



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C. 20548

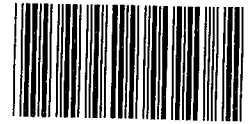
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DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-183363

AUGUST 22, 1979

Dr. George I. Lythcott, Administrator
Health Services Administration
Department of Health, Education,
and Welfare *ACC00566*



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Dear Dr. Lythcott:

This report contains the results of our [survey of internal controls over cash receipts and expenditure transactions of ~~19 accounting stations~~ within the Health Services Administration]. Included were 17 regional accounting stations and 2 stations at the Health Services Administration's headquarters. For the purpose of this report, the two headquarters stations are treated as one station because of the complementary nature of their operations.

In summary, the survey identified weaknesses in internal controls over cash collections, imprest funds, accounts receivable, disbursements, and obligations. Our observations on the identified weaknesses are reported in enclosure I. The locations of these weaknesses are shown in enclosure II.

Although most of the weaknesses noted were caused by problems at individual accounting stations, our discussions with accounting station officials identified two problems at the headquarters level which could adversely affect the stations' ability to recognize and correct internal control deficiencies. These problems are (1) a need for more specific headquarters instructions on handling receipt and disbursement transactions and (2) a general lack of internal audits of regional financial management activities. At the time of our review, most of the Health Services Administration's accounting stations had not been audited within the past 3 years, even though internal audits are a key element of an effective internal control system. We believe that many of the internal control weaknesses we identified could have been prevented or detected earlier and corrected if greater attention had been paid to internal auditing.

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We discussed our survey results with responsible accounting station and headquarters officials and, in most instances, they initiated or promised corrective action. We are informing you of the identified weaknesses to help you in discharging your responsibilities under the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), which requires agency heads to provide effective control over, and accountability for, all funds under their responsibility.

We are not making any formal recommendations because headquarters and accounting station officials have assured us that corrective actions will be taken. We suggest, however, that you should follow up to determine whether these actions are adequate. Some of these actions may require changes to the accounting system design you have submitted to the Comptroller General for approval. If that is the case, we request that you advise us of any such changes and provide specific documentation for them.

We suggest, also, that you (1) revise and update headquarters instructions on processing receipt and disbursement transactions to insure that prescribed internal control procedures are clearly understood and uniformly applied and (2) request the Inspector General, Department of Health, Education, and Welfare, to periodically audit the financial operations at headquarters and the regional accounting stations.

In making the survey, we evaluated internal controls by using questionnaires designed to identify potential problem areas. The questionnaires were the basis of our interviews and discussions with responsible accounting station officials. When responses to questions indicated potential weaknesses in financial controls, we tested selected transactions to determine whether the weaknesses actually existed. But we limited our work to verifying the existence of the weaknesses and did not attempt to establish either the extent of the weaknesses or the precise nature of corrective actions needed.

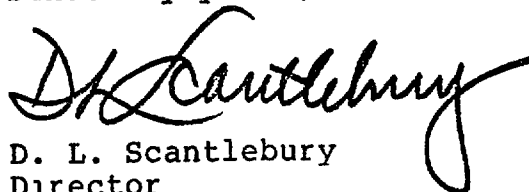
We are sending copies of this report to the Assistant Secretary, Comptroller, and to the Inspector General, Department of Health, Education, and Welfare.

B-183363

We shall appreciate being informed in writing of the actions taken or planned by you to correct the specific system weaknesses discussed in this report.

We appreciate the courtesies and cooperation extended to us by your staff during the survey.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury
Director

Enclosures - 2

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSESAT 18 HEALTH SERVICES ADMINISTRATIONACCOUNTING STATIONS

As required by the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), the head of each executive agency should establish and maintain a system of accounting and internal control to provide effective control over, and accountability for, all the agency's assets. Our survey evaluated accounting controls at 18 Health Services Administration (HSA) accounting stations, and disclosed that:

- Collections were not adequately controlled at many accounting stations. They were not properly logged in or promptly deposited; duties of employees were not adequately divided between the handling of collections and other functions; cash in the hands of messengers was not adequately controlled; and unidentified collections were allowed to remain in a suspense account for an unreasonable length of time.
- Imprest funds at most accounting stations were not adequately controlled or safeguarded. Separate cash funds for cashiers and their alternates were not maintained; safe combinations were not changed annually; funds were advanced to employees for nonspecific purchases and for salary advances; and periodic reviews were not made of fund requirements or of procedures to prevent loss or misuse of the funds.
- A need for improved control over accounts receivable was evident at most accounting stations. Some receivables were not recorded or were not recorded promptly; aging schedules of receivables were not prepared; and past due accounts were not always vigorously and systematically followed up.
- Disbursements were not adequately documented or accounted for at most accounting stations. Payments often were not scheduled to coincide with due dates; reasons for lost cash discounts were not documented; controls to prevent overpayments and duplicate payments were not adequate; disbursement transactions at one station were not promptly and accurately recorded; and one station did not adequately separate the duties of persons involved in disbursement transactions.

--Obligations were not adequately documented or controlled at several accounting stations. Three stations did not maintain effective accounting control over obligations; more than half the stations did not show the basis for and computation of estimated obligations on obligation documents.

These internal control weaknesses, most of which existed at more than one accounting station, are discussed in more detail below. The stations where the weaknesses existed are identified in enclosure II.

NEED TO IMPROVE CONTROL OF COLLECTIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual) (7 GAO 11.1 and 12.2) states that agencies shall place cash collections under appropriate accounting and physical control promptly upon receipt and shall deposit these collections daily.

In general, HSA's accounting stations did not have good internal control over their collections, nor did they always deposit them promptly. Prompt deposit of cash receipts allows the Department of the Treasury to use the funds earlier, thus providing the opportunity to reduce borrowing costs; and good internal controls reduce risks of collections being lost or stolen.

Collections not promptly deposited

Collections were not promptly deposited by 10 accounting stations. At one station, most deposits were delayed 2 to 3 days because of "paperwork." At nine stations, collections were accumulated and deposited at intervals ranging from three times a week to twice a month. For example, at one station, collections were deposited about three times a month, with the average deposit being about \$7,000. In one instance, three checks totaling more than \$21,000 were held for 13 days before being deposited.

When collections are held, the Treasury is delayed in using the funds to finance Government operations, and the potential for loss, misplacement, or misuse is increased.

The importance of prompt deposits is well illustrated by an actual occurrence at a sublocation of one HSA accounting station. Early in 1977 an audit at that station revealed a \$12,000 shortage in undeposited collections of patients' funds (personal funds of hospitalized patients entrusted to the

Government for safekeeping). An analysis of collections and deposits at this activity disclosed that collections of patients' funds had been routinely accumulated for several weeks, in some cases even months, before being deposited. Had these collections been deposited promptly, a loss of this magnitude may not have occurred.

Another weakness was found at 3 of the 10 stations where field service units were not promptly forwarding collections to the accounting station for deposit. At one of these stations, Medicare reimbursement checks also were not deposited when received but were held several days until patients' accounts could be identified.

HSA accounting station officials generally agreed to take corrective action to expedite deposits.

Collections not properly logged in

At nine accounting stations, collections received by mail were not properly logged in upon receipt. For example, six stations did not open all mail containing remittances at a central control point. At one station, although mail was opened at a central point, not all collections were logged in. At two stations, mail was opened and collections logged in by the person responsible for processing collections and making deposits; these collections were not verified by another person. If remittance control is not established at a central point upon receipt, independent of the person charged with accounting for collections, a complete accounting of all collections cannot be assured.

Accounting station officials generally agreed to log collections in at a central control point as they are received.

Prenumbered receipts not used or not adequately controlled or safeguarded

The use of prenumbered receipt forms can help to ensure that all collections are placed promptly under accounting control. For this internal control feature to be effective, however, the forms must be properly safeguarded and accounted for.

Six accounting stations did not use prenumbered receipt forms for all over-the-counter collections and thus lacked assurance that all collections were accounted for. At eight stations, prenumbered forms were used but were not adequately controlled or safeguarded. For example, five stations did not total collections daily and account for all receipt forms

by numerical sequence; one station did not retain voided receipt forms in its files; and three stations did not adequately safeguard their stocks of unused forms. In each instance, a vital part of the control process was missing, which prevented the forms from serving their intended purpose.

Station officials generally agreed to use prenumbered receipt forms for all over-the-counter collections and to effectively safeguard and control all used, unused, and voided forms.

Duties of persons handling
collections not adequately divided

One of the basic principles of internal control is dividing of critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO Manual (7 GAO 11.2) provides that persons responsible for handling cash receipts should not participate in accounting or operating functions which would permit them to conceal the misuse of cash receipts.

At 15 accounting stations, duties of employees handling collections and other functions were not adequately divided to ensure effective control over the stations' cash. For example, at 10 of those stations, the employee responsible for receiving and recording collections also prepared all deposit tickets and made all bank deposits, without other accounting station personnel verifying deposits against collection records. At six of these stations, the collections officer also prepared data on collections for input into the accounting records.

At six stations, the collections officer prepared and mailed statements of balances due the Government. At two of these stations, this person also maintained accounts receivable records.

At 11 stations, the person who received, recorded, and deposited collections (including collections of patients' funds at 10 stations) was also the custodian of the station's imprest fund. When cash receipts are handled by imprest fund custodians, opportunities are provided for the cash receipts to be used to cover up shortages in imprest funds and, therefore, the risk of fraud or misuse of funds is increased. This is particularly true when collections are allowed to accumulate over a period of time before being deposited.

Control over cash at 5 of 10 stations mentioned above was further weakened because the person who received, recorded, and deposited collections of patients' funds also maintained the only records of these funds. When these functions are performed by the same person, both the misuse of funds and concealment of such misuse in the accounting records is possible.

At three of these five stations, the risk of fraud or misuse of funds was further increased by inadequate cash verification procedures. At one station, periodic unannounced cash counts were made of patients' funds and the imprest fund, but at different times; thus, there was no assurance that cash was not being moved back and forth between these funds. At another station, simultaneous verifications were made of cash in the imprest fund and patients' funds, but these verifications did not include cash from other collections; thus, there was no assurance that undeposited collections were not used to cover up shortages in patients' funds or the imprest fund. At one station, patients' funds were not subjected to any type of periodic cash verification.

The need for periodic verification of all cash in the hands of a fund custodian is illustrated by the circumstances leading up to the \$12,000 shortage in patients' funds described on page 2. Despite the large amount of patients' funds on hand, no cash verification of these funds had been made for more than 2 years before the shortage was discovered. Had these funds, as well as other cash in the hands of the fund custodian, been subjected to periodic, unannounced verifications, the shortage might have been detected sooner or prevented entirely.

For good control, the duties of persons handling cash should be separated to the maximum extent practicable to ensure that persons handling collections do not also prepare and make bank deposits, prepare data on collections for input into the accounting records, handle imprest funds, maintain accounts receivable records, prepare and mail statements of balances due, or keep the only records of patients' funds. In those instances in which staffing constraints prevent a complete separation of these functions, all bank deposits should be independently verified against collection records by another person, and all cash in the hands of fund custodians should be simultaneously verified in unannounced audits made at frequent but irregular intervals.

HSA officials generally agreed with these concepts and stated that duties of persons handling cash will be separated to the maximum extent practicable.

Inadequate control of cash
in hands of messengers

To maintain control over moneys transported by messenger, a clear record of accountability should be established for cash in transit.

Five accounting stations did not have adequate control over cash in the hands of messengers. Messengers and station officials did not jointly verify amounts of funds sent, nor did the messengers sign for receipt of the funds. Under these conditions, fixing responsibility for the loss should a shortage occur could be difficult.

Accounting station officials generally agreed to tighten controls to ensure maintenance of accountability for funds in the hands of messengers.

Suspense account items
not cleared promptly

Unidentified cash collections (collections for which sufficient information does not exist to permit identification of accounts to be credited) are required by the GAO Manual (7 GAO 12.2) to be promptly deposited in the Treasury and temporarily credited to a deposit fund suspense account until the purpose of the collections and the identity of accounts to be credited can be determined. Such items should be identified and cleared from the account as soon as possible so that they can be credited to appropriate accounts and properly accounted for.

Although most accounting stations cleared unidentified collections from the deposit fund suspense account within a reasonable time, one station was taking 10 to 11 months to clear suspense account transactions and had uncleared transactions totaling about \$500,000 at the time of our visit in November 1978.

The station's financial manager told us that steps will be taken to ensure that suspense account items are cleared promptly.

NEED TO IMPROVE CONTROL
OF IMPREST FUNDS

The GAO Manual (7 GAO 27.6) requires agency officials to insure that imprest fund cashiers can, at all times, account for funds advanced to them. Treasury Department instructions provide that each cashier should have a separate cash box,

should not advance funds for travel unless the traveler is personally known to the cashier or furnishes adequate identification, and should not advance funds to employees to make payment for purchases unless the purchases are for specific items and are confirmed within 5 days after the funds are advanced.

The Treasury instructions further provide that agency officials should change imprest fund safe combinations annually and make periodic, unannounced verifications and audits of the funds to verify cash balances and determine whether the funds are properly accounted for, consistent with cash requirements, adequately protected from loss or misuse, and used only for authorized purposes.

Cashiers at most HSA accounting stations did not adequately safeguard, account for, or control imprest funds. In addition to the inadequate separation of duties discussed on page 4, we noted that:

- At seven stations, the imprest fund cashier and alternate cashier did not have separate cash funds and were using the same cash box. Separate funds and cash boxes for cashiers and alternates would improve control and accountability. For good control, only the individual who is responsible and accountable for a specific fund should have access to it.
- Officials at 14 stations did not change safe combinations annually. Such a change would provide increased security by affording a minimum level of protection if a combination becomes unknowingly compromised.
- Imprest fund cashiers at three accounting stations in Public Health Service hospitals advanced funds to hospital employees for use in making miscellaneous purchases of a nonspecific nature. At two of these stations, no time limit was set for consummating purchases or returning the funds to the cashier. Practices such as these do not provide adequate control over the funds and do not conform with Treasury Department instructions and Public Health Service imprest fund policy and procedures. If certain hospital units need to have funds with which to make miscellaneous small purchases, these funds should be under the control of designated subcashiers who have adequate safekeeping facilities and who should not make or approve purchases from the funds.

- Cashiers at two hospitals used imprest fund cash, without legal authority, to make salary advances to hospital employees whose paychecks were delayed.
- Cashiers at two stations disbursed funds for travel advances or other purposes without asking the payees to properly identify themselves. Making imprest fund payments without requiring adequate identification of payees could result in improper or fraudulent payments.
- Two imprest funds administered by one accounting station had authorized balances which were substantially in excess of cash needs. One of these funds had an authorized balance of \$20,000, although disbursements from the fund averaged only about \$6,000 a month. Maintaining excessive cash balances is contrary to both Treasury Department instructions and good cash management practices.
- At one station, payments by imprest fund cashiers had not been placed under numerical control as required by Treasury and Public Health Service instructions. For good control, subvouchers for imprest fund payments should be numbered consecutively beginning with number 1 at the start of each fiscal year.
- At 10 stations, appropriate officials did not periodically review imprest fund requirements or procedures to prevent loss or misuse of the funds. For example, at seven of these stations, the usage and frequency of replenishment of the funds were not periodically reviewed or adequately monitored to determine whether the authorized amounts of the funds were in excess of cash requirements. At five stations, unannounced verifications of imprest fund cash did not include a review of procedures and controls to protect the funds from loss or misuse.
- Cashiers at three stations had not been provided with adequate written instructions on handling imprest funds. This situation could have contributed to some of the weaknesses in safeguarding, accounting for, and controlling imprest funds that were observed at these stations.

Accounting station officials generally agreed to tighten controls over imprest funds by correcting the problems identified above.

NEED TO IMPROVE CONTROL
OF ACCOUNTS RECEIVABLE

Accounting for receivables, by maintaining a systematic record of amounts due which must be accounted for, is an important form of control over agency resources. A need for improved control over receivables was identified at 12 accounting stations.

Needed improvements in billing
and accounting for receivables

The GAO Manual (2 GAO 12.4) requires that amounts receivable shall be recorded accurately and promptly upon completion of the acts which entitle an agency to collect amounts owed to it (billings for performance of services or sales of materials, loans or advances made, etc.).

Medicare reimbursements for patient care are an important source of revenue at accounting stations in area offices of the Indian Health Service. However, at one of these stations, field service units were not billing Medicare for all reimbursable services they performed. For example, one service unit billed Medicare for inpatient care but not for outpatient care, although both types of service were reimbursable. Lost Medicare reimbursements at this unit were estimated by an area office official to be about \$1,000 a day. The failure of service units to seek payment for all reimbursable services reduces funds available to the Indian Health Service, and therefore may cause it to seek larger appropriations than it would otherwise need.

At two Indian Health Service accounting stations, Medicare billings were not recorded as accounts receivable even though collections from this source accounted for a major portion of the stations' cash receipts. As a result, station officials lacked assurance that all claims represented by these billings were collected.

One accounting station did not record its accounts receivable promptly because of delays in preparing billings for goods and services. At the time of our visit in November 1978, this station was about 1 month behind in its billings. As a result, its accounting records did not show the correct amount of its accounts receivable.

Another station recorded receivables promptly but did not periodically reconcile its general ledger accounts receivable control account with related subsidiary records. As a result, there was no assurance that receivables were correctly recorded and properly accounted for.

Accounting station officials told us that steps will be taken to improve accounting control over receivables.

Need to improve
collection procedures

The GAO Manual (4 GAO 55.1) requires timely, forceful, and persistent action to collect all claims of the United States. The Federal Claims Collection Standards require three written demands to be made at 30-day intervals, collection by offset where feasible, personal interviews with debtors, exploration of compromise, and other persistent actions until claims are paid, determined to be uncollectible, or referred to us for settlement.

Responses provided by accounting station personnel indicated that most stations follow procedures which result in timely and persistent action to collect accounts receivable. Five stations, however, did not have systematic procedures for vigorously following up delinquent accounts. For example, at one station, only one bill was sent to each debtor. If a partial payment of the amount due was received, a second bill showing the balance remaining was not sent. If a debtor paid nothing, the amount owed was not rebilled, nor was any demand letter or other followup communication sent.

Identifying accounts receivable that are overdue is an essential first step to taking timely and forceful action to collect delinquent accounts. Twelve accounting stations, however, did not use their accounting records to prepare accounts receivable aging schedules. Schedules of this type, which show ages of accounts receivable in chronological order, can be used to readily identify accounts needing followup attention. Without such information, an accounting station is handicapped in effectively controlling and managing its accounts receivable.

Station officials told us that controls over accounts receivable will be strengthened to ensure that aging schedules are prepared and overdue accounts are systematically followed up.

NEED TO IMPROVE CONTROL
OF DISBURSEMENTS

The GAO Manual (7 GAO 24.1) requires agencies to insure that all disbursements are legal, proper, correct, and promptly and accurately recorded.

Weaknesses in documenting or accounting for disbursements were noted at 17 accounting stations.

Inadequate accounting control
over disbursement transactions

At one accounting station, disbursement transactions were not promptly and accurately recorded because important internal control procedures, designed to insure the accuracy of input data, had been bypassed.

For example, codings of transactions for input into the automated accounting system were not verified, batch totals of transactions were not cross-checked, rejected transactions were not promptly corrected and reentered into the system, reports providing audit trails were not produced, document control procedures were not followed, a central log of journal vouchers was not maintained, journal voucher adjustments were not verified, and required monthly reconciliations of the station's general ledger disbursements account with Treasury Department records were not made.

As a result, the Treasury statement of transactions for fiscal 1978 showed almost \$1 million more in disbursements than the amount shown by the station's general and subsidiary ledgers. These differences in records raise questions about the adequacy of the station's fund controls to maintain expenditures within appropriated amounts. Expenditures exceeding amounts appropriated are specifically prohibited by the Anti-Deficiency Act (31 U.S.C. 655).

At the time of our visit in October 1978, the station was in the midst of a crash effort to identify and correct errors in the accounting records so they could be reconciled with the Treasury record of disbursements as of September 30, 1978. Its effort included augmenting the accounting staff and spending both regular and overtime hours on making the reconciliation.

The loss of control over disbursements was attributed by station officials primarily to a lack of adequate staff. At the time of our visit, 8 of the station's 27 authorized financial management positions were vacant.

Station officials have initiated a number of actions to improve accounting control over disbursements. They believe that these actions will eliminate existing weaknesses provided an adequate financial management staffing level can be achieved and maintained.

Inadequate separation of duties

Good management control requires that functions involving the authorization, performance, and recording of disbursement transactions be performed by separate persons. In keeping with this principle, the GAO Manual (7 GAO 24.5) provides that duties related to purchasing, receiving, and paying for goods and services should be separated to the extent permitted by the size of the organization.

At some field service units of one accounting station, the same individual issued purchase orders for supplies and also received the ordered supplies. In this situation, opportunities exist for the commission of fraudulent or otherwise irregular acts.

Station officials agreed that having purchasing and receiving functions performed by the same person does not provide good internal control and said that these functions will be separated to the extent permitted by the size of the staff at each service unit.

Lack of controls to prevent overpayments and duplicate payments

The accounting stations we visited generally had good controls to prevent overpayments and duplicate payments, particularly for disbursement transactions originating from formal purchase orders. Two stations, however, did not have controls to protect the Government against loss from overpayments or from duplicate payments on transactions not covered by formal purchase orders.

At one station, according to an official, this lack of control resulted in a significant number of overpayments and duplicate payments. For example, during a 3-month period in fiscal 1978, the station recovered from payees about \$4,900 in erroneous payments which had been made to them and later discovered. This amount consisted of 14 overpayments totaling about \$4,500 and 5 duplicate payments totaling about \$400.

At the other station, a single document was used as a combination purchase order, receiving report, and vendor's invoice for small, over-the-counter purchases. In those instances in which the original of this document was lost or misplaced, the station made payment on the basis of a photocopy of the original document. No record was kept of these payments to preclude duplicate payments being made if the original documents were later found and presented for payment.

Station officials told us that appropriate controls will be installed in an effort to prevent overpayments and duplicate payments on disbursement transactions not covered by formal purchase orders.

Payments not scheduled to coincide with due dates

To ensure that Government agencies practice good cash management in paying their bills, Treasury regulations require payments to be made when they are due, neither sooner nor later than required.

Ten accounting stations did not systematically schedule payment of vendors' invoices to coincide with due dates. As a result, both early and late payments were made. Early payments unnecessarily accelerate the flow of cash from the Treasury, thus adding to the Government's interest cost on borrowed funds. Late payments are not only contrary to good business practices but also prevent the Government from taking advantage of cash discounts offered by vendors for prompt payment.

Accounting station officials told us that they will develop and implement procedures to ensure that bills are paid on time, neither early nor late.

Lost discounts not documented

The GAO Manual (7 GAO 24.8) requires that (1) procedures be established to ensure that vendors' invoices offering cash discounts are processed promptly so that payments may be made within the time prescribed and (2) failure to take cash discounts be fully explained on appropriate documents.

Employees at 12 stations did not explain the reasons for lost discounts on documents supporting disbursements, nor did they keep records showing the amounts of discounts lost. Without this information, it is difficult for management to identify and eliminate the problems that prevent discounts from being taken.

In the absence of records, officials at most of the 12 stations were unable to estimate the amounts of discounts lost. While officials at eight stations believed that most discounts at those locations were being taken, officials at four stations acknowledged that most discounts at their stations were lost because of slow processing of vendors' invoices for payment and the lack of an effective system to insure that invoices offering discounts were processed on

a priority basis. One of these officials estimated that his station had lost about \$5,000 in discounts in fiscal 1978 because of a continual backlog of unprocessed invoices and the lack of a procedure to give priority processing to invoices involving discounts.

Accounting station officials generally agreed to give priority processing to vendors' invoices offering cash discounts and to explain on the invoices the reasons for not taking discounts to ensure that available discounts will be taken whenever possible.

NEED TO IMPROVE CONTROL OF OBLIGATIONS

Agencies are required by the GAO Manual (7 GAO 17) to ensure that obligations are properly documented, recorded, and periodically reviewed. Weaknesses in documenting, recording, or controlling obligations were found at 12 accounting stations.

Inadequate accounting control over obligations

The GAO Manual (7 GAO 17.1) requires agencies to promptly record all obligations as charges against applicable appropriations in such a manner that requirements for funds control are met, essential management information is provided, and statements and required reports are prepared. The GAO Manual (7 GAO 17.3) also requires obligation documents to be reconciled with control accounts periodically and at the end of each fiscal year to determine whether all obligations to be reported meet the criteria for valid obligations set forth in the Supplemental Appropriation Act of 1955 (31 U.S.C. 200).

Three accounting stations we visited did not fully comply with these requirements and, as a result, they lacked adequate control over obligations. The control deficiencies we noted eventually could, among other things, permit amounts obligated to exceed amounts appropriated, which is prohibited by the Anti-Deficiency Act (31 U.S.C. 655).

At one station, in an area office of the Indian Health Service, about \$1.3 million in obligations was not recorded until more than 1 year after the obligations were incurred. As a result, fiscal 1977 obligations of the Indian Health Service were understated by more than \$1 million. These obligations were not recorded at the time they were incurred because they exceeded the amount of funds available to the area office. According to HSA officials, this situation was

caused by the failure of health service contractors to obtain required Indian Health Service authorization before providing health care to Indian beneficiaries.

In September 1978 the accounting station, in accordance with headquarters instructions, initiated action to record and pay these obligations. According to headquarters officials, the amounts in question are being recorded as obligations against fiscal 1977 funds which became available after other outstanding obligations for that year had been liquidated. We understand from these officials that most of the unrecorded obligations had been recorded and paid by early February 1979, that the remaining ones will be recorded and paid as soon as the necessary supporting documentation becomes available, and that headquarters instructions have been issued to prevent situations of this kind from recurring.

One station did not review all its obligations at the end of each fiscal year because of "inadequate staff." As a result, there was no assurance that all recorded obligations were valid or that amounts of unliquidated obligations shown in the station's fiscal-year-end reports were accurate. The station's financial manager agreed that better control over obligations was needed but said that the station's ability to achieve this control would depend on the availability of adequate staff.

The accounting station which experienced problems in maintaining accounting control over disbursements (see p. 10) had similar problems in controlling obligations. At the time of our visit in October 1978, many fiscal 1978 transactions affecting the station's unliquidated obligations account had not been posted, causing some recorded obligations to be understated and some to be overstated. In addition, there was a good possibility that the account contained an accumulation of errors because internal controls that were designed to insure the accuracy of recorded accounting data had been bypassed. (See p. 11.)

As a result, the station was unable to reconcile its unliquidated obligations account with supporting documents at the end of fiscal 1978 and could not certify the validity of its recorded obligations as required by Section 1311 of the Supplemental Appropriation Act of 1955.

The breakdown in obligation accounting control at this station was attributed by station officials primarily to the same factors (inadequate staff and poor supervision) which they identified as the major causes of the station's failure to maintain adequate accounting control over disbursements. (See p. 11.)

The station officials told us that efforts were being made to verify fiscal 1978 obligation transactions so that the station's unliquidated obligations could be certified. They also said that a number of actions had been initiated to improve accounting control over obligations in fiscal 1979.

Estimated obligations
not adequately supported

Agencies are required by the GAO Manual (7 GAO 17.1) to show the basis for and computation of each estimated obligation on the obligation document. This information is necessary to ensure consistent application of estimating methods and to provide management with a basis for evaluating whether existing methods are satisfactory.

Obligating documents at 11 accounting stations did not show the basis for and computation of estimates used for obligation purposes. As a result, there was no assurance that the estimates were consistently or correctly prepared.

Station officials generally agreed to show the basis for and computation of all estimates on obligation documents.

SUMMARY OF GAO OBSERVATIONS AT 18 HEALTH SERVICES ADMINISTRATION ACCOUNTING STATIONS

Accounting stations

17

Weaknesses noted

	Aberdeen, S Dak	Albuquerque, N Mex	Anchorage, Ak	Baltimore, Md	Billings, Mont	Boston, Mass	Carville, La	Lexington, Ky	Nassau Bay, Tex	New Orleans, La	New York, N Y	Norfolk, Va	Oklahoma City, Okla	Phoenix, Ariz	San Francisco, Calif	Seattle, Wash	Washington, D C	Headquarters
Collections not deposited promptly	X	X			X	X			X	X			X	X		X		X
Collections not properly logged in	X		X	X	X		X					X		X	X			X
Prenumbered receipts not used or not adequately controlled or safeguarded	X			X	X	X	X		X	X	X	X	X	X	X		X	X
Duties of persons handling collections not adequately divided	X		X	X	X	X	X		X	X	X	X		X	X	X	X	X
Inadequate control of cash in hands of messengers						X						X		X	X			X
Suspense account items not cleared promptly											X							
Separate cash funds not maintained		X		X		X			X			X			X	X		
Safe combination not changed annually	X	X	X	X	X			X	X	X		X	X	X	X	X		X
Funds advanced for nonspecific purchases				X								X			X			
Funds used to make salary advances												X				X		
Payments made without requiring adequate identification of payees					X									X				
Funds in excess of cash requirements		X																
Subvouchers not numerically controlled																X		
Periodic reviews not made of fund requirements				X	X					X				X		X	X	X
Procedures to prevent loss or misuse of funds not periodically reviewed		X	X											X	X	X		
Fund custodian not provided with adequate instructions														X	X	X		

SUMMARY OF GAO OBSERVATIONS AT 18 HEALTH
SERVICES ADMINISTRATION ACCOUNTING STATIONS (Cont)

Accounting stations

Weaknesses noted

Some receivables not recorded or not billed or recorded promptly

Control account not periodically reconciled with subsidiary records

Past-due accounts not vigorously and systematically followed up

Aging schedules not prepared

Inadequate accounting control over disbursement transactions

Inadequate separation of duties

Lack of controls to prevent overpayments and duplicate payments

Payments not scheduled to coincide with due dates

Lost discounts not documented

Inadequate accounting control over obligations

Estimated obligations not adequately supported

	Aberdeen, S Dak	Albuquerque, N Mex	Anchorage, Ak	Baltimore, Md	Billings, Mont	Boston, Mass	Carville, La	Lexington, Ky	Nassau Bay, Tex	New Orleans, La	New York, N Y	Norfolk, Va	Oklahoma City, Okla	Phoenix, Ariz	San Francisco, Calif	Seattle, Wash	Washington, D C	Headquarters
Some receivables not recorded or not billed or recorded promptly	X	X									X			X				
Control account not periodically reconciled with subsidiary records				X														
Past-due accounts not vigorously and systematically followed up	X			X							X					X	X	
Aging schedules not prepared	X	X	X	X	X	X			X		X		X	X		X	X	
Inadequate accounting control over disbursement transactions					X													
Inadequate separation of duties													X					
Lack of controls to prevent overpayments and duplicate payments			X						X									
Payments not scheduled to coincide with due dates	X	X	X			X	X		X	X	X				X	X		
Lost discounts not documented	X	X		X	X			X	X		X	X	X		X		X	X
Inadequate accounting control over obligations	X		X	X														
Estimated obligations not adequately supported	X			X	X	X	X					X	X	X	X	X	X	