U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

Review of Controls Over USDA Administrative Payment Systems

Report No.
50099-19-FM
JANUARY 2001

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: January 2, 2001

REPLY TO
ATTN OF: 50099-19-FM

SUBJECT: Audit of Controls Over USDA Administrative Payment Systems

TO: Paul W. Fiddick
Assistant Secretary for Administration

Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer (OCFO)

This report presents the results of our audit of internal controls over selected USDA administrative payment systems. While the audit disclosed serious internal control and compliance problems, our statistical sample of payroll transactions disclosed no fraudulent salary payments.

While the agencies' officials did not provide written comments to this report, the OCFO did reply to the Office of Inspector General's (OIG) interim management alerts. As a result, we were able to achieve management decision on Recommendations Nos. 5, 6, and 7. We were not able to reach management decision on Recommendations Nos. 1-4, 8, and 9.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for implementation for those recommendations for which management decisions have not yet been reached. Please note that the regulation requires management decisions to be reached on all findings and recommendations within a maximum of 6 months from report issuance. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance that your staff provided to us during this audit.

/s/

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

U.S DEPARTMENT OF AGRICULTURE
REVIEW OF CONTROLS OVER USDA
ADMINISTRATIVE PAYMENT SYSTEMS
AUDIT REPORT NO. 50099-19-FM

PURPOSE

The purpose of our audit was to test the effectiveness of selected internal control processes, and determine whether agencies complied with these controls, as they relate to the Payroll/Personnel, Miscellaneous, and Imprest payment systems. These systems are located at the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) in New Orleans, Louisiana. We selected random samples to validate the propriety of the payments at the locations we visited.

RESULTS IN BRIEF

Our audit tests of the payroll system disclosed no fraudulent salary payments. Our tests did disclose, however, instances of fraud in the Miscellaneous Payments System (MISCPAY).

We also identified the following control and/or compliance problems during our audit.

- The Department's internal control process would be strengthened if a "corporate level" approach was used to develop and review internal controls in the Department's administrative payment systems. With annual payments of over $34 billion initiated from a complex and large field structure, it is important that internal controls are implemented and reviewed from a "corporate-level" perspective.

- An integral component of the Department's internal control structure is not functioning in an effective and efficient manner. While the Department relies on various "management reports" to assist agencies in their validation of the transactions processed at NFC, significant problems exist with the content, distribution, utilization, and follow up on these "management reports."

- The Department's time and attendance process is old, inefficient, and problem prone. The Department has system changes underway which, if implemented, should resolve many of the problems noted in this report. In the interim, actions must be taken to assure leave errors are controlled and corrected more timely.

- The $4.5 billion MISCPAY system had many critical control problems. In our May 28, 1999, interim report, we reported to the OCFO a significant breakdown of the internal control process. For example, a critical control process that required an independent validation of MISCPAY payments was not functioning at all. Based upon the actions taken by the OCFO in response to our interim report, the weaknesses we identified have been mitigated.

- Even though in response to a prior Office of Inspector General (OIG) report, imprest funds were to be eliminated by the Department by January 1999, numerous funds remain outstanding. In addition, control weaknesses persist with these funds, in that required accountability reviews are not being performed. Actions must now be taken to eliminate this costly and problem-prone system.

KEY RECOMMENDATIONS

We recommended that the Department modify Departmental Regulation (DR) 1110-2 to strengthen the process for development and review of internal controls in its administrative payment systems, develop a system to enable managers to validate whether key management reports are functioning as designed, strengthen controls in the MISCPAY system and eliminate imprest funds.

AGENCY RESPONSE

The Chief Financial Officer (CFO) and Assistant Secretary for Administration did not provide a written response to this audit.

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INTRODUCTION

BACKGROUND

The United States Department of Agriculture (USDA), OCFO operates the NFC, located in New Orleans, Louisiana. The OCFO/NFC designs and operates USDA administrative processing systems. These systems include payroll, personnel, voucher and vendor payments, billings and collections, and property management, etc.

The Payroll/Personnel System (PPS) contains current and historical information for employees, including leave data, organization and position listings, etc. Biweekly T&A's and other payroll and personnel documents are sent (electronically and hard copy) to the OCFO/NFC from thousands of field offices for USDA agencies. Systems used for payroll/personnel processing include, among others, the Personnel Action Processing System (PACT), the Payroll/Personnel Remote Entry System (PRES), the Time Inquiry – Leave Update System (TINQ), and the Special Payroll Processing System (SPPS). PACT is used to enter all personnel actions, such as accessions, promotions, and separations, into the PPS. Payroll actions, such as incentive awards, direct deposit applications, and savings bond enrollment, are input using PRES. TINQ is used to view and correct employee leave balances in the database.

Most agencies can access OCFO/NFC's PPS database through the use of telecommunications equipment located at personnel processing offices and other remote locations. System access is controlled through logon Identification Numbers (ID) and passwords to provide protection for software and data resources. Most agencies have direct access for data input and revision, inquiries, and report generation from the PPS; however, some agencies mail hard copy data to the OCFO/NFC for input. These agencies receive confirmation showing the types of documents transmitted, a count of records transmitted to OCFO/NFC, and any errors encountered during transmission.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) mandated the improvement of internal controls and financial reporting within the Federal government. It requires that Federal entities evaluate their internal control structure and report any material weaknesses, including plans for corrective action. A wide range of sources provides guidance and requirements for the development of internal control structures. These include the Office of Management and Budget's (OMB) Circular A-123, Internal Control Systems, and the U.S. General Accounting Office's (GAO) Standards for Internal Control in the Federal Government.

OBJECTIVES

Our audit objectives were to (1) evaluate the development and review processes of the internal control structure in the Department's administrative payment systems, (2) follow up on the effectiveness of corrective actions taken on the weaknesses identified during our prior audit of the payroll/personnel system, (3) test for improper transactions that may have occurred, and (4) follow up on disclosed weaknesses in imprest fund operations and USDA progress on the elimination of imprest funds.

SCOPE

We performed this audit at the OCFO/NFC located in New Orleans, Louisiana, and 11 selected USDA field locations. Audit tests were made on data from the period November 1, 1998, through April 28, 2000.

Based on our analysis, we conducted audit work at 11 personnel offices for three agencies, which were judgmentally selected based on their transaction volume. At these 11 personnel offices, we judgmentally selected about 400 transactions. We evaluated control activities for input and processing of payroll and personnel actions into the OCFO/NFC PPS and reviewed transactions for their propriety.

This audit was conducted in accordance with Government auditing standards.

METHODOLOGY

To accomplish our audit objectives, we conducted computer analysis of transaction activity to identify transactions for testing.

We reviewed TINQ, SPPS, and PACT transactions for proper documentation and authorization, and to evaluate the controls over these transactions. We verified employee rosters (payroll) at field locations through confirmation of personnel records, observation, and interviews with agency personnel. We interviewed agency personnel on the use and effectiveness of management reports, and evaluated OCFO/NFC procedures and controls for use and distribution of management reports to agencies.

In addition, we evaluated OCFO/NFC and departmental procedures in conducting internal control development and review processes for its administrative payment systems.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	A CORPORATE-LEVEL APPROACH IS NEEDED IN THE DEVELOPMENT AND REVIEW OF INTERNAL CONTROLS IN THE DEPARTMENT'S ADMINISTRATIVE PAYMENT SYSTEMS

FINDING NO. 1

The Department has not adopted a "corporate-level" approach for either developing or reviewing the internal control structure for its administrative payment systems. We attributed this problem to the absence of CFO guidance on the need to integrate the old "stove pipe" internal control development and review processes into a single "corporate-level" approach. As a result, the Department's administrative payment systems, which annually disburse over $34 billion in salary and other payments, are unnecessarily vulnerable to fraud, waste and abuse.

In 1987, a Governmentwide group of Federal executives and Inspectors General[1] expressed concern about the "disturbing frequency" that computer systems had become vulnerable to fraud, waste and abuse. To try to prevent these problems from recurring, the group issued the "Model Framework for Management Control Over Automated Information Systems," dated January 1988. This document was to provide managers with a "road map" for reviewing and developing integrated controls within automated systems.

In subsequent years, considerable attention has continued to be devoted to strengthening internal controls in the Government and private sector. The Committee of Sponsoring Organizations of the Treadway Commission[2] recommended sponsoring a project to provide practical, broadly accepted criteria for establishing internal control and evaluating its effectiveness. As a result of this study, in September 1992, the "Internal Control--Integrated Framework" was issued. The "framework" provides a comprehensive basis for developing and assessing internal controls in any organization.

[1] The President's Council of Integrity and Efficiency and the President's Council on Management Improvements.
[2] The National Commission on Fraudulent Financial Reporting – A joint sponsorship of the AICPA, American Accounting Association, Financial Executives Institute, Institute of Internal Auditors, and the Institute of Management Accountants.

In November 1999, the GAO updated its "Standards for Internal Control in the Federal Government[3]." GAO notes in this revision that "rapid advances in information technology have highlighted the need for updated internal control guidance related to modern computer systems." GAO identified the five standards for internal controls as:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communications
- Monitoring

DR 1110-2, dated February 23, 1999, provides guidance to the agencies to improve the accountability and effectiveness of USDA programs. The DR requires, among others, USDA officials to do the following.

- Take systematic and pro-active actions to implement appropriate and cost-effective internal controls.
- Ensure the internal controls are an integral part of each organization's operations.
- Assess risks that may impair program delivery and operations on an annual basis, and commensurate with risk, periodically assess the adequacy of internal controls.
- Report weaknesses and develop plans to correct identified weaknesses.

The DR provides broad statements of responsibilities and defines various key terms to accomplish these requirements. However, it provides no specific guidance to the agencies on how they should design a system of internal controls, requirements (objectives) they must adhere to in this design, nor specific processes that need to be followed in the evaluation of internal controls.

Our analysis of the OCFO and Departmental Administration (DA) agency directives relating to the implementation of DR 1110-2, disclosed the following:

[3] The FMFIA requires GAO to issue standards for internal controls in Government. OMB Circular A-123 provides specific requirements for assessing and reporting on controls. Recently, other laws have renewed focus on internal controls, such as the Government Performance and Results Act of 1993, the CFO Act of 1990, and the FFMIA of 1996.

- Neither the OCFO nor DA has internal agencywide guidance to implement DR 1110-2. DA has reported since its fiscal year (FY) 1998 FMFIA report that it lacks a structured methodology to evaluate the inherent risk of its programs and the adequacy of management controls. It noted that, as a result, the administrative systems may be vulnerable to waste and mismanagement.

- NFC has issued specific guidance relating to the review of internal controls for its operations, and the reporting of material weaknesses. However, we have reported problems in the past with the NFC review process. For example, in Audit Report No. 11401-1-FM, “Fiscal Year 1995 National Finance Center General Controls Review,” dated February 29, 1996, we recommended that the NFC adopt a center-wide comprehensive risk based review process. NFC officials disagreed and felt that “managers deal with the inherent risk and vulnerability of their particular area of operation on a daily and recurring basis” and no standard was necessary.

To review the effectiveness of the internal control structure review and developmental processes relating to the Department’s administrative payment systems, we analyzed the FMFIA reports provided to the Secretary by the OCFO for the last 4 fiscal years. We then compared the weaknesses reported by departmental agencies to the internal control problems noted in OIG and GAO audit reports for the same periods. Our review disclosed that departmental agencies had not identified and reported any internal control weaknesses related to the system of controls for the administrative payment systems. A summary of our review is shown below (see exhibit A for the complete analysis):

- OIG found material internal control weaknesses in the Department’s $4.5 billion MISCPAY. We attributed the problem, primarily, to the absence of a structured “corporate-level” risk assessment of this administrative payment system. We concluded that the Department was unnecessarily at risk for fraudulent and erroneous payments that could result in substantial losses to USDA. (See Finding No. 3 for details.) Neither the DA nor the OCFO reported weaknesses in this system prior to our management alert dated May 28, 1999.

- OIG found that the Department's PPS contained records on over 12,000 employees, even though the employees had been separated, in some cases, for over 12 years. These records were improperly left "open" because of: leave, bond and/or "receipt accounts" that contained balances due to, or from, the separated employees. Our analysis showed the balances of these records to be valued at over $30 million. (See Finding No. 2 for details.) Neither the DA nor the OCFO had reported this problem prior to our management alert dated February 10, 2000.

- GAO and OIG reported (GAO Audit Report No. GAO/AIMD-99-227, "Weaknesses at National Finance Center Increase Risk of Fraud, Misuse, and Improper Disclosure," dated July 30, 1999; OIG Audit Report No. 11401-3-FM, "FY 1997 National Finance Center Review of Internal Control Structure," dated March 25, 1998) extensive and serious access control weaknesses that affected NFC's ability to prevent and/or detect changes to payroll and other payment data, or computer software. GAO concluded that these weaknesses increased the risk that users could cause improper payments; sensitive information, including financial transaction data and personnel information, was vulnerable to misuse. Neither the OCFO nor the DA reported this problem prior to GAO's and OIG's audit reports.

In our Audit Report No. 50600-13-FM, "Fiscal Year 1993 USDA Financial Statements," dated August 8, 1994, we first reported that most USDA agencies had not documented their internal control objectives and techniques in an integrated framework to ensure that management's overall goals were achieved consistently and uniformly. Given the size and complexity of USDA's operations, assets of $118 billion and program costs of over $64 billion, documented controls would assist in providing departmental officials with additional assurances concerning the effectiveness and efficiency of operations, reliability of financial systems, and compliance with laws and regulations. Internal control objectives provide a means by which an agency can evaluate the effectiveness of control techniques to prevent, detect, and correct errors within their environment, while considering the costs and benefits of controls when compared to the risk of errors.

In our FY's, 1997, 1998 and 1999 audits of the Department's Consolidated Financial Statements, we reported that the Department's administrative payment systems did not process and report financial information accurately. The Department, in response to our prior audits, has taken action to develop a corporate strategy, including budget and timeframes, for administrative/financial system changes. To ensure that these reengineered administrative systems have an effective "corporate-level" internal control structure, we believe that additional actions are necessary. Also, until these systems are reengineered, as noted in this report, a more effective "corporate-level" internal control review process must be developed. Without such changes the administrative payment systems which process $34 billion in payments will be subjected, unnecessarily, to potential losses.

RECOMMENDATIONS TO THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 1

Modify DR 1110-2 to strengthen the development and review of internal controls in departmental administrative payment systems to ensure "corporate-level" approaches are taken.

CHAPTER 2	MATERIAL WEAKNESSES EXIST IN THE DEPARTMENT'S INTERNAL CONTROL STRUCTURE FOR ADMINISTRATIVE SYSTEMS

FINDING NO. 2

An integral component of the Department's internal control structure is not functioning in an effective and efficient manner. While the Department relies on various "management reports" to assist agencies in their validation of the transactions processed at NFC, significant problems exist with the content, distribution, utilization, and follow up on these "management reports." We attributed these problems to the need for a more effective departmental process and improved coordination with agencies to ensure that these reports are analyzed for usefulness and are distributed to and effectively used by agency officials. As a result, the Department is more susceptible to erroneous and fraudulent transactions processed through administrative systems used to disburse billions of dollars annually, as well as maintain data on personnel actions for departmental employees.

OCFO/NFC External Procedures Manuals, which are provided to all client agencies, contain lists of "management reports" available to agency managers, which are either provided by NFC to the agency managers, or agency personnel obtained themselves.

During our audit, we attempted to identify the types of reports available/provided to agencies, and for those provided, the location(s) to which the report(s) were distributed. Because of system and software constraints, the NFC was unable to provide us with the information. We also determined that agencies did not always keep organizational changes current so that the reports were forwarded to the correct units. Also, the system was not always accurately maintained as to which offices were supposed to receive the respective reports, and reports did not always reach the offices designated in the system to receive the reports. We also found that agency managers did not always effectively use the reports received to identify improper activities, etc.

During our field work, we performed tests of selected reports to determine the reliance the Department can place on this control process. The reports reviewed and results of our review follow:

- (MISCPAY). A "report" designed as a critical control process to validate[4] the propriety of expenditures by the agencies were distributed directly to employees that certified transactions, rather than to their supervisors for an independent validation of the transactions. While agencies were required to return the audited reports to NFC for their review, agencies were returning only about one-half of the "audit" sample, and there was no followup by OCFO/NFC to obtain the reports not returned, or review the data provided. (See Finding No. 3 for additional details.)

  Two recent OIG audits illustrate the importance of management reports as monitoring controls in this system. For example, our review of MISCPAY data identified numerous questionable payments by one Certifying Officer (CO) in an agency's State Office. A special audit of the office showed that nine payments from this system totaling over $26,000 were used to pay the employees' personal bills. We also identified 289 other payments totaling over $285,000 that were questionable. At another agency, a special audit disclosed that a former CO embezzled over $300,000 due to lax financial controls and ineffective use of the MISCPAY "audit" listings. (The results of our review are presented in Audit Report No. 34004-05-HY dated February 18, 2000, and 10604-01-TE, dated March 31, 2000.)

- Time and Attendance (T&A) System. OCFO/NFC procedures, (Title I, Chapter 7, Section 1 dated March 1997) provide for a "Leave Error Report" (TIME4004) to be automatically sent to agency T&A contact points every odd-numbered pay period when system edits identify a leave balance discrepancy between an employee's T&A and the balances recorded in the database. Agencies can also elect to obtain this information through the online reporting system. During our audit, we determined that not all T&A contact points were receiving leave error reports. For example, one agency field site we visited, which had over 100 T&A errors, had not been receiving TIME4004, from OCFO/NFC for over a year. The field office officials explained that since they had stopped receiving leave error reports they assumed there were no leave errors to correct. In our followup with OCFO/NFC officials, it was determined that this T&A Contact Point (TACP) had been inadvertently dropped from distribution for this report.

  To ascertain the extent of this problem Departmentwide, we conducted database analysis to identify those locations that were not receiving the leave error report. We identified 167 of the 1,093 locations reported as having leave errors in one pay period, that had not received a leave error report. From the 167, we selected a sample of 12 locations with high

[4] Each month, a sample of transactions (0.5 percent plus all transactions exceeding $25,000) is selected by NFC from each certifying officer's electronic transactions and sent to the agency. Authorized agency personnel are to examine each item and verify that the transactions are legal, proper, and correct and agree with the transmitted data, explain and document any exceptions, and return a certified copy of the report to NFC for validation and control.

numbers of leave errors to validate our analysis. We found that 7 of the 12 locations were, in fact, not receiving any notice of leave errors. As of March 4, 2000, these 7 locations had 214 employees with 352 leave discrepancies totaling 4,124.75 hours valued at $64,016.

Our contacts with personnel at these locations disclosed that agency personnel were not effectively using leave error reports to control and minimize leave discrepancies. We found the following.

- Officials were not aware information on leave errors were available.

- Leave error reports being sent to or retrieved at a central location were not always getting disseminated to the respective TACP's for correction.

- One TACP, where employees input and correct their own T&A's, corrects leave errors only quarterly based on online data. Officials advised that leave errors continue to increase and sufficient staff is not available to monitor the corrections. Another TACP, where employees input their own data, had not received a Leave Error Report for about 18 months before they recently learned it was available online.

- One TACP, which is serviced by another agency, advised they were not receiving leave error reports. Another TACP, which is also serviced by another agency, was not being sent any Leave Error Reports because the servicing agency thought the report was being provided directly from OCFO/NFC.

- Employee Roster Reports. Our compliance tests to validate employee salaries disclosed that "separated" employees continue to be carried on the payroll database. We determined that OCFO/NFC's payroll/personnel records, as of November 2, 1999, for over 12,400 separated employees carried leave balances, bond deposits, and receipt accounts up to 12 years after the dates of separation. Our test showed that OCFO/NFC and/or agencies had not always made the appropriate adjustments to eliminate these balances when the employees were either paid or had their balances transferred to other Federal agencies. For others, the balances have been retained because employees have not been paid or they had unresolved leave errors at the time of separation.

Our discussions with NFC personnel disclosed that there was no specific policy or procedure for routinely reviewing these accounts, or for following up with the agencies on the employees listed to determine the reasons for retention of these accounts. OCFO/NFC reports show that separated employees have been owed refunds (e.g., for bond deductions) for up to 9 years, and have had unresolved receipt accounts (potential employee debts) up to about 11 years. These conditions were reported in our management alert dated February 10, 2000. Our analysis showed the balances of these records to be valued at over $33 million as follows:

	USDA Employees			Non-USDA Employees		
Category	**Number**	**Hours**	**Amount[(a)]**	**Number**	**Hours**	**Amount[(a)]**
Annual Leave						
Positive	2,023	96,600	$1,499,232	4,493	249,900	$3,878,448
Negative	386	(4,300)	$(66,736)	1,524	(27,300)	$(423,696)
Sick Leave						
Positive	2,852	735,400	$11,413,408	6,194	1,155,700	$17,936,464
Negative	335	(18,200)	$(282,464)	1,443	(102,800)	$(1,595,456)
Comp Leave						
Positive	1,235	15,900	$246,768	2,861	27,500	$426,800
Negative	5	(7)	$(109)	8	(51)	$(792)
Bond Deposits	36		$1,385	206		$7,809
Receipt Accts.	78		$65,582	277		$194,800

(a) The above valuations of leave are based on the USDA and non-USDA current average grades of a GS-9. Bond Deposits represent the unused amount withheld from employees to purchase U.S. Savings Bonds that was not returned to the employees. Receipt Accounts are set up by OCFO/NFC to record debts owed by employees and to record court ordered OCFO/NFC collections for monetary judgments against employees.

GAO's "Standards for Internal Control in the Federal Government" establishes internal controls as the first line of defense in safeguarding assets and preventing and detecting errors and fraud, stipulating that internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets. The standards address "application controls," advising that control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. Cited, as an example, are computerized edit checks built into the system to review the format, existence, and reasonableness of data. The standards also stipulate that information should be recorded and communicated to management and others within the entity who need it, and in a form and within a timeframe that enables them to carry out their internal controls and other responsibilities. They explain that for an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events, and that effective communications should occur in a broad sense with information flowing down, across, and up the organization.

RECOMMENDATIONS TO THE CHIEF FINANCIAL OFFICER AND ASSISTANT SECRETARY FOR ADMINISTRATION

RECOMMENDATION NO. 2

Develop a system that will allow departmental and agency managers to identify and validate the distribution of management reports within agencies. Reconcile the TACP in the NFC system to verify that all Leave Error reports are provided to all appropriate locations.

RECOMMENDATION NO. 3

Implement a review to ascertain whether the leave and bond balances constitute valid debts of the agencies, and whether the negative leave balances and receipt accounts are valid receivables. Initiate followup actions with agencies to ensure the appropriate payments/transfers are made and that OCFO/NFC's records are properly adjusted.

RECOMMENDATION NO. 4

Establish automated controls that will ensure appropriate and timely transactions are processed to the records of separated employees.

CHAPTER 3	MISCELLANEOUS PAYMENT SYSTEM HAS MATERIAL CONTROL WEAKNESSES

FINDING NO. 3

OCFO/NFC's miscellaneous payment (MISCPAY) system, which disburses or authorizes payments, etc., (e.g., letters of credit) in excess of $4.5 billion has numerous material weaknesses in its internal control structure. This problem was primarily attributed to the absence of a structured risk assessment of the MISCPAY system by departmental agencies. As a result, the Department is unnecessarily vulnerable to fraudulent and erroneous payments. Ongoing OIG audits/investigations have identified potential fraudulent payments that could result in substantial losses to the Government.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7) and related Treasury guidance, emphasizes that certifying and disbursing officers are relying on systems, controls, and other personnel when certifying vouchers for payment and these officers must have a reasonable basis for that reliance. The guidance states that reliance on these systems and controls requires well-defined organizational structures and lines of responsibility, effective use of technology, and effective reviews of voucher processing procedures and controls. Certifying officers (CO) are accountable for and required to reimburse, personally, the Government for any illegal, or improper payments made because of their certification.

Agency CO’s submit transactions to OCFO/NFC electronically or with a hardcopy voucher (Form AD-757, Miscellaneous Payments System). OCFO/NFC files showed there were over 1,000 USDA CO’s using the MISCPAY subsystem, as of March 2000. For security purposes, the OCFO/NFC assigns CO’s a "personal code." This "personal code" is the key control technique used by the Department to secure the integrity of payments processed through the MISCPAY subsystem. These codes are changed approximately every 2 years. These "personal codes" are stored, unencrypted, on the mainframe and are used to preclude payment of a MISCPAY transaction unless the voucher contains an authorized code. The "personal codes" and the CO's signature are also maintained on a signature card at the OCFO/NFC. These cards are used to validate vouchers electronically transmitted and those hardcopy vouchers that fail "personal code" edits, or are selected as part of an "audit" sample reviewed by OCFO/NFC personnel, etc. The CO’s can submit transactions for payments, with no upper limit; however, individual payments for $1 million or more require special processing and payment by OCFO/NFC. We determined that the "personal codes" assigned to CO’s had been changed three times since

September 1991, with the effective periods for the codes ranging from 18 months to 41 months. Given the importance placed on these "personal codes" by the Department, controls would have been significantly improved if the assignment of the codes is strengthened.

Selected agencies (Agricultural Marketing Service, Forest Service (FS), National Resources Conservation Service, Animal and Plant Health Inspection Service) transmit MISCPAY vouchers electronically to OCFO/NFC to process payments. For efficiency, these agencies normally consolidate their individual CO's MISCPAY vouchers into a single transmission to OCFO/NFC. Our review identified the following problems.

- Agencies that submit "consolidated" MISCPAY vouchers have significantly reduced the effectiveness of established controls over the MISCPAY subsystem. For example, agency personnel, without a need to know, receive and have access to unencrypted CO's "personal codes." We determined that one agency stores "personal codes" onto their front-end systems to enable them to process MISCPAY vouchers.

- Duplicate payments can occur (and one did) when the OCFO/NFC issues manual payments through the MISCPAY subsystem. Manual payments are processed for payments of $1 million or more and for other special reasons[5]. For example, a duplicate payment occurred on January 4, 1999, when a manual payment of $596,800 was made both on a fax copy of a voucher, and the original voucher. This occurred when the fax voucher rejected after payment and was placed in suspense at OCFO/NFC[6]. Instead of resolving the reason the voucher was suspended, OCFO/NFC personnel improperly deleted the voucher from suspense. After deletion of the voucher, a confirmation copy of the voucher was processed again, which resulted in a $596,800 duplicate payment. (The two payments were issued to an escrow agent for an FS land purchase. The duplicate was immediately returned un-cashed after it was identified by OCFO/NFC and the escrow agent was contacted by the agency.)

- OCFO/NFC's processing procedures for "hardcopy" vouchers makes the "personal codes" vulnerable to potential misuse by a significant number of employees. The vouchers, which include unencrypted "personal codes," are provided no special security processing within the OCFO/NFC from the time they arrive in the mailroom until they are processed and filed in an unsecured file cabinet in the MISCPAY section, or in a document storage warehouse. In addition to all employees who

[5] Manual payments are made for vouchers of $1 million or more, multiple payees on the same voucher, and in specific instances, to expedite a payment. OCFO/NFC Treasury Certifying Officers disburse manual payments by electronic funds transfer (EFT) through Treasury's Electronic Certification System. In these cases, the EFT disbursement is made before the voucher data is input into MISCPAY and validated against the automated system edits.

[6] Supra at n.1

would have access to mail handling, document processing, data preparation areas, and the MISCPAY section, any person with access to the OCFO/NFC has unlimited access to the "personal codes" stored at OCFO/NFC. In addition, we noted that the fax machine on which the certification unit receives fax copies of MISCPAY vouchers for payment is not maintained in a secure area.

- The Department has not established any purchase limits or dollar thresholds that require higher-level approvals to process a MISCPAY voucher payment. This is dissimilar to most other departmental programs. For example, holders of purchase cards/convenience checks are restricted to a single purchase limit of $2,500 unless they are warranted procurement personnel. In addition, each purchase cardholder has a maximum monthly amount for all procurement transactions.

OCFO/NFC provides each CO with a monthly report, in voucher number sequence, showing all payments processed under their "personal code" (regardless of whether they were transmitted electronically or submitted on a hardcopy voucher.) The monthly report is to be used by the CO to ensure all payments listed were authorized. In addition, each month a statistical sample of transactions (0.5 percent plus all transactions exceeding $25,000) is selected from each CO's electronic transactions and sent to the agency for review and "audit" of the supporting documentation. The agency is to return the report and the audit results to OCFO/NFC within 15 days. For all hardcopy vouchers, including "manual" payments of $1 million or more, the statistical sample is reviewed at the OCFO/NFC. Our review identified the following problems:

- The OCFO/NFC report, containing the statistical sample of transactions for agency validation, is sent directly to the respective CO’s for validation, rather than to the CO's supervisor.

- Although the Department's "audit" process over MISCPAY vouchers is a critical internal control procedure, the OCFO/NFC neither ensures that the statistical sample reports are returned by the CO’s, nor reviews the results if they are returned. OCFO/NFC officials estimate that only about 40-50 percent of the reports are returned from the field.

- OCFO/NFC personnel perform the "audits" of hardcopy MISCPAY vouchers. However, the OCFO/NFC "audits" do not include validating the appropriateness of the supporting documentation, since it is retained by the field offices. Consequently, these "audits" do not constitute a meaningful review that would provide any assurance as to the validity of the transaction.

- Since January 1, 1998, procedures require that a payee's Tax Identification Number (TIN) be included on MISCPAY vouchers sent to OCFO/NFC for payment. However, these unique identifiers are not used by OCFO/NFC to identify payments to employees, CO's, or for any other meaningful analysis. Since January 1, 1998, we determined that, for example, about 100 payments were made to CO's during FY 1998.

  Controls over these highly vulnerable payments could be significantly enhanced if these transactions were validated.

The OCFO, in response to our management alert, agreed that changes are needed to enhance present controls and the MISCPAY System, and have implemented numerous changes.

RECOMMENDATIONS TO THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 5

Establish controls to: (1) significantly reduce the number of OCFO/NFC employees that have access to "personal code" files, and (2) enhance physical security over the MISCPAY voucher until the MISCPAY system is eliminated.

Agency Response

The OCFO agreed with the recommendation and stated that they will conduct a review of OCFO/NFC employees' access to the "personal code" file within the MISCPAY program files and will limit access to it. The OCFO will also issue a bulletin to all affected employees and supervisors to strengthen and ensure security over the hard copy documents that contain CO's "personal code." These actions have been completed.

OIG Position

Based on the OCFO response, a management decision has been reached on this recommendation.

RECOMMENDATION NO. 6

Require CO's to provide Social Security Numbers (SSN) so that reports and analyses of payments can be prepared/performed .

Agency Response

The OCFO agreed with this recommendation. The OCFO indicated that it would update the CO file to include the CO's SSN, developing an automated match of the vendor TIN and the employee SSN in our payroll/personnel database. Any transaction matching will be suspended and produce a report listing the matching records. The actions proposed have been completed.

OIG Position

Based on the OCFO response, a management decision has been reached on this recommendation.

RECOMMENDATION NO. 7

Establish controls to ensure that all MISCPAY "audits" are promptly returned to and reviewed by the OCFO/NFC.

Agency Response

The OCFO agreed with this recommendation and established controls to ensure that all MISCPAY "audits" are completed by an independent reviewer and are promptly returned to and reviewed by OCFO/NFC.

OIG Position

Based on the OCFO response, a management decision has been reached on this recommendation.

CHAPTER 4	THE DEPARTMENT HAS FAILED TO ELIMINATE COSTLY AND PROBLEM PRONE IMPREST FUNDS

FINDING NO. 4

Imprest Funds and Field Party Advances continue to remain open despite years of problems and unnecessary costs. Although the OCFO developed a plan to eliminate the imprest funds by January 1999, in response to an OIG audit, the OCFO has failed to fully implement the recommendations. Failure to eliminate imprest funds results in additional administrative costs to maintain redundant systems for small purchases and puts agency assets at unnecessary risk of loss.

These conditions were previously reported in our Audit Report No. 11099-4-FM, "Significant Problems Noted with Imprest Fund Operations," dated February 1997. The USDA CFO, in a memorandum dated November 12, 1998, instructed agencies to aggressively reduce imprest fund balances and eliminate imprest funds to the maximum extent possible. Agencies were to immediately shift payments normally made from imprest funds to other more efficient, effective, and secure payment methods and funds were to be eliminated by January 1999. The U.S. Treasury Financial Manual, Volume 1, Part 4, Chapter 3000, Section 3010 states that agencies must use all methods available to eliminate imprest fund cash.

Problems we have noted are as follows.

- <u>Unneeded Imprest Funds Remain Open</u>. As of February 28, 2000, USDA had 395 active imprest funds and field party advances with balances totaling about $766,400. There are over 630 active cashiers that administer the day-to-day operations of the funds. While USDA has made progress in closing imprest funds since our prior audit, which disclosed that USDA had 1,213 imprest funds with fund balances of about $4.2 million as of January 25, 1996, more must be done. Since our initial audit, 24 new imprest funds totaling over $26,000 have been established. Of the 24 cashiers for these new funds, 12 are also Purchase Card Management System (PCMS) cardholders. These actions conflict with USDA policy to close imprest funds and implement the PCMS. Imprest funds continue to hold fund balances in excess of what is required to conduct day-to-day business. OCFO/NFC report IMPF8101, "Imprest Fund Quarterly Voucher Activity Report," dated March 30, 2000, revealed that 346 of 395 USDA imprest funds maintain about $570,000 in excess of funds actually used. Of the 346 imprest funds, 166 funds have balances of 50 percent or more in excess of what is used. Reimbursement requests for imprest funds are infrequent, indicating that the need for the funds has diminished. OCFO/NFC data disclosed that 145 of the 395 USDA imprest funds have not been reimbursed for extensive periods. For example, two FS imprest funds have not requested reimbursements since 1996, one with a fund balance of $15,000.

PCMS is now available for USDA-wide implementation. PCMS allows the use of credit cards and convenience checks to make small purchases. Of the 395 active USDA imprest funds, 230 funds with balances totaling over $474,000 are administered by 308 cashiers that are also PCMS cardholders. Based on our previous $4.4 million estimate of annual administrative costs to operate USDA's imprest funds, we estimate current annual administrative costs of operation of these imprest funds to be about $1 million.

- <u>Agency Controls Over Imprest Fund Operations Remain Ineffective</u>. Administrative oversight of imprest funds remains lax. For example, required cash verifications and annual audits were not performed. Our prior audit disclosed that agency managers considered these activities to be low priority tasks. Our current audit found that Quarterly Cash Verifications and Annual Audits were not completed timely and, as required, submitted to the OCFO/NFC. For example, OCFO/NFC reports, as of February 25, 2000, showed that of the 395 active USDA Imprest Funds, Form AD-358, Cash Verification, had not been timely submitted for 322 funds. Forms AD-358 are delinquent from 3 months to over 7 years. Form AD-359, Cashier Account Audit, for 249 funds has not been submitted to OCFO/NFC for periods ranging up to 18 years. Cash verifications for 159 imprest funds and annual audits for 239 funds are 1 year or more overdue. For example, Form AD-358 and Form AD-359 have not been submitted since November 1992, and May 1992, respectively, for one fund with a balance of $1,000. Forms AD-358 and AD-359 have not been submitted, since June 1994, for another fund with a $5,000 balance.

Imprest funds are uneconomical and inefficient means of payment for small purchases, cash awards, travel advances, etc. Past OIG audits have shown that imprest funds have a high risk of loss, have a high cost to maintain, and have continued control and recordkeeping problems. We continue to believe imprest funds should be eliminated for more cost-effective systems with better controls. The high cost of operation, high potential for losses, continued control weaknesses, and poor accounting supports the need for elimination now.

RECOMMENDATIONS TO THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 8

Close all imprest funds.

RECOMMENDATION NO. 9

Assure that until all imprest funds are closed, agencies perform the necessary audits and cash verifications, and submit the documentation to OCFO/NFC.

GENERAL COMMENTS

At the eleven payroll offices we visited, we coordinated with agency officials to validate the accuracy of employee rosters and determine if there were “ghost” employees being carried in USDA personnel records and receiving salary payments. To validate employee personnel registers, we obtained a current listing of CULPRIT Report CULP0007, Roster of Employees, and had the local site manager verify that all names on the listing were either current or former employees. For any names listed on the report that were not known to the agency manager, we conducted additional reviews to ascertain that the employee was legitimate. Our review did not identify any “ghost” employees in USDA payroll/personnel records.

EXHIBIT A – MATERIAL CONTROL WEAKNESSES REPORTED BY OIG/GAO THAT HAVE NOT BEEN DETECTED BY AGENCY INTERNAL CONTROL REVIEWS IN THE LAST 4 YEARS

SYSTEM	WEAKNESS	AUDIT REPORT/DATE
PAYROLL	PC TARE data is vulnerable to unauthorized alteration. Payroll subsidiary system out of balance by $1 million; some date back to 1979.	11099-37-FM (September 30, 1994) 50401-35-FM (February 22, 2000)
GENERAL MANAGEMENT	The department lacks adequate management controls over biological agents to minimize risk to employees, the public, and environment. Management controls were lacking within the USDA compliant resolution process.	50099-5-AT (March 18, 1997) 60801-1-HQ (September 30, 1998)
ALL NFC SYSTEMS	Material weaknesses exist in the accounting adjustment process at NFC and raise substantial concern about data integrity. Material weaknesses exist in the reconciliation process at NFC. Inadequate computer security and application controls were at risk of modification of data. Abnormal balances not researched and improperly “reclassified” without research.	50401-4-FM (August 23, 1995) 50401-4-FM (August 23, 1995) 50401-4-FM (August 23, 1995) 50401-35-FM (February 22, 2000)

SYSTEM	WEAKNESS	AUDIT REPORT/DATE
FINANCIAL MANAGEMENT SYSTEM	The Department lacks an integrated financial and administrative accounting system that reports data, timely and accurately.	50401-24-FM (July 16, 1998)
OPAC	Duplicate bills, totaling up to $1.9 million inappropriately charged to agencies.	50401-35-FM (February 22, 2000)
FMFIA	Department unable to resolve material problems and eliminate remediation dates slippage.	50401-35-FM (February 22, 2000)
PROPERTY	Material problems exist in property system, lack of support for property, missing property and grossly overvalued property.	50401-35-FM (February 22, 2000)
MISCELLANEOUS PAYMENT SYSTEM	Inadequate controls were found throughout the $4.5 billion system to the extent that it put the Department at risk for fraudulent and erroneous payment. Serious access control weaknesses exist at NFC that allowed unauthorized users access to payroll/personnel data and substantially raised the risk of data manipulation. GAO recently reported similar network security weaknesses at NFC.	50099-19-FM Management Alert (May 28, 1999) 11401-3-FM (March 25, 1998) GAO/AIMD-99-227 (July 30, 1999)

ABBREVIATIONS

CFO	Chief Financial Officer
CO	Certifying Officer
DA	Departmental Administration
DR	Departmental Regulation
EFT	Electronic Funds Transfer
FMFIA	Federal Manager's Financial Integrity Act
FS	Forest Service
FY	Fiscal Year
GAO	General Accounting Office
ID	Identification Number
MISCPAY	Miscellaneous Payments System
NFC	National Finance Center
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PACT	Personnel Action Processing System
PCMS	Purchase Card Management System
PPS	Payroll/Personnel System
PRES	Payroll/Personnel Remote Entry System
SPPS	Special Payroll Processing System
SSN	Social Security Number
T&A	Time and Attendance
TACP	Time and Attendance Contact Point
TIN	Tax Identification Number
TINQ	Time Inquiry Leave Update System
USDA	United States Department of Agriculture