



**U.S. Department of the Interior
Office of Inspector General**

SPECIAL REPORT

**FINANCIAL MANAGEMENT
MODERNIZATION PROJECT,
GOVERNMENT OF GUAM**

**REPORT NO. 97-I-488
FEBRUARY 1997**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

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SPECIAL REPORT

The Honorable Carl T.C. Gutierrez
Governor of Guam
Office of the Governor
Agana, Guam 96910

Subject: Special Report on the Financial Management Modernization Project,
Government of Guam (No. 97-I-488)

Dear Governor Gutierrez:

This report presents the results of our review of the Government of Guam's ongoing Financial Management Modernization Project. The review was requested by the Governor of Guam during an August 13, 1996, meeting with the Inspector General, U.S. Department of the Interior. In our opinion, depending upon its effective management and implementation, the Project should result in fundamental improvements to the systems used for the Government's budgetary, financial, treasury, and debt management functions.

BACKGROUND

The purpose of the Financial Management Modernization Project is to fundamentally restructure the Government's financial operations and information processing. This restructuring will impact all Governmental departments and agencies. The Project includes performing a major revision of the Government's budget concepts and processing procedures, implementing a new financial accounting system, and restructuring the processes and objectives of Governmentwide information processing. The Project is under the oversight of the Guam Finance Commission, which is also responsible by law for coordinating the Government's economic and financial data collection, economic forecasting, financial management, and tax policy. The Guam Finance Commission, of which the Governor of Guam is the chairman, includes representatives from the public sector and the Executive and Legislative Branches. Although the Project has a steering committee and several standing committees and working groups, there is no full-time Project Director or other full-time Project personnel.

The Project began on January 17, 1995, when the Government amended an existing contract¹ to have the consultant review the Government's budget process, financial information systems, and treasury and debt management policies. The consultant subsequently reported in May 1995 that the Government should provide its elected and management officials with the authority and tools to restore and- maintain sound financial management with a modern integrated budget process and financial management system. The consultant recommended that: (1) the budget process be reformed; (2) the financial management systems be modernized; (3) the efficiency of treasury management be improved; and (4) a comprehensive debt management strategy be developed.

On October 27, 1995, a subsidiary of the consultant was awarded a \$1.97 million contract to: (1) prepare an information technology plan; (2) prepare a requirements analysis before a financial information system was developed; (3) provide a multiyear budget planning model; (4) prepare and provide training on the budget reform process; (5) prepare a cash flow forecasting model; and (6) provide a structure for treasury and debt management reform. As of November 20, 1996, work on the first four items was essentially complete. In addition, work on the cash flow forecasting model was in process, and work on the treasury and debt management reform began in January 1997.

Although the Government could not provide a complete estimate of the total costs (contractual, internal, and opportunity) for the entire Project, we estimated, as of November 20, 1996, based on information that was provided, that Project contractual costs alone may be as much as \$6 million. This estimate was derived from the following: a contract for \$1.97 million that had been awarded; additional service contracts costing an estimated \$900,000 that had been funded;² and the Commission's estimate (July 1996) that completion of the Project, including the selection and implementation of the Financial Information System, would cost from \$2 million to \$3 million. The additional service contracts included a \$750,000 contract for work on the Budget Information System and a \$150,000 contract for consulting work (outside of the scope of the October 1995 contract) needed to coordinate the proposed Financial Information System with ongoing modifications to the accounting system of the Government's Executive Branch.

OBJECTIVE AND SCOPE

The objective of our review, which was conducted during August through November 1996, was to determine whether the Financial Management Modernization Project has the potential to improve the Government's financial management in the areas of budgeting, financial information systems, treasury management, and comprehensive debt management. To accomplish our objective, we interviewed Government officials involved

¹The original contract was issued on February 25, 1991, to provide consulting services to the Guam Tax Code Commission, predecessor to the Guam Finance Commission.

²On November 15, 1996, the Director, Office of Insular Affairs, U.S. Department of the Interior, notified the Governor that the two components (\$750,000 plus \$250,000) were approved for a \$900,000 Departmental technical assistance grant.

in Project oversight and management and reviewed Government and consultant documents. We did not perform a cost-benefit analysis, review the procurement process, evaluate current operations, or analyze actual and potential project costs. As such, we limited our review to evaluating the potential for the Government to achieve the Project's objectives.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the Office of Inspector General nor the U.S. General Accounting Office has issued any reports addressing the Government of Guam's Financial Management Modernization Project.

DISCUSSION

In our opinion, the Financial Management Modernization Project, with effective management and implementation, should result in fundamental improvements to the Government's financial management by providing increased control over and better understanding of the Government's financial operations and financial position by both Government officials and the public. These improvements include legislation on budgeting (such as performance budgeting) and information technology (such as requiring procurement of compatible computer hardware and software). In addition, potential improvements include: (1) better budgeting decisions with more accurate multiyear budget planning; (2) better cash management with more accurate cash receipts and expenditure forecasting; and (3) less time-consuming and less expensive system modernization, integration, and revision with the planned acquisition of "open" computer software systems architecture, thereby avoiding the constraints and high costs the Government encountered with proprietary systems. Further, in June 1996, the Financial Information System requirements analysis identified a "Budget Information System" and an "Executive Information System" as necessary Project components with the Financial Information System. The Project has also resulted in draft legislation to establish a Bureau of Information Technology.³ Based on our review, however, we identified four aspects of the Project that need further consideration: (1) providing for day-to-day Project management and coordination, including the involvement of systems users; (2) establishing project and control processes and planning, including cost estimates, cost-benefit evaluations, and phased implementation of budget reform; (3) involving senior-level accountants in evaluating potential accounting systems; and (4) clarifying the degree of authority the Bureau of Information Technology will have over other agencies' operations. Specifically, the Government may want to consider:

- Hiring and appointing a Project Director; detailing two or three knowledgeable individuals to work on a full-time basis as Project coordinators responsible for specified portions of the Project; and ensuring the full involvement of potential users of Project

³On February 15, 1996, the Governor of Guam issued Executive Order No. 96-02, which created an interim Bureau of Information Technology.

systems, such as representatives of the management, accounting, budget, program, and clerical activities of Government of Guam Departments and autonomous agencies.

- Establishing an ongoing Project planning and control process to help ensure that all needed steps are completed and that project objectives and milestones are achieved. For example, Project management might prepare and maintain an overall Project Program Evaluation and Review Technique (PERT) chart to accomplish this end.⁴ In addition, the Government may want to consider utilizing other management tools/approaches, such as preparing cost estimates for the entire Project; estimating the potential costs and benefits of each major Project component, including cost estimates of contracts, personnel, and related expenses in Project design and implementation (internal), and the work effort these personnel and resources would otherwise accomplish (opportunity); and designing and implementing pilot programs in selected agencies to test implementation of Project segments, such as the performance budget process.

- Providing senior-level accounting managers in the Department of Administration with the opportunity to perform one or two site visits to examine operations at mainland governments that have efficient and effective automated financial systems. Since these accounting managers will be the initial users of the Financial Information System, exposure to operating financial systems and the opportunity to talk with accounting officials from other government jurisdictions should assist the Government's accountants in evaluating potential accounting systems and providing more effective commentary on any consultant proposals.

- Clarifying the authority and functions of the Bureau of Information Technology to help alleviate concerns expressed by Government officials regarding the extra level of review that would be created by the Bureau which may cause delays in the development of information systems, such as time delays in obtaining required approvals and/or unnecessary requirements placed on the selection and/or development of new systems.

We believe that if the suggested actions are taken, the Government's financial management will be improved.

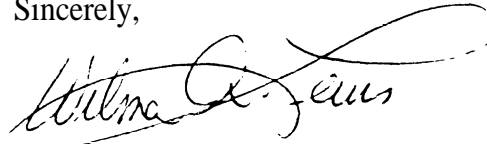
Because this report does not contain any recommendations, a formal response to this report is not required. However, if you have any questions regarding this report, please contact Mr. Peter Scharwark, Jr., at (671) 472-7279.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings, actions taken to implement recommendations, and identification of each significant recommendation on which corrective action has not been taken.

⁴PERT uses the concept of a diagram of various events and activities arranged in time sequence order with associated costs to reach the start and/or completion of events in a project.

We appreciate the assistance of Government of Guam personnel in the conduct of our review.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilma A. Lewis". The signature is fluid and cursive, with a long, sweeping flourish extending to the right.

Wilma A. Lewis
Inspector General

cc: Executive Director, Guam Finance Commission
Acting Director, Bureau of Budget and Management Research

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