



U.S. GOVERNMENT
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OFFICE OF THE INSPECTOR GENERAL

memorandum

DATE: December 20, 2004

REPLY TO

ATTN OF: Gregory A. Brower, Inspector General

SUBJECT: Report on the Review of Funds Electronically Taken Back by
GPO's Customer Agencies

TO: Public Printer
Chief Financial Officer

This Office of the Inspector General (OIG) Report provides the results of a review of funds electronically taken back ("chargebacks") by customer agencies via the Department of the Treasury's Intra-governmental Payment and Collection ("IPAC") system.

RESULTS IN BRIEF

Regarding this subject, the OIG review disclosed:

- Total chargeback amounts have greatly escalated during Fiscal Year (FY) 2004 – as of July 2004, net chargebacks were over \$10 million. One customer agency, the Department of Transportation (DOT), has, to date, charged back over \$3.5 million in FY 2004.
- Chargebacks have been for printing that the agencies received and accepted, including printing jobs and funds from prior fiscal years.
- IPAC, operated by the Department of the Treasury ("Treasury") for use by Federal agencies for intra-Government fund transfers, lacks adequate controls to

prevent inappropriate chargebacks that, in turn, have caused waste and inefficiency due to duplicative processing of these charges.

- The 90-day limitation on allowable adjustments to IPAC payments prescribed by Treasury is not being followed by customer agencies and no sanctions have been applied, causing some chargebacks to be made that date back three years or more.
- These chargebacks have had an adverse financial impact on GPO by reducing its available cash.

During the course of this review, the OIG discussed the chargeback issue with the Comptroller and other staff in the Office of Finance and Administration (F&A). The OIG commends them for immediately taking steps to address this problem, including their recovery of over \$230,000 from DOT. However, more needs to be done to facilitate additional chargeback recoveries.

Recommendations

The OIG recommends that the CFO instruct F&A personnel as follows:

1. The Accounts Receivable (A/R) Section should continue to work with appropriate DOT officials so that the accounts of both organizations are reconciled and repayment of the remaining chargebacks, including the \$3.3 million noted in FY 2004, can be made promptly.
2. The A/R Section should contact other customer agencies as soon as possible after receiving notification of material (large-dollar) chargebacks, and likewise obtain repayments for those agencies' chargebacks.
3. The Comptroller should consider the short-term reassignment of F&A staff to help address and correct the chargeback problem.
4. The Comptroller should develop a procedure to ensure that both IPAC-related billing codes (Billing Address Codes and Agency Location Codes) are updated within A/R systems in a timely fashion.

In addition, the OIG recommends that the CFO:

5. Initiate contact with appropriate Treasury IPAC officials to address control issues within that system, including the lack of compliance by GPO customer agencies with IPAC procedures and protocols, and the lack of sufficient internal controls over IPAC adjustments.
6. Develop an “escalation procedure” to ensure that aged chargeback and other A/R balances owed to GPO by customer agencies receive adequate attention from senior GPO (and other appropriate) management. This procedure would require formal notification between different management levels as these balances age. For example, Comptroller-to-Comptroller contact on A/R balances beyond 60 days, CFO-to-CFO beyond 90 days, IG-to-IG beyond 120 days, and elevation to the Deputy Public Printer should the situation warrant it.

Management Response

On September 24, 2004, a draft of this report was provided to the Public Printer, the CFO, and others in the Office of Finance and Administration for review and comment. In response to that draft, the CFO concurred with our recommendations.

BACKGROUND

Most of GPO’s billings to federal customer agencies for printing and binding work are automated via IPAC. IPAC contains multiple components which consist, in part, of the application that handles intra-governmental fund transfers between agencies. Implemented in 2001, IPAC replaced the On-line Payment and Collection system (OPAC) that had operated since 1985. IPAC was designed to transfer funds between Federal agencies.

In the normal process relative to IPAC charges, GPO first receives a request from a customer agency for printing and/or binding on a Form SF-1. GPO awards a contract to a vendor/contractor to provide the printing. The customer agency approves print orders for specific jobs, including a fixed price or a cost estimate plus the additional GPO charges (e.g., the 7 percent surcharge). The print job is then delivered to the customer agency, and, after paying the contractor, GPO prepares the IPAC transaction documents to

charge the agency. At the end of each month, GPO personnel access IPAC and retrieve the total costs due from the agency. The IPAC transactions immediately affect GPO's revolving fund and the customer agency's respective accounts in the U.S. Treasury.

IPAC transactions include two sets of code numbers regarding the customer agencies. The first is a Billing Address Code (BAC), a GPO-assigned code that provides the customer agency's mailing address. The second is the Agency Location Code (ALC), which is an identifying number for customer agency finance centers used by IPAC. One ALC can serve many BACs.

If a customer agency believes GPO has incorrectly taken its funds via IPAC, the customer can simply access IPAC and take back the funds. Funds that are charged back are removed from GPO's revolving fund. At the end of each month, IPAC provides a summary report to GPO detailing all chargeback amounts that have been removed from GPO's accounts.

The Treasury's IPAC written procedures provide that there is a time limit (90 days) for making chargebacks, and that chargebacks cannot exceed the original charges.

DISCUSSION

Although this OIG review did not disclose any instances where the chargeback exceeded the original charge, the OIG did identify several cases where customers did not comply with the time limit. The procedures do not provide any other restrictions on chargebacks.

The OIG notes that some IPAC chargebacks are appropriate, such as when GPO charged an incorrect amount, or when GPO used IPAC but the costs were to be charged to the customer's credit card. The subject of this OIG report is not those instances, but instead the cases where customer agencies have taken back funds without an appropriate reason or have done so beyond acceptable time limits.

Case Examples

One customer agency having a significant amount of chargebacks (\$3.5 million in FY 2004) is the Department of Transportation (DOT). In January 2004, DOT charged back over \$1.2 million, and in June 2004, it charged back over \$900,000. More recently, in July 2004, DOT charged back about \$1.4 million. The CFO's staff has re-charged only about \$230,000, leaving a net DOT chargeback of over \$3.3 million, and reducing GPO's balance at Treasury by the same amount. These chargebacks were made by different offices or sub-agencies within DOT,¹ further exacerbating the documentation issue, since each unit has its own budget office.

July 2004 chargebacks. These most recent of these chargebacks involved DOT's Federal Highway Administration (FHWA) and were for work done and originally charged to FHWA in FYs 2003 and 2004.

A major part of the chargeback problem is that there is not a clear understanding of where, or to whom, GPO is to send the supporting documentation for the charges. More importantly, chargebacks relating to old transactions seriously affect GPO's ability to budget its expenses each month.

FHWA's finance officials, located in Oklahoma City, OK, told OIG that they are responsible for reconciling the IPAC charges but that they had not received documentation supporting GPO's original charges. The OIG found that GPO was sending the supporting documentation for these IPAC charges to an FHWA office in Washington, DC. That documentation, however, was never forwarded to DOT finance personnel in Oklahoma City.

To correct this problem, the OIG suggests that GPO's CFO maintain contact with appropriate officials, not only in FHWA and all DOT client offices, but also in all affected client agencies, to clearly reconcile the two organizations' respective accounts and enable repayment of remaining chargebacks.

June 2004 chargebacks. These chargebacks involved several different sub-agencies within DOT, including a 2-3 year old organization, the Federal Motor Carrier Safety Administration. GPO personnel explained that some customer agencies have changed their ALCs (e.g., via reorganization), but GPO was not so informed. The Commercial Billing Section of F&A used to receive a

¹ Total GPO billings to DOT for FY 2003, all done through IPAC, amounted to \$22.9 million.

listing or notice of changes to agencies' ALCs, but this list is no longer provided by Treasury. F&A personnel stated that since no formal notice of ALC changes is being provided, they currently would not know when an ALC was changed or whether the current ALC was accurate. As a result, when GPO charged the former ALC in this situation, those transactions were not recognized, and the amounts were charged back.

The OIG is recommending that the Comptroller work with Treasury's comptroller to develop a policy ensuring that all IPAC billing code changes (to BACs and ALCs) are updated in the A/R Section systems in a timely fashion, such as within 60-90 days.

January 2004 chargebacks. These involved charges to DOT for having its items printed in the Federal Register. GPO charged the Office of the Secretary within DOT for these items. The IPAC Transaction Description for these chargebacks stated that GPO's original charges were made to an incorrect ALC. The description did not provide the correct ALC or any other code number. Representatives from DOT said they were not able, even if they wanted, to make transfers of funds internally.

In summary, notwithstanding the customers' internal accounting issues, which are outside GPO's control, the major issue that is within GPO's control is to contact the customers – in writing or personally – to clearly identify:

- **What documentation** is needed to support or justify the GPO charges, and
- **Where and to whom** that documentation is to be sent.

The OIG is recommending that an escalation process for these accounts receivable should be developed. Such a process would ensure that aged accounts receivable owed to GPO by customer agencies require formal notice between different management levels as the chargebacks age. First, GPO's Comptroller would contact other Comptrollers to obtain resolution. However, if the Comptroller is unsuccessful in persuading Treasury, then this matter should be elevated to the agencies' respective CFOs. If this measure does not work, the subject should be dealt with between the Inspectors General of the agencies. Failing that effort, the matter should elevate to the level of the Deputy Public Printer for resolution.

IPAC Lacks Adequate Controls

This OIG review found that IPAC lacks basic, adequate controls to protect against inappropriate chargebacks and possibly other transactions. IPAC is an “open” system, meaning that chargebacks can be done any time by any agency representative with authorized IPAC access. The Department of the Treasury acts only as a conduit and does not monitor or control system usage.

Time limit on chargebacks. The most egregious example of this lack of control is regarding when chargebacks, or “adjustments,” can be made by customer agencies. The IPAC User Manual, Section 2, “Adjustment,” states:

“IMPORTANT... Adjustments can only be processed against payments or collections that are 90 days old or less.”

Moreover, within Section 4025 of the Treasury Financial Manual (TFM), Subsection 4025.50, “Transmitting/Receiving the Transaction,” it states:

“Customer agencies [defined as recipients of an IPAC transaction] have 90 days after the billing date to enter adjustments to payments or collections.”

In addition, within TFM Section 4035, “Adjustments of Erroneous Charges,” it further specifies:

“If the customer agency subsequently finds that the charge is erroneous, it should make the adjustment at that time. However, the customer agency is limited to 90 days, upon receipt of its IPAC transaction, to process the adjustment.”

However, the OIG found that there were no controls to ensure compliance with these procedures. The OIG found that DOT’s January 2004 chargebacks of \$1.2 million were all related to charges from the past 3 years, with some dating as far back as March 2001. These chargebacks clearly violate the 90-day rule. In addition, the July 2004 chargebacks previously cited that date back to FY 2003 likewise violate this 90-day limitation.

As mentioned previously, GPO learns about chargebacks the month after the customer agencies have taken back the funds, when GPO receives an IPAC monthly summary report. Thus GPO is unable to budget against these chargebacks, as the dollar amounts are not known until after the chargebacks have already happened.

The OIG could not identify any penalty for non-compliance with the above stated time limits. This lack of control, as previously stated, resulted in an inability to budget for the chargebacks. It also has resulted in tremendous inefficiencies as evidenced by the resources used by GPO and the customers to correct transactions associated with these chargebacks.

Another potential effect associated with this problem is that customer agencies may be benefiting from windfalls of funds gained from receiving these chargebacks, which could be used to fund their operations in the current fiscal year (and also could be a reason or motivation for creating or affecting the chargebacks).

Notifying GPO. In addition, GPO officials said that IPAC is supposed to display an on-screen message that customers are to notify GPO before proceeding with a chargeback. CFO officials said they have not received any notification from customers prior to these inappropriate chargebacks. The OIG was unable to confirm the existence of this on-screen message. Customer agencies contacted by OIG said they either did not know or could not recall whether the message appeared on their screens.

Identity of source of transactions. Although the OIG made repeated attempts, we were unable to identify who in DOT actually made the aforementioned FHWA chargebacks. The individual listed on the IPAC summary reports (and others in her office) denied making the chargebacks. Neither Treasury nor DOT personnel could identify the source of the FHWA chargebacks. This demonstrates another lack of control issue with IPAC.

Justifications for chargebacks. A further problem is that IPAC does not require customers to provide even basic comments or justifications that would explain the reason for chargebacks. The IPAC User Manual, Section 2, describes the "Transaction Description" as follows:

“...This is not a required field, but it is recommended that you provide the reason for the adjustment.”

IPAC should have a required field which includes a justification of why funds are being taken back by a customer agency.

Concerns about the accessibility and openness of IPAC exist. The above FHWA example demonstrates that the system cannot readily identify who or even what part of an organization would be making chargeback transactions. From this example, access controls over this computer system appear to be weak; once in the system, an individual could be afforded a wide range of opportunities to divert funds for mischievous or fraudulent purposes.

The OIG is recommending that the CFO contact appropriate Treasury officials involved with IPAC to address these related control issues within their system. Issues should include the lack of compliance by GPO's customer agencies with current IPAC procedures, and insufficient internal controls over IPAC chargeback adjustments.

RESULTS

The financial impact of GPO's chargeback problem has grown alarmingly worse over the last few years. The total amount of chargeback activity and funds being taken from GPO by customers via IPAC without good reason has dramatically increased. Not only does the dollar-magnitude of chargebacks have a significant negative effect on GPO's available cash for any given month, but GPO receives no advance notice of chargebacks to plan against.

In FY 2002, the gross amount of chargebacks to GPO by client agencies was about \$11.0 million. In FY 2003, it increased to \$14.8 million. For just the first 10 months of FY 2004 it exceeded \$24.0 million. This is a more than 100-percent increase over the FY 2002 level.

Although the CFO's office has reclaimed most of the gross chargebacks for the previous fiscal years, the net amount of chargebacks, i.e. the amounts that remain after agreed-on re-billings and reversals, has likewise been increasing. At the end of FY 2003, net chargebacks were about \$4.5 million. However, the

net chargebacks have also more than doubled to over \$10.0 million as of July 31, 2004.

IPAC is ostensibly used by GPO and its customer agencies to increase the economy and efficiency of all parties' operations. However, IPAC's lack of control over chargebacks has resulted in the exact opposite effect for GPO. The amount of staff time and resources expended – by both GPO and the customer agencies – in performing duplicative activities, processes, and/or functions by having to re-charge agencies for appropriate costs is both inefficient and a waste of federal funds.

Inefficiencies at GPO take the form of personnel having to:

- contact customers to determine why amounts were charged back;
- research GPO documents to support the initial charges;
- re-send supporting documents to customers; and
- reprocess the customer charges via IPAC.

The CFO's A/R section has only four personnel currently involved with collections. This is insufficient to perform their normal duties and handle the currently increasing volume of chargebacks. The OIG recommends that the CFO consider reassigning their staff resources, at least in the near-term, to address and correct the chargeback problem.

RECOMMENDATIONS

In summary, the OIG recommends that the CFO instruct F&A personnel as follows:

1. The A/R Section should continue to work with appropriate DOT officials so that the accounts of both organizations are reconciled and to reach agreement on the prompt repayment of the remaining chargebacks, including the \$3.3 million noted in FY 2004. (0501-01)
2. The A/R Section should also continue to work with other customer agencies in a similar manner, so that as soon as possible after receiving notification of material (i.e. large-dollar) chargebacks, they can likewise obtain repayments

for those agencies' chargebacks. (0501-02)

3. The Comptroller should consider short-term reassignment of additional F&A staff to help assist and resolve the chargeback problem. (0501-03)
4. The Comptroller should develop standard operating procedures to ensure that changes to IPAC billing codes (ALCs and BACs) are updated in the A/R Section systems in a timely manner, such as within 60-90 days. (0501-04)

In addition, the OIG recommends that the CFO:

5. Initiate contact with appropriate personnel at Department of the Treasury to discuss remedies to IPAC control issue concerns. These would include GPO customer agencies' lack of compliance with IPAC procedures (e.g. the 90-day limit for making chargebacks), and the lack of sufficient IPAC controls over adjustments (e.g. notifications or required justifications for making chargebacks). (0501-05)
6. Develop an escalation or resolution procedure to ensure that aged A/R balances involving material chargebacks owed to GPO by customer agencies are given sufficient attention by senior GPO management. The process would begin with GPO's Comptroller contacting other Comptrollers. As the receivables age, the process would escalate to CFO-to-CFO contact, then IG-to-IG contact. If there continues to be insufficient response, the CFO should refer this matter to the Office of the Public Printer for discussion and resolution. (0501-06)

GREGORY A. BROWER
INSPECTOR GENERAL

By: _____
David B. Schaub, Supervisory Auditor, Office of Audits

cc: Deputy Public Printer
Comptroller

MANAGEMENT COMMENTS



U.S. GOVERNMENT
PRINTING OFFICE
KEEPING AMERICA INFORMED
WASHINGTON, DC 20401

Memorandum
OFFICE OF THE CHIEF FINANCIAL OFFICER

DATE: December 15, 2004

REPLY TO

ATTN OF: Chief Financial Officer

SUBJECT: Management Comments on the Draft OIG Draft *Report on the Review of Funds Electronically Taken Back by GPO's Customer Agencies*

To: Inspector General

The purpose of this memorandum is to provide management comments in regard to the Office of Inspector General (OIG) draft audit report entitled, *Report on the Review of Funds Electronically Taken Back by GPO's Customer Agencies*, dated November 30, 2004.

The issue of customer chargebacks for completed work through the U.S. Department of the Treasury's Intra-governmental Payment and Collection (IPAC) System is a significant matter of high importance to the Office of the Chief Financial Officer. Accordingly, we welcome the professional advice and timely recommendations from the OIG that will help us recover these outstanding debts and improve our billing operations.

The Office of the Chief Financial Officer agrees with your audit findings and recommendations. Plans are being developed, in addition to actions that have been taken by my financial management team, to implement your audit recommendations. As recommended:

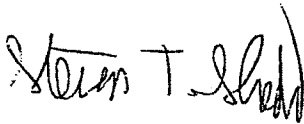
- The Accounts Receivable Section is working with U.S. Department of Transportation (DOT) and other agencies to promptly resolve chargebacks. Progress has been made to recover the chargeback debt from DOT and the U.S. Department of Education. These two agencies are responsible for the majority of IPAC chargebacks in fiscal year 2004. At the time of audit field work, the chargeback figure was about \$10.0 million. At the current time, the amount is about \$7.0 million. (0501-01 and 02)
- Additional resources have been committed to recovering IPAC chargeback debts owed the agency. We have assigned an additional person to collect IPAC chargebacks, as well as other receivables. A procedure will be written to formalize the Accounts Receivable Section's responsibilities. (0501-03)

MANAGEMENT COMMENTS

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- A standard procedure will be written to ensure that billing address codes (BAC's) are updated promptly in GPO's billing systems. Additional guidance will be provided to resolve agency location code (ALC) billing issues (0501-04).
- We will consult with U.S. Department of the Treasury officials on chargebacks and seek their assistance in preventing unauthorized chargebacks by establishing a chargeback authorization process (0501-05).
- A formal escalation process will be developed, in writing, to ensure the timely resolution of chargebacks (0501-06).

We appreciate the objective and professional manner in which the OIG audit team conducted this review. If you have any questions in regard to this subject, please contact William L. Boesch, Jr., the Comptroller or me.



STEVEN T. SHEDD

OBJECTIVES, SCOPE, AND METHODOLOGY

This report was developed as a spin-off of the OIG's audit of GPO's Commercial Examination and Billing Process. During the survey phase of that audit, a major issue was identified that warranted a detailed review and prompt reporting. The major issue identified was that a significant amount of GPO funds were electronically being taken back by customer agencies without GPO's knowledge or consent.

The resulting objective for this limited-scope review and report was to determine the conditions, causes, and effects of the problem with chargebacks and develop recommendations to solve the problem. The OIG conducted this review during the months of July through September 2004.

We conducted the audit in accordance with generally accepted Government auditing standards. The OIG review approach included conducting interviews of appropriate officials, verifying records, and performing a limited sample of chargebacks in the interest of timely reporting of this matter. The OIG reviewed applicable GPO instructions, policies and procedures, and the Department of the Treasury's IPAC User Manual and relevant portions of the Treasury Financial Manual to identify established guidelines. There have been no recent audits or reviews of this issue area.