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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

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JUL 17 1972

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Bruce
Dear Mr. ~~Cardwell~~.

The Atlanta Regional Office of the General Accounting Office has reviewed the receipt and disbursement of funds by Region IV, Department of Health, Education, and Welfare, and has issued the enclosed report to the regional director. Because the report discloses weaknesses which may exist in other regions, we suggest that:

- procedures to be followed by all regions be established to ensure that separating employees are cleared of indebtedness to the Government prior to their separation.
- the Audit Agency examine, in all regions, the matters disclosed in our review of Region IV.
- a copy of our report be furnished to the directors of the other regions.

We would be pleased to discuss these matters with you should you so desire.

Sincerely yours,

Don

D L. Scantlebury
Director

Enclosure

The Honorable James B. Cardwell
Assistant Secretary, Comptroller
Department of Health, Education,
and Welfare

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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 204 161 PEACHTREE STREET N E
ATLANTA, GEORGIA 30303

JUL 14 1972

Dr Frank J Groschelle
Director, Region IV
Department of Health, Education, and Welfare
50 Seventh Street N.E. - Room 404
Atlanta, Georgia 30323

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Dear Dr. Groschelle:

The General Accounting Office has reviewed the administrative procedures and internal controls covering the receipt and disbursement of funds by the Department of Health, Education, and Welfare (HEW), Region IV, Atlanta, Georgia. We are reporting the following matters to you because we believe they indicate a breakdown in the financial management system in Region IV before, and at the time of our review. We discussed our findings with regional office officials who generally agreed with our conclusions and corrected, or agreed to correct, the deficiencies noted.

NEED FOR IMPROVEMENT IN PROCUREMENT PRACTICES

Because procurement personnel did not comply with applicable laws and regulations, there is no assurance that procurements were made at the most advantageous price available or under circumstances of full and free competition among suppliers. We found procurement transactions where purchase amounts exceeded the limitation for administrative approval, where competition apparently was not obtained, where the requirement for formal advertising was circumvented, and where items available from General Services Administration (GSA) were purchased on the open market at higher prices. We believe that the basic cause of these deficiencies was a general lack of supervision and review within the procurement unit.

Federal and HEW procurement regulations require that reasonable competition be obtained in making purchases which do not exceed \$2,500; that the propriety of placing an order at the price paid to the selected supplier be clearly shown in the procurement records, that competition on procurements exceeding \$2,500 be obtained through formal advertising; and, that GSA or other mandatory sources of supply be used to the extent practicable. To assure that these criteria are met, HEW has prescribed implementing policies and procedures in its procurement manual. At the operating agency level, the responsibility for issuing policies and procedures necessary to meet these criteria is placed with the head of the procuring activity. Region IV has established employee job descriptions, functional statements, desk operating procedures, and supervisory review for processing procurement transactions.

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The procurement files which we examined contained no evidence that competition was obtained for transactions which did not exceed \$2,500 or that transactions exceeding \$2,500 were formally advertised. We also found that a procurement assistant had approved purchase actions for amounts exceeding her administrative limitation of \$2,500

One requirement for carpet valued at \$8,937 was procured under six purchase orders, each for less than \$2,500, thus circumventing the requirement for formal advertising. The six orders were consecutively numbered, issued to the same supplier, signed by the same requisitioning official, and approved by the same procurement assistant.

We also found that supplies and materials which were available from GSA were bought on the open market at higher prices. For example, on seven purchases costing \$183--all paid for out of the imprest fund--\$132 could have been saved if similar items had been procured from GSA rather than from commercial sources. Although the procurement files did not show why these items were bought from commercial sources, regional office officials stated that, in the past, items obtained from GSA had been of inferior quality and that GSA had been unable to meet specified delivery dates. They also stated that the prices of local suppliers were less than GSA prices for some items.

The Regional Financial Management Officer attributed these deficiencies to a lack of supervision caused by inadequate staffing and employee attitudes. She said that the procurement unit, staffed by a total of three people, provided procurement support to approximately 4,500 employees and 2,000 grantees and that the supervisor was also responsible for property management, records management, and safety. The Financial Management Officer stated that because the procurement supervisor was overworked and nearing mandatory retirement, there had been little, if any, review of purchase orders.

As a result of our review, the Financial Management Officer initiated corrective action to strengthen internal controls over procurement. The corrective action included:

- devising and requiring the use of a form to document competition and related decisions,
- reducing the procurement assistant's approval limitation from \$2,500 to \$500,
- requiring the Deputy Financial Management Officer to review all purchase orders and to specifically approve those exceeding \$500, and,
- informing procurement unit employees that failure to adhere to Federal and HEW Procurement Regulations could lead to severe reprimand or possible dismissal.

NEED FOR IMPROVEMENT IN CONTROLS
OVER CHANGE-OF-STATION ALLOWANCES

A breakdown in internal control resulted in payments of change-of-station claims not conforming to established criteria. The claims did not receive adequate supervisory review during the voucher audit process

Office of Management and Budget (OMB) Circular A-56, as revised, establishes criteria for payment of expenses incurred during employee changes of station. To assure compliance with these criteria, HEW issued a Travel Manual setting forth policies, procedures, and standards and a Voucher Audit Manual setting forth specific guides for the administrative audit of vouchers before payment. Region IV has established employee position descriptions, functional statements, and supervisory review for auditing and processing vouchers

OMB Circular A-56 specifically lists mortgage discounts as non-reimbursable expenses; requires that real estate expenses be supported by copies of sale or purchase agreements; and requires that subsistence claims be supported by an itemization of the daily amounts spent for lodging, meals and other subsistence expenses. Contrary to these provisions, a mortgage discount claim of \$310 was reimbursed; five claims amounting to \$6,160 were reimbursed for real estate expenses which were not supported by copies of sale or purchase agreements, and four claims for subsistence expenses were paid without being supported by daily itemizations.

OMB Circular A-56 prohibits payment of change-of-station expenses if the transfer is for the convenience of the employee. Contrary to this provision, one employee was reimbursed \$114 for moving his household goods for personal reasons from his official duty station to another State. The authorization under which the claim was paid was issued about 4 months after the move was made.

Although the Supervisor of the Voucher Examination Unit was familiar with each of these provisions of OMB Circular A-56, she stated that she had been unable to perform the necessary supervisory review because of an excessive workload. She explained that she had been performing clerical tasks including detailed voucher examinations as well as serving as a travel consultant to regional employees

As a result of our review, the Financial Management Officer relieved the Supervisor of clerical responsibilities and instructed her to personally review all change-of-station allowance claims, all payments in excess of \$5,000, and any problem vouchers for regular travel. In addition, the Financial Management Officer stated that, since Social Security Administration (SSA) employees represented the majority of change-of-station allowance claims paid by the Region, she had requested SSA to issue a

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memorandum informing its employees of the need for daily itemization of subsistence expenses to support temporary quarters claims. She also stated that she would remind voucher examiners of the need for sale and purchase agreements to support real estate transactions

NEED FOR REVIEW OF SUPPORTING DOCUMENTATION BY CERTIFYING OFFICERS

Internal controls for assuring the propriety of claims were weakened because certifying officers did not review supporting documentation during the certification process. We believe that this situation resulted in the payment of erroneous claims and in procurement transactions which were not made in accordance with applicable laws and regulations. In addition, we believe that without proper review of supporting documentation, fraudulent claims could be paid.

By law, certifying officers are held responsible for the existence and correctness of the facts recited in the certificate, the voucher, and the supporting documentation; and are held accountable for the amount of any illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certification. The HEW Voucher Audit Manual sets forth the responsibilities of certifying officers and voucher examiners and provides instructions for examination of vouchers.

Region IV certifying officers were relying solely on the voucher examiners to assure the correctness and propriety of claims. The Voucher and Schedule of Payments (schedule), as received and certified by the certifying officers, was not accompanied by supporting documentation. As a result, the schedule was certified without a review of the supporting documents by the certifying officer

The certifying officers stated that, due to other duties resulting from inadequate staffing, they did not have time to review the documentation supporting the schedule. One certifying officer explained that, in order to save time, the practice had been for the scheduling unit to forward a copy of the schedule and the supporting documents directly to the accounting unit. She expressed the opinion that, because vouchers were reviewed by voucher examiners, and because the accounting unit received a copy of the schedule and the supporting documents, there was adequate control over payments. In our opinion, the review by voucher examiners and the receipt by the accounting unit of the supporting documents does not relieve the certifying officer of the responsibility to determine the existence and correctness of the facts recited in the certificate, the voucher, and the supporting documentation.

We believe that the deficiencies disclosed by our review indicate a need for the certifying officers to review supporting documentation.

Such review should have prevented some of the deficiencies pertaining to the procurement transactions and change-of-station allowance payments discussed in previous sections of this report. Other examples of erroneous payments which might have been prevented had certifying officers reviewed supporting documentation include the following.

- An employee was reimbursed for the cost of a rental vehicle used for personal reasons on nonworkdays
- A transportation surcharge was paid, even though it had previously been declared nonallowable by GSA
- An excessive transportation charge was paid because the distance claimed between points was greater than that shown in the appropriate mileage guide
- A termite inspection fee was paid without the supporting evidence required by OMB Circular A-56 that such expense is customarily paid by the purchaser.

The Financial Management Officer agreed that certifying officers should review supporting documents before certifying the schedule for payment, and issued a memorandum requiring that supporting documents be attached to schedules submitted for certification. She expressed the opinion that, due to other duties resulting from inadequate staffing, it would be impossible for the certifying officers to perform a detailed review of each voucher listed on the schedule, but stated that she would instruct the certifying officers to review them to the extent possible.

NEED TO EXERCISE PRESCRIBED CONTROLS AND ESTABLISH
ADDITIONAL PROCEDURES FOR COLLECTION OF TRAVEL ADVANCES

The disregard of established internal controls resulted in failure to collect outstanding travel advances from nontraveling employees. Additionally, the absence of written procedures contributed to the failure to collect outstanding travel advances from separating employees. Some of the advances that were not collected from separated employees may now be difficult to collect.

Under Standardized Government Travel Regulations, agency heads are authorized to advance funds for travel and are responsible for assuring that amounts advanced are fully recovered. The HEW Travel Manual requires collection of travel advances in the event of cancellation or indefinite postponement of the related travel and upon employee separation or transfer from the Department. The HEW Regional Accounting Procedures require the Financial Management Section to perform monthly reviews of individual travel advances to determine if the advance should be continued or recovered.

The HEW General Administration Manual provides a standard form for clearing separating employees of indebtedness to the Government and assigns the Office of Field Administration the responsibility for developing and implementing, by March 1, 1965, clearance procedures for separating employees of regional offices and of operating agencies under the jurisdiction of regional offices

We found that the monthly review of outstanding travel advances was not being performed by the Financial Management Section and that the Office of Field Administration had not issued clearance procedures for processing employee separations. Even though clearance procedures had not been issued, the clearance form prescribed by the General Administration Manual was being used to some extent.

A limited review of travel advances disclosed that one employee had not traveled since 1966, yet a portion of his travel advance was still outstanding in September 1971, the date of our review. In addition, travel advances were not collected from one employee who left HEW in 1969 and from three employees who left in 1970. According to agency officials, the collectibility of the advances from three of the ex-employees is doubtful.

The Supervisor of the Financial Management Office Examination Unit told us that the monthly reviews of outstanding travel advances had not been performed because of inadequate staffing and because the final decision as to whether or not an advance should be continued or liquidated was the responsibility of the head of the respective operating agency to which the employee was assigned. In our opinion, periodic review by the Financial Management Office of the need for outstanding travel advances is an internal control necessary to assure prompt identification and collection of unneeded advances.

Region IV officials told us that procedures for clearing indebtedness of separating employees had not been established. The Supervisor of the Examination Unit told us that the current practice was to follow the general guidelines set forth on the clearance form provided by the General Administration Manual. She said that the Examination Unit had received a few of the forms but that, in most instances, the forms had been received after the employee's separation date.

The Financial Management Officer agreed that the need for outstanding travel advances should be periodically reviewed and that procedures were needed for clearing separating employees. As a result of our review, she provided each agency with a listing of its employees having outstanding travel advances as of September 30, 1971, and requested them to determine whether each advance should be continued, reduced in amount, or liquidated. In addition, she stated that she would consult with regional and headquarters officials concerning the development of procedures to ensure that separating employees were cleared of indebtedness to the Government.

NEED TO STRENGTHEN INTERNAL CONTROLS
FOR REPORTING TIME AND ATTENDANCE

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Practices followed in recording and reporting employee time and attendance do not conform in all respects to the principles, standards, and related requirements prescribed by the Comptroller General. As a result, the time and attendance reporting system does not provide adequate assurance of the accuracy and reliability of reported data.

The GAO Policy and Procedures Manual For Guidance of Federal Agencies prescribes principles, standards, and related requirements for the recording and reporting of time and attendance for employees of Federal agencies. The manual requires that a record of time in pay or nonpay status be maintained on a daily basis for each employee and that timekeepers be in a position to have positive knowledge as to the employee's presence or absence before marking the time and attendance report. To implement these criteria, HEW has issued a Time and Leave Accounts Manual setting forth policies, standards, and procedures to be used by timekeepers in preparing and processing time and attendance reports. HEW also issued a Guide To Timekeepers Manual setting forth detailed instructions for completion of time and attendance reports. Basically, designated timekeepers within each of the major agencies are responsible for maintaining time and attendance reports for assigned employees and for submitting the related information to the Division of Central Payroll.

Some time and attendance reports were not being maintained on a daily basis and some timekeepers were not in a position to know whether employees were present or absent from duty. Of 14 timekeepers contacted during our review, two were posting time and attendance reports at the beginning of the pay period while seven were posting records at the end of the pay period, rather than on a daily basis. In addition, four of the 14 timekeepers were not in a position to have positive knowledge of employee attendance before marking the time and attendance report. In one such instance, a timekeeper located at the regional office prepared time and attendance reports for 108 employees assigned to field stations throughout the region.

Other instances of deviations from acceptable practices included:

- timekeepers receiving and distributing paychecks,
- timekeeper not showing specific time of absence when leave of less than 8 hours was taken, and
- timekeeper posting leave charges in multiples of $\frac{1}{2}$ hour rather than in multiples of 1 hour

Most of the timekeepers had been furnished the HEW manuals; however, some of the timekeepers did not seem familiar with prescribed timekeeping procedures. Discussions with timekeepers disclosed that, generally, they received little supervision or training. We were told that the most recent training course for timekeepers was in February 1969.

In several instances, timekeepers had been assigned additional duties which were given a higher priority than timekeeping. For example, one timekeeper maintained time and attendance reports for 17 employees, served as secretary to the Division Director, and performed secretarial tasks for three technical employees. Another timekeeper maintained time and attendance reports for 58 employees while performing typing and filing duties for five technical employees

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CONCLUSIONS AND RECOMMENDATIONS

With the exception of procedures for assuring the collection of travel advances from separating employees, HEW and Region IV have adequate policies and procedures for controlling the financial management areas in which deficiencies were disclosed by our review. As with any financial management system, success in controlling abuses within the system is largely dependent on supervisory personnel. In this regard, Region IV, in our opinion, undermined the system through inadequate supervision and review.

The Financial Management Officer promised or initiated action to correct the deficiencies found during our review. In addition to her corrective action, we are recommending that HEW establish procedures and assign responsibility for assuring that amounts due the Government are collected from separating employees. To assure that management is carrying out prescribed policies and procedures, we also are recommending that the HEW Audit Agency, as a part of the total financial management system, perform routine, periodic audits in the areas in which we found negligent supervision and an ensuing breakdown in the review process.

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A copy of this report is being sent to the Assistant Secretary, Comptroller, with the suggestion that he establish procedures to ensure that amounts due the Government are collected from separating employees; that the HEW Audit Agency examine, in all regions, the areas in which we found deficiencies in Region IV, and that copies of this report be furnished to the directors of the other HEW regional offices

We wish to acknowledge the courtesy and cooperation extended to our auditors by personnel of Region IV. We would appreciate your comments on

the matters discussed herein, and would be pleased to discuss them with you should you so desire

Very truly yours,

Kyle E. Hamlin

Acting Regional Manager