provide all of the financial information that the system is to produce.

In designing FMIS the Systems Development Division staff did not identify a logical source for each item of financial information on the report formats. Instead, it identified the financial information that was expected to be produced by FMIS and considered the District agencies to be the source of all other financial information. Therefore, a logical and reliable source has yet to be identified for several important items of financial information to be included on the reports, such as payables, inventory balances, and receivables.

We believe that the information to be produced by each agency system should be identified and that needed improvements be made in the systems as soon as possible.

Design an account structure

The account structure--general ledger accounts and subsidiary accounts and records, including any of those to be computerized--should be established at this point. Because of the work performed previously, the accounts and records can be tailored to accumulate the financial information to be produced by the system.

The Systems Development Division staff is establishing an account structure for FMIS during the preparation of the detailed design for the obligating authority management subsystem. In our opinion, the account structure is being established prematurely because all of the financial information to be produced by FMIS has not been identified.

Design a coding structure

The coding structure can be designed after the account structure has been established, because it is then known how the various types of accounting transactions must be accumulated to post the accounts. The Systems Development Division staff designed the coding structure for FMIS before the account structure was designed. We believe that the coding structure could require extensive revisions after the account structure has been designed.

Design the document flow and internal controls

The flow of documents and internal controls for processing accounting transactions can be designed after the preceding step because the coding structure dictates which accounting transactions must be documented and how the documents should be

batched to facilitate processing. The Systems Development Division staff has not started to design the flow of documents and internal controls for FMIS, except for the flow of obligating documents from the agencies to the central level.

Design the computerized aspects

Changes in the design of the computerized aspects of an accounting system are usually time consuming and expensive. It is therefore important that the manual aspects of the system be firmly established before the computerized aspects are designed. The Systems Development Division staff is in the process of designing the computerized aspects of the obligating authority management subsystem of FMIS. In our opinion, this work is being performed prematurely because, as discussed previously, several manual aspects of the design have not been completed.

Implement the system

We strongly believe that accounting systems which are subject to our approval should not be implemented until the design has been approved. Because our reviews often disclose matters which require extensive changes in the design, the premature implementation of a system should be avoided so that changes will not be required in the implemented system as a result of our review. Changes in implemented systems are often very costly, especially if computerized aspects are involved.

The District government plans to implement the various subsystems of FMIS before they are approved. We, of course, do not agree with the District government's plans in this matter.

CHAPTER 5

SUGGESTED PRIORITIES IF A CONTRACTOR IS HIRED TO IMPROVE THE ACCOUNTING SYSTEMS

The sequence of tasks in this chapter represents our suggested priorities for the work which can best be accomplished with a contractor during the next 2 years. The objectives of most of these tasks were explained in chapter four.

The sequence of tasks which we are suggesting includes an identification of the financial information which must be produced and, if necessary, a restructuring of the accounting systems. Although these tasks may duplicate or negate certain work that has been performed on FMIS, we believe that they are necessary to insure that the District government's improved accounting systems will be capable of producing all needed financial information and will produce it most effectively and efficiently. These tasks were not adequately performed before the FMIS design was started.

Our suggested sequence of tasks follows.

1. Design, in conformity with generally accepted accounting principles, financial statements which will present fairly the financial position and results of operations of the respective District government funds.
2. Identify the financial information needed by the congressional committees with responsibilities for the District government, the City Council, and the Mayor and his staff.
3. With the assistance of District government personnel, identify all financial information needed by each District agency. A special effort should be made to identify the information needed by the heads of the agencies and their staffs, intermediate level managers, and the managers of major programs and functions, because little attention has been given to their needs in the past.
4. Prepare formats of the reports that must be produced to satisfy the identified needs for financial information and obtain verification from the intended recipients that the reports will be adequate. In performing this task, the report formats prepared for FMIS should be used to the extent possible.

5. Identify the most logical source for each item of financial information on the formats of the financial statements and reports.
6. Group the identified sources of information into a logical structure of accounting systems, establish the boundaries for each system, prepare a description of each system, and identify the interfaces between systems.
7. Evaluate the work that has been performed on FMIS and incorporate as much as possible into the new structure of systems.
8. Design as many of the new systems as possible during the remainder of the 2-year period, starting with those most vital to producing the information needed to prepare financial statements and reports to the Congress, City Council, and Mayor.
9. After the designs have been approved by our Office, the contractor should help the District government implement the systems, train District government personnel to operate the systems, and prepare an accounting manual for each system.

Although a contractor could possibly apply sufficient resources in 2 years to design and implement all of the new accounting systems, it is not probable. If the work is not completed in 2 years, we believe that the tasks which we have suggested would bring the work to a point where it could be completed within a relatively short time by the same contractor, another contractor, or by District government personnel.

CHAPTER 6

SUGGESTIONS FOR IMPROVING FINANCIAL MANAGEMENT AND FINANCIAL REPORTING

The following actions are suggested in response to the Chairman's request that we suggest how we, the Congress, and the District government can best proceed to meet the objective of good financial management and financial reporting by the District government.

CONGRESS

- After consulting with District government officials, enact legislation requiring the District government to improve its accounting systems within a stated period of time. We suggest that within a reasonable time the District government be required to submit to the congressional committees with responsibilities for the District government a plan for making the needed accounting systems improvements, specifying the sequence of tasks to be performed and the work to be performed by a contractor. We also suggest that the congressional committees monitor the progress of the accounting systems' improvement by requiring responsible District government officials to periodically report on the status of the work.
- Take such actions as are necessary to see that the funds required to make the needed improvements in the accounting systems are made available.

GAO

- Consult with District government and contractor personnel, particularly about our documentation requirements for accounting system designs.
- If requested by the Congress, monitor the contract, or contracts, for improving the District government's accounting systems.
- Evaluate and approve designs for the District government's accounting systems as expeditiously as possible.
- Review the new accounting systems after they have been implemented to insure that they are properly implemented and operating effectively and efficiently.

DISTRICT GOVERNMENT

- Strengthen the overall management of the District government's accounting operations by placing the responsibility and authority for all accounting operations with a high level official in CBMS who can devote full time to these responsibilities. If a contractor is not used to improve the accounting systems, we suggest that this individual personally direct the improvement of the accounting systems through the first seven tasks identified in chapter five. We also suggest that this individual establish the policies and procedures for the design and operation of all of the District government's accounting systems.
- Strengthen the management of the individual accounting systems of the District government by requiring the Director of CBMS to designate a manager for each accounting system who will be held responsible for the system's design and operation.
- After the first seven tasks identified in chapter five have been completed, change the role of the Systems Development Division to a service organization responsible for providing systems accountants and computer experts to work under the direction of the accounting systems managers when so requested by the managers. We believe the accounting systems managers must have this authority if they are to be held responsible for the performance of the accounting systems.
- Request adequate resources for the design and operation of the accounting systems.
- Establish an office under the accounting officer in CBMS--the new position recommended above--to prepare the financial statements and reports required by the Congress, City Council, Mayor, and other District government officials. We believe that the lack of a collection point for financial information has contributed to the weaknesses in financial statements and reports referred to in chapter two.
- After the new accounting systems are designed, prepare an accounting manual for each accounting system and written procedures for each employee performing an accounting operation. The procedures should establish a deadline for completing the operation.

- Assign the manager of each accounting system the responsibility for insuring that all employees performing accounting operations for that system have been properly trained.
- Require the Office of Municipal Audit and Inspection to review each accounting system at least every 3 years to insure that it is functioning properly and assign the OBMS accounting officer the responsibility for insuring that weaknesses disclosed by the reviews are corrected.

BLANK

ACCOUNTING SYSTEMS OPERATED
BY AGENCIES OF THE DISTRICT GOVERNMENT

Armory Board:

- Multipurpose accounting (Stadium operating fund)
- Revolving fund accounting (Armory working capital fund)

Department of Corrections:

- Grant accounting
- Multipurpose accounting (Capital outlay)
- Multipurpose accounting (Inmate welfare fund)

Department of Environmental Services:

- Cost accounting
- Revenue accounting

Department of General Services:

- Multipurpose accounting (Educational surplus property)
- Project accounting (Construction services)
- Revolving fund accounting (Postage)
- Revolving fund accounting (Printing and reproduction)
- Revolving fund accounting (Plant repairs and improvement)

Department of Human Resources:

- Multipurpose accounting (D C. General Hospital)
- Multipurpose accounting (Glendale Hospital)
- Multipurpose accounting (Departmental central system)

Department of Manpower:

- Grant accounting

Department of Recreation:

- Multipurpose accounting

Department of Transportation:

- Project accounting (Highway construction)
- Revolving fund accounting (Maintenance and repair of vehicles)
- Revolving fund accounting (Street restoration)

Executive Office of the Mayor:

- Multipurpose accounting (Publications fund)

Metropolitan Police Department:

- Cost accounting

Office of Human Rights:

- Grant accounting

Office of Planning and Management:
--Multipurpose accounting (Share computer center)

Office of the Surveyor:
--Cost accounting

Public Schools:
--Multipurpose accounting (Food services fund)

Washington Technical Institute:
--Multipurpose accounting

Youth Opportunity Services:
--Multipurpose accounting



COMPTROLLER

GENERAL OF THE UNITED STATES
WASHINGTON, D. C. 20543

E-140997

September 23, 1975

The Honorable Walter ... Washington
Mayor of the District of Columbia

Dear Mayor Washington:

I have recently reviewed the status of your accounting systems improvement effort and am disappointed, as I am sure you must be, at the slow progress being made.

When we approved your accounting principles and standards almost 3-1/2 years ago, we had high hopes that that was the beginning of a vigorous systems improvement effort in the District of Columbia.

I realize that following our report of March 13, 1972, on violations of the Anti-Deficiency Act, you were under pressure to do a lot of "dike-patching." I am also aware of the reorganization and strengthening of your financial management structure that has since taken place. Nevertheless, progress in developing systems which meet our requirements for approval appear minimal, as indicated in the enclosed summary which is to be included in our 1975 report to the Congress on our accounting system work.

From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations. This must be done to permit several designs to be prepared simultaneously, which is necessary if all of the District's numerous accounting systems are to be approved and operating within a reasonable period of time. This information is also necessary to determine whether the system which has been internally submitted for our evaluation meets our standards and is therefore approvable.

GAO note: The attachment to this letter was not included in the report because it was not relevant to the subject matter.

FGMSD-76-18

C O P Y

B-140997

We urge that you and your staff, as soon as possible, address this issue and the related issues of what level in the District organizations will be responsible for designing and operating the various systems and segments. Once these basic issues are settled, the design and documentation work can be planned and undertaken more effectively.

We are appealing to you again on this matter because we are very much interested in seeing that the District has an effective accounting and financial management system. You can count on our continued cooperation.

Sincerely yours,

/s/ Elmer B. Staats

Comptroller General
of the United States

Enclosure



THE DISTRICT OF COLUMBIA

WALTER E. WASHINGTON
MAYOR

WASHINGTON, D C 20004

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Thank you for your letter of September 23, 1975, in which you expressed your concern regarding the District of Columbia's progress in improving its accounting systems. In my judgment, the District has been moving in a responsible and timely manner in that area, especially when the District's efforts are viewed in the context of its particular requirements as a municipal government.

In your letter you cite experiences with Federal departments and agencies in evaluating the District's efforts:

"From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations."

The District is subject to pressures that are different in many important ways from those being felt by Federal departments, however. The city must operate within stringent funding constraints, thus putting a premium on effective monitoring of obligations and revenues. In addition, city officials and managers need highly detailed program and financial data to respond to the public's demands for accountability by those officials.

In response to the city's special requirements and the overall requirements of sound financial management, we are carrying out concurrently a number of systems development projects, including the work that you have suggested defining the various systems and subsystems in the District.

As the attachment to your letter points out, the city is planning to put in operation by October 1, 1976, a new appropriation-allotment system. That system will improve the timeliness, availability, and accuracy of information on obligations and financial plans at the agency level and at the central level. It will also provide for better safeguards against over-obligations. A more detailed description of the planned system is included in the attachment to this letter.

At the same time, we are planning to make major improvements in personnel management and position control by October 1, 1976. The personnel management system will provide for better information and control.

Preliminary meetings have been held on the development of a new revenue accounting system.

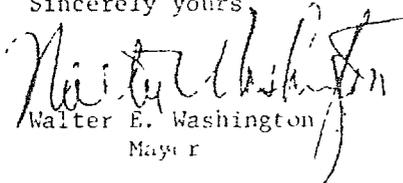
We are also working to identify and define all accounting sub-systems in the District, as called for by your letter.

I strongly believe that it is essential that these various improvement efforts be carried out concurrently. The planned improvements in obligation and personnel control are vital to responsible financial management in the District Government and cannot be delayed until all accounting sub-systems have been identified and defined. Because of the complexity of the programming and systems design required, it will be difficult to achieve the planned starting date of October 1, 1976, for the systems. Any delay would push the starting date back to Fiscal Year 1978 or later. I believe that such a delay should be avoided if at all possible.

I am hopeful that the concurrent work on the inventory and systems definition will provide the necessary information for the development of the new system. Agencies will be better able to assess their needs as a result of their experience with the design of the new obligation and personnel systems. They will also gain a better understanding of how the new system will meet their needs if they see the system itself under development rather than the design documents for the system.

While we may not agree on the specific steps to be taken in the development of the new system, I am confident that we share the same goal of significantly improving the District's financial management system. I appreciate the ongoing assistance provided by your office in this effort.

Sincerely yours,


Walter E. Washington
Mayor

Attachment

PRINCIPAL OFFICIALS OF
THE DISTRICT OF COLUMBIA GOVERNMENT RESPONSIBLE
FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
MAYOR (Note a): Walter E. Washington	Nov. 1967	Present
DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT SYSTEMS (notes b, c): Comer S. Coppie	Apr. 1972	Present
DEPUTY DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT SYSTEMS: William R. Krause Max Chaikin	May 1975 Apr. 1972	Present May 1975

a
From November 1967 to January 1, 1975, the position title was Commissioner.

b
From November 1969 to December 3, 1974, the office title was Office of Budget and Financial Management.

c
The responsibility for accounting systems development was transferred from the Office of Planning and Management effective April 5, 1972.