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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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MANPOWER AND WELFARE
DIVISION

B-164031(1)

MAR 5 - 1975

The Honorable
The Secretary of Health, Education,
and Welfare

Dear Mr. Secretary:

We have examined certain aspects of the Office of Education's (OE's) financial management activities. As you know, OE has not yet submitted the design of its accounting system for approval by the Comptroller General.

Significant problems, many existing for 3 years or more, have been identified in OE's financial management information system. This letter is to express our concern with these problems and to emphasize the need for their early resolution if OE and other interested parties are to have sufficient timely and accurate financial information on fund balances to make appropriate funding decisions. The problems are discussed below.

Substantial errors exist in OE's accounting records. OE Division of Finance officials said many of these occurred when OE converted its accounting system to include a financial information system in 1971. Although OE officials knew the data entered into the financial management information system contained errors, they put the system into operation July 1, 1971, thinking the errors could be corrected later. Progress in correcting them has been slow. According to the Director of the Finance Division, about 20,800 of an estimated 32,000 errors had been corrected by January 3, 1975. He estimated that, with current staff, correcting the remaining errors would take at least 2 years.

In addition, thousands of financial transactions have been rejected entry into the financial management information system because of various types of errors. OE officials attributed these rejections primarily to (1) errors in coding and keypunching when accounting data is converted into computer input form and (2) uncorrected errors in original data which cause current data to be rejected when the data cannot be related to automated history files.

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Progress in reducing backlogs of these rejections has been limited. According to estimates by OE officials, the backlog was about 40,000 at the end of June 1972, 100,000 in December 1972, 35,000 at the end of June 1973, 61,000 in the middle of February 1974, 46,000 at the end of June 1974, and 93,000 as of December 19, 1974. The Director of the Finance Division said that, with current staff, it is virtually impossible to correct transaction errors at the rate they occur, much less reduce the backlog.

The financial management information system was designed to provide OE with Status of Funds reports twice monthly. These reports are intended to provide timely information on obligations incurred and on availability of funds at the allotment and appropriation levels. In September 1974, in an effort to provide requested information to the Senate Appropriations Committee, we requested OE to advise us of the amount of unobligated funds within its various appropriations for fiscal year 1974. We were told the Status of Funds reports provided the most accurate and timely information available but that, because of problems with the financial management information system, the reports did not reflect an accurate and timely accounting of OE's actual obligations. The information indicated that substantial funds in many program categories within OE's appropriation accounts either had not been recorded as obligations or had not been used. Also, some Status reports disagreed with the general ledger. These items should agree because the reports are prepared from the same automated data files used to print general ledger account balances. For example, the report for one appropriation showed gross obligations of about \$266 million more than the balance shown in the general ledger. OE officials could not explain these discrepancies. They agreed their causes should be identified and corrected.

Unliquidated obligations accounts for four appropriations had debit balances at June 30, 1974. These accounts reflect total obligations incurred less those which have been liquidated. These accounts should have credit or zero balances. Debit balances reflect overpayments of obligations. The reasons for the debit balances were unknown. OE officials believe they resulted from failure to sustain accurate and timely recording of financial transactions. They agreed the accounts should be reviewed to determine actual causes of the debit balances but said staff currently is not available for this.

Amounts of unpaid obligations, reported annually by OE to the Department of the Treasury on Treasury form BA-R-2108, are not supported by the accounting records. None of the unpaid obligations

shown on the June 30, 1972, BA-R-2108 report, for any of OE's appropriations, agreed with the general ledger. Unpaid obligations data for this report were, according to an OE official, compiled by (1) using a special computer run, which included all error-free data plus about 40,000 transactions containing errors that were entered in the accounting records by temporarily eliminating programmed computer controls, normally used to preclude such transactions from entering the system, (2) verifying obligation balances with program officials, and (3) using supplemental records not included in, or reconciled with, general ledger balances. According to the Director of the Finance Division, OE's June 30, 1973, and June 30, 1974, BA-R-2108 reports were prepared in essentially the same manner.

The HEW Audit Agency, in a June 28, 1974, report (Audit Control No. 40011-12), reported this problem to the Commissioner of Education. It stated, among other things, that OE's accounting records could not be traced to supporting source documents and that OE's reports to the Treasury for fiscal years 1972 and 1973 were essentially based on unsupported estimates. As a result, the Audit Agency could not express an opinion on the validity of the amounts reported.

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We were advised that one major cause of problems with the financial management information system was the tendency of OE program managers to make most of their grant and contract awards near the end of the fiscal year. As a result, many transactions occur during a relatively short period, thus burdening the system. We were also told that considerable work is needed to improve the computer program to insure timely and accurate processing of accounting data.

According to OE officials, many of the above problems can be reduced through additional qualified and trained staff. In an effort to solve some of the problems, Arthur Young and Company was contracted to review the financial management information system. Its report, including recommendations for system improvements, was submitted to OE on November 15, 1974.

We recommend that you direct OE to (1) provide for sufficient planning to help alleviate the fiscal yearend peak workload on the accounting and financial management information system caused by late awards of grants and contracts and (2) resolve the computer program and transaction error problems.

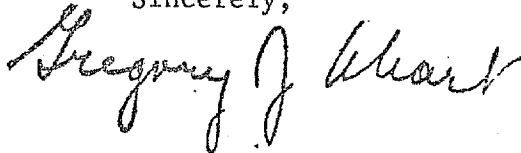
These matters should be resolved before the next fiscal yearend peak workload adds to the existing problems, more transaction errors are experienced, and new programs complicate the existing system. Because of the timing, prompt corrective action is needed. We do not believe the design of OE's accounting system will be submitted to the Comptroller General by the target date of March 1976 unless effective development action is taken.

The information in this letter has been discussed with HEW and OE officials. Please advise us of any actions planned or taken regarding the matters discussed above.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this letter are being sent to the Senate and House Committees on Appropriations and Government Operations; to the Subcommittee on Labor and Health, Education, and Welfare of the Senate Committee on Appropriations; and, pursuant to his standing request, to Congressman L.H. Fountain. Copies also are being sent to the Director, Office of Management and Budget; the Assistant Secretary, Comptroller, HEW; the Assistant Secretary for Education, HEW; the Commissioner of Education, HEW; and the Director, HEW Audit Agency.

Sincerely,

A handwritten signature in cursive script that reads "Gregory J. Ahart". The signature is written in dark ink and is positioned above the typed name and title.

Gregory J. Ahart
Director