

112446

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Major Deficiencies In Army's Washington, D.C. Finance And Accounting Operation

Over the past several years, employees of the Military District of Washington's Finance and Accounting Office have been found guilty of or have confessed to fraudulent actions involving over \$50,000. Also, within a short period of time, the Office made hundreds of thousands of dollars of erroneous payments for goods, services, and civilian pay. Further, accounting support provided by the Office to organizations located in the Washington area was inadequate because many errors were made in preparing accounting reports.

Contributing to the Office's ineffectiveness were breakdowns in its accounting procedures and controls. The Office's most pressing problem is, however, its failure to hire and retain enough competent personnel to perform its assigned mission. Defense concurred with GAO's recommendations which are designed to improve the Office's work force and its accounting systems and related internal controls.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

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This report discusses serious deficiencies in the Army's Washington finance and accounting operation. Corrective action must be taken by Defense to preclude financial mismanagement and prevent further opportunities for fraud. This job was undertaken as part of our effort to determine whether executive departments and agencies have adequate accounting control over funds and assets.

We are sending copies of this report to the Director, Office of Management and Budget, the Secretary of Defense, and the Secretary of the Army.

Thomas B. Starks
Comptroller General
of the United States

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D I G E S T

The Military District of Washington's Finance and Accounting Office, one of the Army's largest, is not operating effectively because of excessive personnel turnover and breakdowns in internal procedures and controls.

The Office, which disburses about \$1.5 billion annually, provides finance and accounting services to many Army and Defense organizations in the Washington, D.C. area. 1/ Despite numerous internal management and audit reports and a prior GAO report, conditions at the Office remain unsatisfactory. For example:

- Since 1977 six payroll and disbursing employees were found guilty of or confessed to fraud involving over \$50,000. 2/ Two of the cases of fraud might have been discovered earlier or prevented if prior GAO recommendations to adequately separate civilian payroll duties had been implemented by the Army (FGMSD-75-26, Oct. 9, 1975 and FGMSD-77-4, July 5, 1977).
- Accounting records for cash were not kept up to date and proper month-end entries had not been made for a long time. As a result, undocumented adjustments of over \$531 million were made to the records in 1977 and 1978 to force them to agree with cash balances the Army reported to the Treasury Department.
- At least \$100,000 in erroneous payments and overpayments were made for civilian payroll during a short period of time.

1/See app. III for a list of organizations provided services.

2/After GAO finished its audit two additional employees were arrested and charged with fraudulent actions involving \$95,000.

- Over \$208,000 in erroneous payments and overpayments for goods, services, and travel were made over a 6-month period.
- Accounting reports contained so many errors that some agencies maintained extensive supplemental records for controlling expenditures and financial obligations.
- Fraudulent actions were not promptly reported to higher command, as required, so a timely investigation to establish accountability for any resultant losses could not be initiated.

ARMY NEEDS TO ADDRESS UNDERLYING CAUSES OF PROBLEMS

The Army must address the underlying causes of the Finance and Accounting Office's problems before it can achieve a lasting solution to them. The major causes include (1) the absence of a stable work force, (2) inadequacies in implementing the Standard Army Civilian Payroll System, and (3) a need to improve and strictly enforce internal controls and procedures. The most pressing problem is that of maintaining a competent, stable work force. The Office has not been able to recruit and retain a full staff to perform its assigned support mission. It employs about 15 percent of its personnel temporarily and experiences a 50 percent turnover of personnel yearly. The Army needs to develop specific plans and objectives with established time frames to improve employee effectiveness and reduce the Office's personnel turnover to an acceptable level. If turnover cannot be reduced and competent workers retained within a reasonable period of time, the Office's workload should be reduced to a level it can effectively staff.

RECOMMENDATIONS

GAO recommends that the Secretary of Defense direct the Secretary of the Army to (1) devise and implement a plan for reducing Finance and Accounting Office personnel turnover and for retaining competent workers, (2) temporarily assign personnel from other accounting and finance organizations to the Office to

help develop and implement adequate internal procedures and controls, and (3) take other actions to improve the effectiveness of the Office. (See p. 25.)

GAO also recommends that the Secretary of Defense and the Secretary of the Army reduce the workload of the Finance and Accounting Office if the Army cannot adequately reduce the Office's personnel turnover and begin to retain competent personnel within a reasonable period of time. Any decision to reassign workload must consider the capability of another Defense or Army organization to provide adequate finance and accounting services.

AGENCY ACTIONS

The Department of Defense advised GAO that it concurred in all of the report's recommendations and that a high-level Steering Committee has been convened to oversee improvement of the Finance and Accounting Office. Actions are being taken or planned to reduce the Office's workload, improve the stability of the work force, strengthen internal controls, and implement improved manual and automated systems. (See app. IV.)

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CHAPTER 1

INTRODUCTION

MISSION AND SCOPE OF OPERATIONS

The Military District of Washington, D.C. has one of the largest Finance and Accounting Offices in the Army. The Office employs about 350 civilian personnel and about 100 military personnel.

Since May 1972, the Finance and Accounting Office has provided accounting and financial services to many Department of Defense and Army organizations in the Washington, D.C. area. As shown in appendix III, the Office provides accounting services to 20 major offices, handles the payroll for over 21,000 civilian personnel assigned to 44 organizations, and disburses approximately \$1.5 billion annually for about 57 organizations.

ORGANIZATION

The Finance and Accounting Office has two major operational units: Finance Operations and Accounting Operations.

Finance Operations is responsible for processing payrolls and for making payments for goods and services purchased by supported organizations. The civilian payroll section of Finance Operations pays employees on the basis of records submitted by each employee's personnel office and on biweekly time and attendance data submitted by the employee's office. The disbursing section of Finance Operations makes payments for goods and services on the basis of documents submitted by the supported organizations. The normal documentation includes a contract or purchase order, an invoice, and a receiving report.

The Accounting Operations unit processes accounting transactions, including financial obligations and expenditures, and prepares financial reports for organizations supported by the Finance and Accounting Office. One of the main purposes of the reports is to help managers avoid obligating or expending funds in excess of amounts allotted or appropriated.

Responsibilities for proper accounting and adequate controls

The Budget and Accounting Procedures Act of 1950 requires Federal agencies to establish and maintain adequate

systems of accounting and internal controls. Under the act, all executive agency accounting systems must conform to the Comptroller General's specific requirements and be approved by him.

Two of the major automated systems used by the Finance and Accounting Office are the Standard Army Finance System and the Standard Army Civilian Payroll System. These systems are centrally designed and controlled by the Army for multi-location use. The Standard Army Civilian Payroll System has been approved by the Comptroller General, but as indicated in chapter 3, all aspects of the approved design have not been implemented. The Standard Army Finance System has not been approved because it does not provide for cost and property accounting.

Previous GAO and internal audit reports

Several reports criticizing the effectiveness of the Finance and Accounting Office have been issued in the past few years. The Military District of Washington's internal review staff, the Defense Audit Service, the Army Inspector General, the Army Finance and Accounting Center, and our office have all issued reports citing many of the deficiencies addressed in this report. Prior findings and reports concerning the Finance and Accounting Office and the systems it uses are listed in appendixes I and II.

Scope of review

We reviewed and analyzed the adequacy of the Finance and Accounting Office's internal controls and procedures for the processing of disbursements and for transactions involving accounting and civilian payroll.

We interviewed officials of both the Military District of Washington and of selected Army and Defense organizations to which they provide accounting and financial services.

We also evaluated certain aspects of the Standard Army Finance System and the Standard Army Civilian Payroll System as implemented by the Finance and Accounting Office.

Our review included visits to the following organizations:

- Office of the Secretary of Defense, Washington, D.C.
- Defense Communications Agency, Washington, D.C.

- Defense Intelligence Agency, Washington, D.C.
- Defense Civil Preparedness Agency, Washington, D.C.;
Rosslyn, VA; Olney, Md.
- Defense Telephone Service, Washington, D.C.
- Secretary of the Army's Management Office,
Washington, D.C.
- Office of the Adjutant General, U.S. Army, Washington,
D.C.
- U.S. Army Intelligence and Security Command, Arlington
Hall Station, Arlington, Va.
- U.S. Army Materiel Development and Readiness Command,
Alexandria, Va.
- National Guard Bureau, Department of the Army,
Washington, D.C.
- Military Traffic Management Command, Falls Church, Va.
- Joint Personal Property Shipping Office, Cameron
Station, Alexandria, Va.
- Finance and Accounting Office, Fort Belvoir, Va.
- Finance and Accounting Office, Fort George G. Meade,
Md.
- U.S. Army Management Systems Support Agency, Washington,
D.C.
- U.S. Army Computer Systems Command, Falls Church, Va.
- Headquarters, U.S. Army Military District of Washington,
Washington, D.C.

CHAPTER 2

IMPROVED CONTROLS AND PROCEDURES ARE

NEEDED TO PREVENT ERRONEOUS PAYMENTS

AND DETER THEFT AND FRAUD

The Finance and Accounting Office does not maintain effective procedures and internal controls to account for and prevent theft and fraud of cash, checks, and bonds. Some of the significant discrepancies which occurred because of the absence of or breakdowns in internal procedures and controls include:

- Unsupported adjustments of over \$531 million were made to the cash accounting records during December 1977 and December 1978 to force the General Ledger to agree with amounts reported to the Treasury Department.
- Since late 1977 two employees involved in disbursing functions were found guilty of fraud amounting to over \$20,000.
- At least \$208,000 in erroneous payments and overpayments were processed during the 6 months period from August 1978 through January 1979.
- Over \$300,000 in checks received by the Finance and Accounting Office were not adequately accounted for, and we found that many were lying on desk tops, in drawers, and on the floor of the disbursing area.

Although similar deficiencies were reported over the past few years by internal audit organizations, adequate corrective actions were not taken. A high personnel turnover, forcing assignment of many temporary personnel to disbursing-related functions, has contributed to the problem of inadequate controls.

ACCOUNTING PRINCIPLES REQUIRE EFFECTIVE PROCEDURES AND CONTROLS OVER CASH

The Comptroller General, under authority of the Budget and Accounting Procedures Act of 1950, has prescribed principles, standards, and related requirements for accounting to be observed by Federal executive agencies. These standards require effective controls including complete, honest, and accurate accounting for all cash receipts, disbursements, and

balances on hand or otherwise available for use. The standards also require that agencies minimize the possibility of error and misuse of cash resources and provide for the disclosure of errors or losses that do occur. Specific Army guidance implementing these standards is contained in Army Regulations 37-103 and 37-108.

PROCEDURES FOR ACCOUNTING
FOR CASH ARE INADEQUATE

Procedures used by the Finance and Accounting Office have not provided adequate accountability over cash in its General Ledger account. In 1976 the U.S. Army Audit Agency reported that the General Ledger cash account was out of balance by over \$530 million, and recommended that better procedures be developed for posting transactions to the General Ledger and for reconciling General Ledger accounts.

We found that unsupported accounting adjustments of over \$500 million were made to the General Ledger cash account in December 1977 and of over \$31 million in December 1978. These adjustments were not adequately documented and were made without supervisory review and approval. As a result, the accounting records did not provide an adequate audit trail of transactions. General Ledger accounting records had not been kept up to date for many months when Finance and Accounting Office officials assigned personnel to balance the accounts. Because locating all the documentation needed to support valid accounting adjustments was extremely difficult after such a long time, accounting personnel made the unsupported accounting entries.

Army regulations 37-108 and 37-103 require the General Ledger cumulative cash account balance to match the balance on the Statement of Accountability report submitted monthly to the U.S. Army Finance and Accounting Center, which then reports it to the Department of the Treasury. However, differences between accounting records and Treasury reports should have been reconciled before the General Ledger cash balance was adjusted. If accounting records of cash are not properly maintained, the Finance and Accounting Office cannot be assured of detecting erroneous or fraudulent payments.

PROCEDURES AND CONTROLS OVER
DISBURSEMENTS ARE INADEQUATE OR ABSENT

Our review of a limited number of payments made between August 1978 and January 1979 disclosed over \$208,000 in erroneous payments. Also, we were told that since late 1977 two employees working in disbursing functions had been found guilty of making fraudulent payments totaling more than \$20,000.

In our opinion, most of the erroneous and fraudulent payments could have been prevented had adequate procedures and internal controls existed. Specifically, the following procedures and controls were absent or inadequate:

- Procedures for preaudit and approval of vouchers.
- Procedures for preventing duplicate payments.
- Routine separation of duties involved in handling and accounting for cash resources.
- Supervisory oversight to detect errors or irregular transactions.

The following examples illustrate what can happen when procedures and internal controls are not properly used:

- The Finance and Accounting Office made an advance payment on a contract for over \$54,000. Later, when an agency request was submitted to make a bookkeeping entry to reduce the amount of the outstanding advance, the Office erroneously issued another check for \$54,000. Fortunately, the payee returned the second payment. If records of advance payments were properly maintained and checked before each subsequent payment, duplicate payments such as the above could be prevented.
- A check for about \$15,700 was inadvertently issued to the employee who initiated a payment voucher instead of to the payee indicated on the payment voucher. An inexperienced employee processed the payment and the error was not detected by a supervisor. Adequate supervisory review and better training of employees would help prevent such errors.
- A payment for over \$1 million was made on a voucher signed by an individual who, according to official records of the Finance and Accounting Office, was not authorized to sign payment vouchers. Although the payment was valid, it should have been held by the Office until proper authorization was provided by the agency ordering the disbursement. Army regulations 37-107 and 210-10 require that files be maintained which show (1) persons authorized to approve payment vouchers and (2) the signatures of those persons. Before making payments, employees are supposed to check the files to verify that payments have been properly authorized. Because the Office provides disbursing services for 57 organizations and many people are involved in

authorizing payments, it is especially important that this procedure be followed. However, we noted that the files at the Finance and Accounting Office were poorly maintained and were not always used to verify proper authorization.

--Unsupported payments had been made on 42 of the 50 precertified vouchers we reviewed. Army regulations 37-107 require that the Finance and Accounting Office assure the existence of documentation, such as receiving reports, to support payments. Although documentation for most of the 42 payments was found at the office originating the vouchers, the Finance and Accounting Office made the payments without proof that the billed goods and services had been received. At the time of our review, the Finance and Accounting Office had not established procedures requiring that supporting documentation be forwarded with precertified payment vouchers.

--For some cash disbursement transactions we reviewed, the same person who made payments on vouchers also assigned payment voucher numbers and recorded the transactions. Failure to separate these duties increases the possibility that fraudulent payments will go undetected.

The Finance and Accounting Office should develop and enforce strict procedures and controls for processing vouchers and for issuing payments. These controls should be adequate for preventing duplicate and erroneous payments and for helping to deter fraud.

CHECKS RECEIVED BY THE
DISBURSING OFFICE ARE
NOT ADEQUATELY CONTROLLED

In addition to poor controls over disbursements, we found poor controls over checks received. In a surprise cash count audit, we and Army internal auditors found that over 500 commercial, personal, and U.S. Treasury checks worth more than \$300,000 were inadequately controlled and accounted for. We saw checks lying about the disbursing office in desk drawers, on desk tops, and on the floor. Although some records were kept of check receipt and disposition, they were kept for only a few days. As a result, accountability for returned checks was lacking. For example:

--Five checks totaling about \$28,400 were received by the disbursing office from five different organizations before November 15, 1978. There was no record

of what happened to these checks after they were received. A disbursing official said the checks had been returned to the original senders, but could not furnish proof. On December 22, 1978, one of the checks, for approximately \$5,400, was received a second time from the original sender, but officials still could not show what happened to the remaining four checks.

The Finance and Accounting Office should establish procedures requiring that checks received be promptly recorded and deposited and that a record be kept to show the disposition of all checks received by the Office. Such controls are necessary to deter theft and forgery and to make sure that accounting records are complete and accurate.

REQUIREMENTS FOR MAINTAINING
PHYSICAL SAFEGUARDS OVER CHECKS
AND BONDS ARE NOT ALWAYS FOLLOWED

In addition to inadequate accounting controls over disbursements and receipts, we found inadequate physical controls over the disbursing area. The wire mesh doors leading to the disbursing area were often left unlocked by employees during business hours. The vault door, inside the disbursing area, was also sometimes left unlocked during work hours. This allowed potential unauthorized access to about \$15,000 in cash, thousands of blank U.S. Treasury checks and bonds, and check signing machines. High personnel turnover and lack of adequate management emphasis on security contributed to the breakdown in physical safeguards.

Management at the Finance and Accounting Office has not established adequate controls over checks and bonds despite several audit reports citing the need to establish such controls. On October 9, 1975, we reported on inadequate security for blank checks and bonds at the Finance and Accounting Office (FGMSD-75-26) and the Military District of Washington's internal review staff reported lax security over checks and bonds and over the disbursing area in general. (See app. I and II.)

The Finance and Accounting Office should immediately establish and enforce strict procedures for maintaining physical security over the vault and the disbursing area to safeguard cash, checks, and bonds.

PROCEDURES FOR REPORTING FRAUDULENT
ACTIONS ARE NOT ALWAYS FOLLOWED

Three cases of employee fraud which occurred in the payroll office (see ch. 3) were not reported to higher command as required by the Comptroller General (title 7 of sec. 28-14) and by Army regulations 37-103. Such reporting allows investigations to determine whether the accountable officer should be held liable for any portion of resultant losses and to establish a record for audit purposes. The Army investigation augments the one performed by authorities responsible for criminal investigation. After we spoke to officials about the employee fraud, an investigating officer was assigned to determine whether the accountable officer should be held liable.

Procedures for reporting fraudulent actions must be enforced to provide full accountability and to place responsibility for any losses of funds. The Army procedures should be strictly enforced to assure that illegal disbursements are reported, that recoupment is attempted, and that an investigation is performed to determine if the accountable officer should be relieved of responsibility.

CHAPTER 3

CIVILIAN PAYROLL OPERATION

IS INADEQUATE

The Military District of Washington's Finance and Accounting Office's civilian payroll operation is inadequate for preventing erroneous payments and for deterring fraud. We found that erroneous payments totaling at least \$100,000 were made during a 6-month period and that payroll checks amounting to more than \$100,000 were in the disbursing office with no adequate record of why they were there. Further, we were told that during the past 3 years four employees were found guilty of or confessed to separate cases of fraud totaling more than \$33,000. After we completed our review we learned that two additional employees were arrested and charged with fraudulent actions involving \$95,000.

These irregularities involving civilian payroll operations were due to many factors including inadequate procedures and controls, deficiencies in the computerized payroll system, high personnel turnover, and failure by the Army and the Military District to take corrective actions previously recommended by us and by the Military District's internal audit staff.

PAYROLL SYSTEMS ARE REQUIRED TO MEET PRESCRIBED STANDARDS

Under the authority of the Budget and Accounting Procedures Act of 1950, the Comptroller General has established basic standards for Federal payroll systems. These standards include the following objectives:

- Prompt and accurate disbursement of paychecks.
- Timely preparation of adequate, reliable payroll records.
- Adequate control over all segments of the payroll system.
- Proper coordination of pay, leave, and allowance operations with personnel functions and other related activities.

To meet these objectives the Army designed a Standard Army Civilian Payroll System which was approved by us in December 1978 as meeting the Comptroller General's standards.

However, as discussed in this chapter, all aspects of the approved system have not been implemented.

Payroll disbursements have included errors and fraud

In checking all computerized employee pay records for the 6 months ending December 31, 1978, we identified over \$40,000 in erroneous payments made to 30 employees. These employees had changed jobs within the Government and were issued two paychecks for the same pay period because their names were not promptly deleted from the payroll of their former employer. We provided pertinent data on these erroneous payments to the Office so that corrective action could be taken.

We found that an additional \$40,000 was overpaid to 61 employees who returned the overpayments. We could not determine from available records how or why the errors in pay were made.

During a surprise cash count we also found in the disbursing office more than \$100,000 in payroll checks, many of which were to be cancelled during November 1978. Because essential control records were lacking, we could not tell (1) how many of these checks were returned by employees or their organizations because the checks were in error, (2) how many of the checks were sent to the disbursing office by the payroll office and ordered cancelled because of errors in preparing the checks, or (3) how many were returned because they were incorrectly addressed.

In addition to finding the erroneous payments, we learned from Army and Defense officials that:

- Four payroll employees were found guilty of, or confessed to, fraudulent actions involving over \$33,000 in the past 3 years.
- Employees were receiving payments for hours they never worked and which at times exceeded the total hours in a biweekly pay period. One individual, for example, received a check based on 680 working hours instead of the 80 hours he actually worked. Erroneous payments totaling about \$21,000 were made because of problems in computing hours worked and other errors.

PROCEDURAL, INTERNAL CONTROL, AND SYSTEM WEAKNESSES ALONG WITH HIGH PERSONNEL TURNOVER CONTRIBUTE TO PAYROLL DEFICIENCIES

Most of the fraudulent and erroneous payments made by the Office can be related in part to

- inadequate separation of duties in the payroll office,
- inadequate system edits,
- inadequate procedures for maintaining payroll records,
and
- high turnover of payroll clerks.

Failure to adequately separate
payroll duties provides opportunity for fraud

Inadequate separation of duties in the payroll office contributed to two of the four cases of employee fraud which occurred in payroll during the past 3 years. One payroll clerk, who handled all aspects of employees' pay, was able to cause the issuance of 12 fraudulent payroll checks amounting to over \$17,000. Separation of the duties--having one employee place employees' records on the payroll and another remove employees' records from the payroll--could have helped to prevent this case of fraud. Another clerk was able to cause the issuance of seven fraudulent civilian payroll checks to replace checks allegedly lost or stolen. These checks, which amounted to \$7,400, were issued without verification by another employee or supervisory review. Separation of the duties of processing supporting documents and issuing replacement payroll checks, or strict enforcement of the requirement for supervisory reviews of replacement payment requests, might have prevented this case of fraud.

Although the Standard Army Civilian Payroll System design we approved requires separation of duties, this aspect of the system still had not been implemented at the time of our review.

Additional system edits would
help prevent erroneous payments

Additional automated controls are needed in the Standard Army Civilian Payroll System to help detect and prevent erroneous payments. Some of the erroneous payments discussed above could have been prevented by automated edits. For example:

- An edit of the payroll office's entire active employee record file could detect duplicate social security numbers. This would identify employees with two active records and help preclude issuance of two paychecks to an employee changing jobs to another organization for which this office prepared payroll.

--An edit to detect payments for hours which exceed the total hours in a biweekly pay period could have prevented payments for hours that were never worked.

Improved files and records would help detect payroll errors

Our ability to audit was impaired by inadequate files and records, thus making it difficult to determine the total number and amount of erroneous payroll checks issued. For example, because the civilian payroll office did not maintain individual files for each employee with documents authorizing their pay and withholdings, determining if employees' pay and withholdings were accurate was difficult. Individual files are required by the system design we approved.

Adequate records provide a necessary internal control over payments made by the Finance and Accounting Office. When records are missing or incomplete, the audit trail for identifying irregular transactions is often lost, thus increasing the possibility that errors or fraud will go undetected. Adequate records of all payroll transactions are therefore vital.

High personnel turnover and short time frames contribute to payroll errors

High personnel turnover in the civilian payroll office and a short time frame for processing the payroll also contribute to erroneous payments. Excessive personnel turnover has led to personnel shortages and an inexperienced staff. During our review, we noted that almost one-third of the pay clerks had worked in the office less than a year.

In addition to the personnel shortages and inexperienced staff, officials said that the payroll office faces yet another handicap--local procedures allow only 6 days to prepare and issue paychecks after the pay period ends. Officials complained that this short time frame limits the supervisors' review of employees' work before the payroll is processed and sometimes allows erroneous payments to go undetected.

The Finance and Accounting Office should enforce internal controls requiring supervisory review of payroll data before final processing. The personnel turnover problem, discussed in greater detail in chapter 5, must also be addressed by the Army.

Management has been aware
of payroll errors

Management officials at the Military District and the Department of the Army have been aware of deficiencies in payroll operations at the Finance and Accounting Office for several years. In our October 9, 1975 report to the Congress (FGMSD-75-26), we informed management of the need for (1) better training of timekeepers, (2) separation of duties among critical payroll functions, (3) improved automated system edits for detecting errors in payroll data and for helping to prevent duplicate payments to employees, (4) automation of manual computations, and (5) other procedural improvements.

Since that time, the Finance and Accounting Office began using the Standard Army Civilian Payroll System. On July 5, 1977, we issued a report on deficiencies in the standard system (FGMSD-77-4). Subsequently, several management and audit reports have cited deficiencies in civilian payroll operations at the Finance and Accounting Office. The Military District's internal review staff, the Military Traffic Management Command comptroller's office, and the Army Inspector General's office have all issued reports. (See app. I and II.) The major deficiencies which they reported are as follows:

- Erroneous payments were made to former employees.
- Procedures did not assure that payroll overpayments were detected and collected.
- Many erroneous checks were issued each pay period and had to be cancelled.
- Many supplemental checks had to be issued to correct errors.
- Procedures did not promptly remove former employees from the payroll.

CHAPTER 4

ACCOUNTING REPORTS AND RECORDS FOR CONTROLLING

FUNDS ARE INADEQUATE

Accounting reports prepared by the Military District of Washington's Finance and Accounting Office for 20 Army and Defense organizations were often inaccurate and could not be used by managers to effectively control obligations and expenditures. Millions of dollars in disbursements were not reconciled with corresponding obligations and several Army and Defense organizations had to maintain supplemental records to assure that they did not spend or obligate more funds than they were authorized. Officials at all seven of the Army and Defense organizations we visited expressed their dissatisfaction with the accounting reports they were receiving. One organization was so dissatisfied that it maintains its own accounting capability at an annual cost, according to one official, of \$140,000.

The Office has a special problem in supporting Defense organizations. The Army's standard system, which the Office is required to use, cannot furnish all of the accounting support Defense organizations would like to have.

Weaknesses in processing accounting data, high personnel turnover and an inadequacy in the design of the Standard Army Finance System limit the ability of the Office to meet its users' accounting needs.

ADMINISTRATIVE CONTROL OF FUNDS IS REQUIRED BY LEGISLATION

Effective administrative control over funds is required by Revised Statute 3679 (the Anti-Deficiency Act). The purpose of the act is to prevent Federal agencies from spending more money than they have been appropriated. To effectively control funds, managers must receive accurate and timely reports of obligations and expenditures.

INACCURATE ACCOUNTING REPORTS ARE NOT USEFUL TO MANAGERS

Agency managers found they could not rely on accounting reports prepared by the Finance and Accounting Office because the reports contained many errors. Agencies were forced to maintain supplemental accounting records, and they required reconciliations of accounting records prepared by the Finance and Accounting Office to determine the actual amounts of funds

they had available. Also, as stated before, the Office has a special problem in supporting Defense organizations. Since the Office must use the Army's worldwide standard system, it cannot furnish all aspects of accounting support Defense organizations would like to have.

At each of the seven Defense and Army organizations we visited, officials complained that accounting reports prepared by the Office were replete with errors. They said that obligations were created and deleted by the Office without the supported organization's knowledge; that corrections to erroneous reports submitted to the Office by these organizations are either not processed by the Office or are not promptly posted to the official records, and that the Office has requested supported organizations' permission to arbitrarily delete obligation data. In one case an organization refused to verify the status of its funds because the year-end reports were so inaccurate.

Choosing six organizations of the twenty provided accounting reports by the Finance and Accounting Office, we requested information on the amounts of disbursements in the accounting records which were not matched with corresponding obligations. We found that the reports contained over \$140 million in disbursements which were not matched with corresponding obligations. This distorted the amounts shown in the accounting reports as balances available for future financial obligations. Without accurate information on fund balances, managers could have unknowingly caused their organizations to spend more funds than they were allotted or appropriated, thereby violating the Anti-Deficiency Act.

Examples of supplemental accounting systems set up in reaction to errors in Finance and Accounting Office reports include the following:

- Officials at the U.S. Army Materiel Development and Readiness Command, the National Guard Bureau, the Defense Communications Agency, and the Defense Intelligence Agency maintain supplemental accounting records because they cannot rely on reports received from the Finance and Accounting Office. The Defense Audit Service reported that some of the Defense agencies' supplemental records duplicate the records maintained by the Finance and Accounting Office. Officials at the Defense Communications Agency and the Defense Intelligence Agency said that considerable time is spent detecting and correcting errors in accounting reports received from the Finance and Accounting Office.

--The Defense Telephone Service, which is under the Secretary of the Army, has required extensive reconciliation of its accounting reports from the Finance and Accounting Office because the reports contained numerous errors. An official at the Office of the Secretary of the Army estimates that at least one staff-year of effort is required annually to reconcile Defense Telephone Service records with Finance and Accounting Office reports.

--The Office of the Secretary of Defense was so dissatisfied with accounting support received from the Military District of Washington that it established its own accounting operation beginning with fiscal 1978. According to an official at the Office, personnel and computer support costs for the new accounting operation amount to more than \$140,000 annually.

Defense officials said that they would like the Office to provide automated accounting for commitments and automatic aging of accounts receivable. Since the Standard Army Finance System does not have these accounting features, the Office cannot satisfy Defense requirements. Another problem in supporting Defense organizations is that the Army standard system uses categories for accumulating expense data which are different from those Defense requires. This sometimes leads to errors in the accounting records and causes confusion among Defense organizations.

SEVERAL FACTORS CONTRIBUTE TO INACCURATE REPORTS

Inaccurate accounting reports prepared by the Finance and Accounting Office were caused by several factors. These include ineffective processing of accounting data, a high personnel turnover rate in accounting functions, and a deficiency in the accounting system design.

Processing of accounting data is ineffective

We reviewed several accounting reports and found the following:

- Documents were processed incorrectly into the accounting records because of coding and keypunch errors.
- Documents were not processed promptly into the accounting records.
- Errors in the accounting records were not corrected promptly and accurately.

The office can process accounting data more accurately by (1) verifying keypunched data before processing it into the accounting records and (2) promptly posting documents and corrections.

Sufficient competent personnel are needed to adequately implement procedures

The Finance and Accounting Office needs sufficient qualified personnel at all times to assure the accuracy of accounting reports. High personnel turnover has been disruptive to the Accounting Operations unit. For example, between February and May 1979, three of the top civilian positions in the unit, including the position of chief of accounting operations, were vacated. The average annual personnel turnover in the unit is about 41 percent, with much of the turnover in the professional accountant positions. The loss of this expertise and experience led to breakdowns in procedures and controls and ultimately to errors in the accounting records.

Systems design improvement is needed

The Standard Army Finance System records disbursements in the accounting records without matching obligations. As a result, reconciliations of the records are difficult because the unmatched disbursements cannot be readily identified.

If the system design were changed so that all unmatched disbursement transactions were recorded in a suspense account, users could determine more readily whether the proper amounts had been obligated, and authorize additional amounts for obligation if necessary to cover disbursements.

DEPARTMENT OF THE ARMY AND MILITARY DISTRICT WERE AWARE OF PROBLEMS

Army management has been aware of the problems at the Finance and Accounting Office in providing accounting support. Since 1974, reports have been issued by the Military District's internal review staff, the Army Audit Agency, and the Defense Audit Service concerning deficiencies in accounting support provided by the Finance and Accounting Office. Some of the deficiencies which they reported were

- obligations recorded in the wrong accounting period;
- Finance and Accounting Office records inadequate to support recorded obligations;

- reports for identifying unliquidated obligations virtually useless because of erroneous, duplicate, and improperly coded transactions;
- obligations recorded twice;
- erroneous data due to coding and keypunch mistakes; and
- accounting reports with so many errors that fund managers could not use them to effectively manage expenses and obligations.

We believe that the Army and the Military District should take immediate action to deal with the serious problems confronted by managers who must rely on these accounting reports to manage Federal funds.

CHAPTER 5

INABILITY TO ATTRACT AND RETAIN

COMPETENT STAFF - A MAJOR PROBLEM

The Finance and Accounting Office has not been able to attract and retain sufficient competent staff to effectively perform its mission. Employee turnover of nearly 50 percent and the hiring and misassignment of temporary employees are some of the personnel problems facing the Office. Accounting systems and related internal controls can work well only with an effective work force. The Army should devise and implement a formal plan to hire, train, and maintain competent personnel. If the Army cannot substantially alleviate the Office's personnel problems within a reasonable time, the Office's workload should be reduced to a level it can effectively staff.

CAPABLE PEOPLE ARE NEEDED TO PERFORM ACCOUNTING MISSION

Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies states that qualified personnel are needed to implement and operate accounting systems. Agency officials who rely on financial information are entitled to, and should demand, a high degree of technical competence from accounting personnel. The Finance and Accounting Office needs sufficient qualified personnel at all times to perform its mission effectively.

FINANCE AND ACCOUNTING OFFICE HAS BEEN UNABLE TO RETAIN SUFFICIENT COMPETENT PERSONNEL

The Office has been unable to retain enough competent personnel to perform the support mission assigned it. The Office consistently operates with vacancies and temporary hires--an inadequate work force.

Using data provided by the Military District, we found that from January 1977 to February 1979 the Office had an average annual civilian turnover rate of about 50 percent and many of the personnel changes occurred in key management positions. We found that between January 1975 and June 1979 the Office had three different commanders, five different finance operations chiefs, and three different accounting operations chiefs.

Excessive personnel turnover has caused an average vacancy rate in authorized civilian positions of almost 14 percent. Also, between July 1977 and January 1979 almost 15 percent of the personnel on board were temporary hires.

To compare this turnover rate with that of the surrounding Washington D.C. area, we obtained personnel data from Fort Belvoir, Virginia, and Fort Meade, Maryland. As shown in the following table, the data indicated a much lower personnel turnover at these Finance and Accounting Offices.

<u>Finance and Accounting Office</u>	<u>Authorized civilian positions</u>	<u>Percent of annual turnover</u>
Fort Belvoir	78	20
Fort Meade	139	21

PERSONNEL TURNOVER HAS MANY CAUSES

After we had advised Army and Defense officials of our audit findings, the Army Civilian Personnel Center was asked to study personnel practices at the Office. The Center reported on September 24, 1979, that the high turnover is a symptom of many serious personnel problems existing at the Finance and Accounting Office.

Although we did not review personnel practices at the Office in depth, we noted several problems related to the Center's findings. Some of the more important issues identified by the Center, together with our observations, are summarized below.

TEMPORARY EMPLOYEES HAVE BEEN OVERUSED AND MISASSIGNED

The study report indicates that the Office has tried to offset employee losses by hiring large numbers of temporary employees and that this results in an effort "to resolve a problem through a practice that stimulates the problem." People available for temporary appointment generally fall into two categories--they are interested only in short-term employment or they were unable to score sufficiently high on competitive registers to qualify for permanent appointments. Consequently, temporary personnel turnover and "washouts" are high.

The report also discussed misassignment of temporary hires. Employees are given temporary appointments as clerk-typists or clerk-stenographers and then, contrary to personnel regulations, are assigned duties as cash clerks, payroll clerks, and accounting technicians for the purpose of "trying them out."

In our review, we observed that nearly one-fourth of the personnel working in disbursement functions were temporary

hires. As noted in chapter 2, we found many disbursing errors and a lack of safeguards to protect cash, checks, and bonds.

Opportunities for professional development and advancement are lacking

The report shows that personnel losses are highest for professional accountants and accounting technicians. A primary reason for professionals leaving was the lack of professional development provided by the Finance and Accounting Office mission. Professional accountants were assigned an appreciable amount of nonprofessional work that could have been performed by accounting technicians. Accounting technician losses were greatest at the GS-6 level because the organization structure offered nonprofessionals little advancement beyond that grade.

During our review, we were told by an Office official that about 35 employees working in accounting positions had not attended the basic accounting course given by the Army. The official also said that, in his division, the work assigned to accounting technicians differs very little from that assigned to professional accountants, and that accountants are often required to perform such clerical duties as typing and duplicating.

Many positions are overgraded

Of the 60 positions reviewed during the conduct of the personnel study, 33 were considered too highly graded. The report indicated that too many employees are classified as leaders. Further, employees are hired into journey-level or premium-grade jobs which they cannot perform without considerable supervision and training.

Our review did not include an analysis of grade structure.

Physical location is undesirable

The personnel study indicated that the Office location is less than desirable and that this has contributed to employee turnover. Public bus transportation is poor, parking lots almost nonexistent, custodial service inadequate, and no civilian health clinic or bank is readily available.

During our review, we also noted these inadequacies in the Office's location.

Study made recommendations
for efficiency and effectiveness

The personnel study made many recommendations designed to improve the Office's efficiency and effectiveness. Some of the more important recommendations were that appropriate organizations in the Military District of Washington should:

- Reassess the balance between professional accountant and accounting technician positions to determine the best proportion to retain employees and accomplish the mission of the Office.
- Conduct a comprehensive position management and classification review of all Finance and Accounting Office jobs.
- Ensure proper utilization of temporary employees and concentrate efforts on filling permanent positions through permanent appointments.
- Give high priority to improving the working environment of the Office.

The study also states "it appears that much of the accounting functions could be contracted out and possibly save costs and increase effectiveness."

A PLAN IS NEEDED TO CORRECT
THE OFFICE'S PERSONNEL PROBLEMS

The Army has known for years that the Office has serious problems with its accounting, disbursing, and payroll mission. (App. I lists the problems reported to management since 1974.) However, the Army has not developed a comprehensive plan to hire, train, and maintain competent personnel at the Finance and Accounting Office. Such a plan should be devised and implemented. If a marked improvement in the personnel situation cannot be seen after a reasonable time, the Office's workload should be reduced.

The report by the Army Personnel Center represents identified steps for correcting the Office's personnel problems. However, the serious and continuing nature of the Office's accounting, disbursing, and payroll deficiencies indicates a need for high-level Army officials to agree to a plan which cites specific objectives and time frames for substantially reducing personnel turnover and retaining competent staff.

The plan should call for a formal evaluation, at a specified date, of the effectiveness of the personnel actions

taken. At that time, a determination should be made as to whether the Office's workload should be reduced.

Department of the Army officials said that a committee had been established to improve financial and accounting services in the Washington area. Although the committee has not determined what corrective actions will be taken, the Army officials said that a reduction in the Finance and Accounting Office's workload was being considered. Also, we noted that proposals to reduce the Office's workload were made in reports prepared by the Army Inspector General in September 1978, the Army Finance and Accounting Center in December 1978, the Defense Audit Service in December 1978 and May 1979, and as indicated on page 21, the Army Personnel Center in September 1979.

CHAPTER 6

CONCLUSIONS, RECOMMENDATIONS AND AGENCY COMMENTS

CONCLUSIONS

The Military District of Washington Finance and Accounting Office's disbursing and payroll operation is inadequate for preventing erroneous payments and for deterring fraud. Also, it has failed to provide adequate accounting services to Army and Defense organizations.

Inadequate systems, procedures, and internal controls have contributed to the Office's ineffectiveness. Its most pressing problem, however, is retaining enough competent people to handle its very large workload. Without effective workers the best procedures, systems, and controls are bound to fail.

High-level Army officials should give priority to devising and implementing a plan to both reduce the crippling personnel turnover and retain competent personnel. In the interim, the Army should send individuals from other organizations to help the Office develop and implement good procedures and controls.

If, after a reasonable period of time, the Army finds it cannot adequately staff the Office, the Office workload should be reduced.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the Secretary of the Army to:

--Develop a plan with specific objectives and time frames for reducing personnel turnover and retaining competent staff at the Military District of Washington Finance and Accounting Office.

--Assign experts on a temporary basis from the Army Finance and Accounting Center and/or other Army finance and accounting offices to help the Military District of Washington develop and implement adequate internal procedures and controls. Needed are

- (1) controls to help prevent duplicate, erroneous, and fraudulent payments;

- (2) procedures for maintaining a formal record of checks received by the Finance and Accounting Office, showing their disposition;
 - (3) implementation and enforcement of strict physical controls over the disbursing area and the vault;
 - (4) adequate separation of duties between making disbursements and accounting for them; and
 - (5) procedures for assuring prompt, accurate processing of accounting data.
- Implement the Standard Army Civilian Payroll System design as we approved it and develop and implement additional automated edits, if feasible, to help prevent duplicate and erroneous payments.
- Assure that legal and regulatory requirements for reporting fraudulent actions are followed.
- Consider increasing the number of days allotted to payroll preparation and processing to allow sufficient time for supervisory review of work before check processing.
- Seek to minimize the differences between Army and Defense organizations' accounting requirements.
- Require that the Military District of Washington make a reasonable attempt to determine whether the adjustment to the General Ledger for over \$500 million made in 1977 and the adjustment for \$31 million made in 1978 can be adequately supported.

We also recommend that the Secretary of Defense and the Secretary of the Army consider reducing the workload of the Military District of Washington Finance and Accounting Office if the Army cannot, within a reasonable period of time, adequately reduce the Office's personnel turnover and begin to retain competent personnel. If a decision is made to reassign workload, the capability of another Defense or Army organization to provide adequate finance and accounting services must be considered.

AGENCY COMMENTS

In an April 7, 1980, letter (see app. IV) the Principal Deputy Assistant Secretary of Defense (Comptroller) told us

that Defense concurs with all of our recommendations and he provided the details of actions taken and planned to correct the deficiencies identified in our report.

The Principal Deputy advised that a high-level Steering Committee is overseeing the improvement of the Finance and Accounting Office. Specific improvement actions taken or planned include the following:

- A team of personnel specialists has been created to develop and implement a plan to improve personnel management at the Office.
- Twenty personnel from the U.S. Army Finance and Accounting Center have been assigned temporarily to the Office to provide assistance in developing and implementing necessary procedures and controls.
- The payroll system will be implemented as approved by GAO.
- Instructions have been given to Office personnel on requirements for reporting of fraudulent actions.
- The Army Audit Agency has begun a review of the actions taken to reconcile the \$31 million and \$500 million adjustments made to the General Ledger cash account.
- The Deputy Secretary of Defense has approved a 25 percent reduction in the Office's workload.

We believe the above actions if properly implemented will substantially improve the Office's effectiveness.

PROBLEMS AT THE MILITARY DISTRICT
OF WASHINGTON'S FINANCE AND ACCOUNTING OFFICE AS
REPORTED TO VARIOUS MANAGEMENT LEVELS SINCE JUNE 1974

Summary of major findings	Reported by					
	General Accounting Office	Defense Audit Service	Army Audit Agency	Army Inspector General	Military District of Washington internal review	Other management or audit groups
<u>Disbursing</u>						
Controls over blank U.S. Treasury checks and bonds were inadequate. Situation could have resulted in major loss through theft of bonds and checks.	Oct. 1975				July 1979 July 1978	
Payments against contracts for leased equipment were erroneously paid, because serial numbers on receiving reports were not matched to contracts.		May 1978				
Checks received in the disbursing office were not properly controlled and accounted for.					July 1979 July 1978	
Procedures did not ensure that losses of funds were properly reported and accounted for.					July 1978	
Periodic postings, adjustments and reconciliations of General Ledger cash account were not being performed.			May 1976			

Summary of major findings	Reported by					
	General Accounting Office	Defense Audit Service	Army Audit Agency	Army Inspector General	Military District of Washington internal review	Other management or audit groups
<u>Disbursing (con.)</u>						
Signature card files used for approval of vouchers and pickup of checks contained many invalid cards.					July 1979 July 1978	June 1976
<u>Civilian Payroll</u>						
Procedures were not adequate to ensure that overpayments were being detected and/or collected by payroll office.				Mar. 1978	June 1979 Apr. 1979	Mar. 1979
Duties were not adequately separated in Army civilian payroll offices to provide a system of checks and balances which would help prevent fraud.	July 1977 Oct. 1975		Nov. 1976			
Duplicate payments were possible because there could be more than one active file for an employee in the computer system.	Oct. 1975					
Computerized edit checks were not used enough to detect and prevent processing of erroneous payments.	July 1977 Oct. 1975				June 1979	

Summary of major findings	Reported by					
	General Accounting Office	Defense Audit Service	Army Audit Agency	Army Inspector General	Military District of Washington internal review	Other management or audit groups
<u>Civilian payroll (con.)</u>						
Controls over personnel and timekeeping operations do not ensure that salary payments are correct and that leave records are accurate	Oct. 1975					
<u>Administrative control over funds</u>						
Managers could not rely on accounting reports for monitoring and controlling expenditures and financial obligations because reports were inaccurate.		May 1979 Feb. 1979 Dec. 1978	Apr. 1978	Aug. 1978	July 1979 July 1978	Feb. 1979 Nov. 1978 Dec. 1976
The Army's Standard Finance System had accounting weaknesses and did not meet some of the Comptroller General's accounting principles and standards for Federal agencies.			Jan. 1979 Apr. 1977			
Duplicate accounting records were maintained by agencies.		May 1979				
<u>Personnel</u>						
High personnel turnover had resulted in inexperience and lack of expertise among clerical staff and supervisory personnel.			July 1974 (2 rpts.) Apr. 1978 (2 rpts.)	Aug. 1978	July 19 78	Dec. 1978

PRIOR AUDIT REPORTS CONCERNING THE
MILITARY DISTRICT OF WASHINGTON
AND THE SERVICED AGENCIES

Disbursing operations

1. Military District of Washington Internal Review Report 21F-79, "Review of Disbursing Operations," July 11, 1979.
2. Defense Audit Service, "Report on the Audit of Administrative Control of Funds at Headquarters, Defense Nuclear Agency," (79-012) Nov. 9, 1978.
3. Military District of Washington Internal Review Report 30A-78, "Review of Disbursing Operations," July 17, 1978.
4. Defense Audit Service, "Report on the Review of Leased Equipment in OSD, OJCS, and other DOD Activities," (896) May 18, 1978
5. General Inspection, Fiscal Year 1978, U.S. Army Military District of Washington Finance and Accounting Office, Mar. 1978.
6. Military District of Washington Internal Review Report 5A-78, "Review of Imprest Fund Operations," Dec. 20, 1977.
7. Military District of Washington-Finance and Accounting Office Quality Assurance Audit Report 76-3, "Review of Pre-Certified Payment Procedures," June 10, 1976.
8. U.S. Army Audit Agency "Audit of Cash Management, U.S. Army Military District of Washington (MDW), MDW Finance and Accounting Office," (EC 76-220) May 5, 1976.

Administrative control over funds

1. Military District of Washington Internal Review No 17A-79, "FY 79 Fund Control," July 10, 1979.
2. Defense Audit Service, "Report on the Review of the Office of the Secretary of Defense Agency Accounting Systems," (79-083) May 7, 1979.
3. Defense Audit Service, "Report on the Audit of Administrative Control of Funds in the Defense Advanced Research Projects Agency," (79-046) Feb. 6, 1979.

Administrative control over funds (con.)

4. Headquarters, U.S. Army Materiel Development and Readiness Command Internal Review Report 3-79, "Audit Evaluation of the Travel Advance Account Operating Agency 6A ASN-7052," Feb. 5, 1979.
5. U.S. Army Audit Agency, "Redesign of Standard Finance System (STANFINS)," (HQ 79-203) Jan. 4, 1979.
6. Defense Audit Service, "Report of the Review of Administrative Control of Funds at the Defense Communications Agency," (79-021) Dec. 8, 1978.
7. Headquarters, U.S. Army Materiel Development and Readiness Command Internal Review Report 1-79, "Year End Certification Procedures Operating Agency 6A ASN-7052," Nov. 1, 1978.
8. Fiscal year 78 General Inspection of U.S. Army Military District of Washington by the Army Inspector General, Sept. 1978.
9. Military District of Washington Internal Review Report No. 31A-78, "3rd Quarter Review of Fund Controls," July 11, 1978.
10. Defense Audit Service, "Report on the Review of Administrative Control of Funds at the Defense Civil Preparedness Agency," (919) June 1978.
11. U.S. Army Audit Agency, "Administrative Control of Funds Allocated to the Adjutant General," (EC 78-202) Apr. 17, 1978.
12. U.S. Army Audit Agency, "Standard Finance System (STANFINS)," (WE 77-207) Apr. 25, 1977.
13. "Evaluation of the Directorate for Budget and Finance, Office of the Deputy Assistant Secretary of Defense (Administration)," Dec. 17, 1976.

Finance and Accounting Office personnel

1. U.S. Army Finance and Accounting Center, "Review of Military District of Washington's Finance and Accounting Operations," Dec. 7, 1978.
2. Fiscal Year 78 General Inspection of U.S. Army Military District of Washington by the Inspector General, Sept. 1978.

Finance and Accounting Office personnel (con.)

3. Military District of Washington Internal Review Report No. 31A-78, "3rd Quarter Review of Fund Controls," July 11, 1978.
4. U.S. Army Audit Agency "Transportation Payments to Commercial Carriers, U.S. Army Military District of Washington," (EC 78-203) Apr. 26, 1978.
5. U.S. Army Audit Agency, "Administrative Control of Funds Allocated to the Adjutant General," (EC 78-202) Apr. 17, 1978.
6. U.S. Army Audit Agency, "U.S. Army Military District of Washington, Fort Lesley J. McNair," (EC 75-2) July 31, 1974.
7. U.S. Army Audit Agency, "Financial Administration of Appropriation, Military Personnel, Army, U.S. Army Military District of Washington," (EC 75-201) July 8, 1974.

Civilian Payroll

1. Military District of Washington Internal Review Report No. 14A-79, "Final Report of Civilian Payroll Operations," June 7, 1979.
2. Military District of Washington Internal Review Report 13A-79, "Interim Report of Civilian Payroll Operations," Apr. 11, 1979.
3. Fiscal Year 78 General Inspection of U.S. Army Military District of Washington by the Inspector General, Sep. 1978.
4. General Inspection, Fiscal Year 1978, U.S. Army Military District of Washington Finance and Accounting Office, Mar. 1978.
5. General Accounting Office, "Need to Apply Adequate Controls in the Army Standard Payroll System Prior to Implementation Defense-Wide," (FGMSD-77-4) July 5, 1977.
6. U.S. Army Audit Agency, "Standard Army Civilian Payroll System (STARCIIPS)," (MW 77-204) Nov. 19, 1976.
7. General Accounting Office, "Improving Civilian Payroll Operations of the Military District of Washington," (FGMSD-75-26) Oct. 9, 1975.
8. Military Traffic Management Command, Comptroller, "Erroneous Pay Made to Former Employees," Mar. 6, 1979.

ORGANIZATIONS PROVIDED CIVILIAN PAYROLL, DISBURSING,AND COMPLETE ACCOUNTING SERVICES BY THE MILITARYDISTRICT OF WASHINGTON (AS OF DEC. 1978)

<u>Office or organization</u>	<u>Civilian payroll</u> (44 offices)	<u>Complete accounting services</u> (20 offices)	<u>Disbursing</u>	
			<u>precertified vouchers</u> (51 offices)	<u>regular vouchers</u> (25 offices)
Office, Chief of Staff, U.S. Army	X	X	X	
Office, Judge Advocate General, U.S. Army	X		X	
Office of the Inspector General	X			
Office of the Deputy Chief of Staff for Logistics	X			
Office of the Comptroller of the Army	X		X	
Director, Computer Systems Selection and Acquisition Agency	X			X
Director, Management Systems Support Agency	X		X	X
Finance and Accounting Office, Military District of Washington	X			
Research Development and Acquisition Information Systems Agency	X			
Command and Control Sup- port Agency	X			X
Office, Chief of Engineers	X		X	
Office of the Adjutant General	X	X	X	

<u>Office or organization</u>	<u>Civilian payroll</u> (44 offices)	<u>Complete accounting services</u> (20 offices)	<u>Disbursing</u>	
			<u>precertified vouchers</u> (51 offices)	<u>regular vouchers</u> (25 offices)
Ballistic Missile Defense Program Office	X			
Defense Systems Manage- ment College	X			
Criminal Investigation Command	X	X	X	X
Office of the Assistant Chief of Staff for Intelligence	X	X	X	
Intelligence and Security Command (Arlington Hall Station)	X		X	X
Office of the Deputy Chief of Staff for Operations and Plans	X			
Center for Military History	X			
Computer Systems Command	X			
Office of the Commander, Communications Command	X			
Office of the Chief, National Guard Bureau	X	X	X	
Chief, Army Reserve Office	X		X	
Concepts Analysis Agency	X		X	
Office of the Deputy Chief of Staff for Research, Development, and Acquisition	X		X	
Research Institute for the Behavioral and Social Sciences	X		X	X

<u>Office or organization</u>	Civilian payroll (44 offices)	Complete accounting services (20 offices)	Disbursing	
			precertified vouchers (51 offices)	regular vouchers (25 offices)
Operational Test and Evaluation Agency	X		X	X
Recruiting Support Center	X		X	
Office, Deputy Chief of Staff for Personnel	X	X		
Office, Chief of Chaplains	X		X	
Office of the Surgeon General	X		X	X
National Defense University	X		X	X
Army Audit Agency	X		X	
Military District of Washington	X	X	X	X
Office, Secretary of the Army	X	X	X	
Program Analysis Group	X			
Army Materiel Development and Readiness Command	X	X	X	X
Defense Communications Agency	X	X	X	X
Office, Secretary of Defense	X	a/ X	X	X
Foreign Science and Technology Center	X		X	
Defense Nuclear Agency	X		X	X
Military Traffic Management Command	X		X	X

a/For appropriations prior to fiscal year 1978.

Office or organization	Civilian payroll (44 offices)	Complete accounting services (20 offices)	Disbursing	
			precertified vouchers (51 offices)	regular vouchers (25 offices)
Defense Civil Prepared- ness Agency	X		a/ X	X
Defense Intelligence Agency	X	X	X	X
National War College		b/ X		
Industrial College of the Armed Forces		X		
U.S. Army Finance and Accounting Center		X		
U.S. Army SAFEGUARD System Manager		X		
Headquarters, U.S. Army Recruiting Command		X		
Headquarters, Training and Doctrine Command		b/ X		
Headquarters, U.S. Army Electronics Command		c/ X		
White House Communi- cations Agency		X	X	
Defense Communications Engineering Center			X	
Command and Control Technical Center			X	
Military Personnel Center			X	
Defense Communications Electronics Engineering Installation Agency			X	

a/Headquarters and eight regions

b/For appropriations prior to fiscal year 1979.

c/For appropriations prior to fiscal year 1978.

<u>Office or organization</u>	<u>Civilian payroll</u> (44 offices)	<u>Complete accounting services</u> (20 offices)	<u>Disbursing</u>	
			<u>precertified vouchers</u> (51 offices)	<u>regular vouchers</u> (25 offices)
U.S. Army Communications Command - Support De- tachment			X	
U.S. Army Legal Services Agency			X	X
Judge Advocate General School			X	
Air National Guard Support Center			X	
U.S. Army Audiovisual Agency			X	X
U.S. Army Aeronautical Services Offices			X	X
Joint Personal Property Shipping Office			X	
Vint Hill Farms Station			X	
Defense Telephone Service			X	
Defense Supply Service- Washington			X	X
Inter-American Defense Board			X	
U.S. Property and Fiscal Officer, District of Columbia			X	
Arlington National Cemetery			X	
Project Manager - Consolidation of Tele- communications Agency			X	
U.S. Army Service Center for the Armed Services			X	

<u>Office or organization</u>	<u>Civilian payroll</u> (44 offices)	<u>Complete accounting services</u> (20 offices)	<u>Disbursing</u>	
			<u>precertified vouchers</u> (51 offices)	<u>regular vouchers</u> (25 offices)
U.S. Army - Military Intelligence			X	
U.S. Army Special Security Group				X
U.S. Army Intelligence - Threat Analysis De- tachment				X
U.S. Army MILPERCEN - Europe				X
U.S. Army Memorial Affairs Agency				X



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301

- 7 APR 1980

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

This is in response to your letter to the Secretary of Defense, dated February 20, 1980, that requested our review and comments relative to a draft report entitled "Major Deficiencies in Army's Washington Finance and Accounting Operation." In addition, we were asked to provide the details of any actions the Department has taken or plans to take to correct the deficiencies identified in the report.

We concur in the report recommendations. The problems of the Military District of Washington Finance and Accounting Office (MDW FAO) have received, and shall continue to receive, the high level attention necessary to resolve them. The GAO review of the MDW FAO supports a number of significant management actions which are under way to improve the FAO operation. Over the past several months, the Army has been aggressively pursuing solutions to the problems of that Office and has committed top level management and technical experts to the effort.

A Steering Committee, convened by the Army, with representation from the Office of the Secretary of Defense, is intensively overseeing the improvement of the MDW FAO. The Deputy Secretary of Defense has concurred in the proposal to transfer finance and accounting support of non-Army Defense activities to other offices. Further intensive efforts are also under way to improve the stability of the workforce, strengthen internal controls and procedures, and implement improved manual and automated systems at the MDW FAO. Specific corrective actions that address each of your recommendations are provided in the enclosure.

Sincerely,

A handwritten signature in cursive script that reads "John R. Guetsch".

John R. Guetsch
Principal Deputy Assistant Secretary of Defense
(Comptroller)

Enclosure

RECOMMENDATIONS AND RESPONSESRECOMMENDATION:

Develop a plan with specific objectives, goals, and time frames for reducing personnel turnover and retaining competent staff at the Military District of Washington Finance and Accounting Office (MDW FAO).

RESPONSE:

Concur with the recommendation. Effective 29 October 1979, the Military District of Washington Civilian Personnel Office (MDW CPO) created an intra-functional team of personnel specialists dedicated to developing and implementing a plan of action to improve personnel management at MDW FAO. The team is composed of classification, staffing, management-employee relations, and training specialists who are working with FAO managers under the operational control of the Finance and Accounting Officer to accomplish the following objectives:

Provide increased emphasis on the filling of FAO vacancies, locate new sources of qualified applicants, project future vacancies and staffing requirements, and significantly reduce turnover in FAO from the levels of 21% in FY 1978 and 30% in FY 1979. CONTINUOUS. a/

Perform a 100% classification review of all positions (including military positions) in order to determine accuracy of job descriptions, assigned grades, series, and job titles. TARGET DATE FOR COMPLETION: JULY 1980.

Conduct an in-depth training requirements survey in order to identify critical areas and insure that training is provided. A training survey is in progress and a training plan has been prepared in conjunction with FAO to rectify immediate training concerns. TARGET DATE FOR COMPLETION: AUGUST 1980.

Conduct follow-up on the attitudinal questionnaire that was included in the September 1979 Army survey to determine specific morale problems. (In addition, when employees are interviewed concerning their assigned position, they are asked specific questions related to the attitudinal questionnaire. The information is compiled and given to the Finance and Accounting Officer weekly.) TARGET DATE FOR COMPLETION: SEPTEMBER 1980.

Improve the management of temporary employees by correcting misassignments, and conversion to career appointments where appropriate. TARGET DATE FOR COMPLETION: JULY 1980.

Improve the working conditions in the FAO operational area and the general work site as well as increase the availability of morale support activities. CONTINUOUS.

a/ These turnover figures do not include turnover of temporaries or personnel transferred from Finance and Accounting Office to another position in the Military District of Washington.

Provide enhanced on-site personnel and management services to FAO managers and supervisors, and personnel counselling to FAO employees. Two civilian personnel specialists have been permanently assigned to FAO to perform the full range of personnel management functions. CONTINUOUS.

The effectiveness of the personnel management improvement plan as outlined above will be assessed with a formal evaluation by the Army Staff by end 1981.

RECOMMENDATION:

Assign experts on a temporary basis from the Army Finance and Accounting Center and/or other Army finance and accounting offices to provide assistance to the Military District of Washington in developing and implementing adequate internal procedures and controls including:

1. Controls to help prevent duplicate, erroneous, and fraudulent payments;
2. Procedures requiring maintenance of formal records of checks received by the Finance and Accounting Office, showing their disposition;
3. Implementation and enforcement of strict physical controls over the disbursing area and the vault;
4. Adequate separation of duties between making disbursements and accounting for them; and
5. Procedures for assuring timely and accurate processing of accounting data.

RESPONSE:

Concur with the recommendations. Since October 1979, twenty personnel from the U.S. Army Finance and Accounting Center have been providing assistance to a special task force of twenty Military District of Washington (MDW) Finance and Accounting Office (FAO) personnel in reconciling the accounting records and reports of MDW customers. This effort will continue for approximately six months and will address the development and implementation of necessary procedures and controls. In addition, MDW Internal Review personnel are assisting in this effort. The MDW FAO is taking systematic action on findings and recommendations noted by the General Accounting Office (GAO), United States Army Audit Agency (USAAA), and the MDW Internal Review Office during the past years. The corrective actions taken on all findings will be closely monitored by MDW Command personnel, and follow-up reviews will be made by the MDW Internal Review Office.

The processing of pre-certified and regular invoices has been consolidated, as recommended by GAO, to preclude duplicate invoice payments. A bills register card is maintained for each vendor's contract and all invoices are checked against the register to insure that duplicate payments are not made. Signature

cards for certifying offices are required to be on file prior to payment of vouchers; otherwise, such vouchers are returned without action to the customer. Other corrective actions taken to prevent duplicate, erroneous and fraudulent payments include the implementation of the civilian pay team concept. This allows an edit and control clerk to work all edit lists while a pay clerk handles the detail pay records, thus insuring review of all pay changes by at least two people. Fewer pay accounts prompted by the joint Army/Department of Defense (DoD) action to reduce the support mission of MDW, coupled with better supervision, will lessen the number of mistakes made in processing pay checks.

The identification and prevention of erroneous, duplicate, and/or overpayments is a continuing effort within the MDW FAO. Most of these errors are detected and the respective checks cancelled prior to issue. Any checks actually delivered to a payee are recovered as soon as possible. Recoupment of erroneous, duplicate, and/or overpayments will continue to receive command emphasis.

The MDW FAO, as of 30 July 1979, logs in all "returned checks" and they are collected to the appropriate accounts. If the accounting classification is not known, the proceeds are recorded in a Disbursing Officer Suspense Account until disposition can be determined. The reasons for the returned checks are analyzed each fiscal quarter in accordance with GAO and USAAA guidance.

Installation of automatic door closers and locking mechanisms was completed on three doors surrounding the disbursing area on 9 January 1980.

Duties in the Disbursing Division have been modified to insure that an individual paying vouchers does not also post the cash blotter and other cash reports.

Substantial efforts are also under way to purify accounting reports. Special teams were organized to concentrate on unliquidated obligations, disbursements without obligations, and accounts receivable. Joint reviews are conducted with supported activities to purify accounting records. These and other ongoing actions to redesign the Standard Army Finance System, transfer DoD supported units to other finance offices, intensive management to improve computer support, and the filling of personnel vacancies on a priority basis will further assist MDW in providing better finance and accounting service.

RECOMMENDATION:

Implement the Standard Army Civilian Payroll System design as it was approved by GAO and develop and implement additional automated edits, if feasible, for preventing duplicate and erroneous payments.

RESPONSE:

Concur with the recommendation. Action has been taken to implement the Standard Army Civilian Payroll System (STARCIPS) as it was approved by the General Accounting Office (GAO). In October and November 1979, Army Regulations 37-105 and 340-18-3 were changed to provide for separation of duties

and maintenance of individual files for each employee. These regulation changes are being implemented by the Military District of Washington Finance and Accounting Office (MDW FAO). A System Change Request (SCR) is also being developed to edit STARCIPS to detect and prevent erroneous or fraudulent use of duplicate social security account numbers. This SCR will be completed in March 1980, with implementation as soon as possible thereafter. As an interim measure, MDW FAO currently performs automated matches of personnel and payroll files which will detect duplicate files and discrepancies in the same fields of both files. An additional cross-check from the MDW computerized travel processing system also provides a periodic listing of duplicate pay records within the systems. These lists are researched and necessary corrections made in the respective files.

SCRs have been developed to edit pay of Executive Schedule and Senior Executive Service members to prevent payments in excess of legally authorized amounts. These changes are scheduled for implementation in the first quarter of FY 1981. In the interim, the MDW FAO has intensified the review of payroll accounts to reduce the number of erroneous payments and all payments for executive level employees are reviewed at least twice to insure that the maximum bi-weekly pay amount and hours are not exceeded. With these additional manual procedures, pending implementation of the SCRs, adequate controls exist to prevent duplicate and erroneous payments.

Additionally, priority is being given by the Army's Civilian Pay Systems staff to upgrade edits in the standard system to improve internal controls which serve to prevent fraud and erroneous payments. At the next Systems Review Board meeting scheduled for June 1980, special emphasis will be given to the scheduling of such changes for implementation.

Overpayments resulting from civilian pay operations are being recouped on a priority basis and will continue to receive command emphasis in the future.

RECOMMENDATION:

Assure that legal and regulatory requirements concerning the reporting of fraudulent actions are followed.

RESPONSE:

Concur with the recommendation. All cases of fraudulent actions were reported to Headquarters, Department of the Army; the Treasury Department; Criminal Investigation Division; and the Federal Bureau of Investigation, as appropriate. However, some cases were not reported for determination of Disbursing Officer liability at the time the incidents occurred. All have since been reported for determination of Disbursing Officer liability. Instructions have now been disseminated to all appropriate personnel within the Military District of Washington Finance and Accounting Office as to complete and proper reporting requirements. Periodic reminders of responsibility for reporting fraudulent actions will also be published in the All Points Bulletin, an Army-wide monthly publication. The first article will be published in April 1980.

RECOMMENDATION:

Consider increasing the number of days allowed for payroll preparation and processing to allow sufficient time for supervisory reviews of work prior to checks being processed.

RESPONSE:

Concur with the recommendation. The Army in recent months has considered the issue of the number of days required for proper payroll preparation and concluded that the pay lag would not be extended; however, the Army will not hesitate to reconsider its current position if circumstances should so indicate. Improvements have been made that have enabled the Military District of Washington Finance and Accounting Office (MDW FAO) to achieve accurate payroll processing within the current processing period. Improvements will continue as the MDW FAO workload is reduced from 22,000 to approximately 11,000 pay accounts. Other positive steps include improved ADP support and implementation of additional manual reviews and automated edits. These actions, coupled with the present intensive management effort, provide the necessary climate to conduct adequate supervisory reviews within the current processing time.

RECOMMENDATION:

Seek to minimize the differences between Army and Defense accounting requirements.

RESPONSE:

Concur with the recommendation. The problems caused by differences between Army and Defense accounting requirements will be eliminated with the transfer of finance and accounting support of Department of Defense activities to other finance and accounting offices, effective October 1, 1980.

RECOMMENDATION:

Require that the Military District of Washington take reasonable action to perform reconciliations to determine whether the \$31 million adjustment made to the General Ledger in 1978 and the adjustment for over \$500 million made in December 1977 can be adequately supported.

RESPONSE:

Concur with the recommendation. The Military District of Washington Finance and Accounting Office (MDW FAO) has prepared documentation detailing the \$31 million and \$500 million adjustments. The Army Audit Agency is in the process of reviewing the adequacy of the reconciliations and documentation for the \$31 million adjustment. This should be completed in March 1980 and it is estimated that the review of the \$500 million adjustment will be completed within 90 days thereafter.

RECOMMENDATION:

Consider reducing the workload of the Military District of Washington Finance and Accounting Office (MDW FAO) if the Army cannot adequately reduce the Office's personnel turnover and retain competent personnel within a reasonable period of time. Any decision to reassign workload must take into consideration whether another Defense or Army organization would have the capability of providing adequate finance and accounting services.

RESPONSE:

Concur with the recommendation. As the extent of the problem was fully realized, the Office of the Secretary of Defense (OSD) and Army determined that divestiture of workload was necessary in addition to the planned improvements in personnel management if a permanent solution to the problems of the MDW FAO was to be found.

As part of the formal budgetary process, the Deputy Secretary of Defense approved the transfer of FAO services to other Army activities, other Military Services and Department of Defense agencies during the remainder of FY 1980. This represents approximately 25% reduction in overall finance and accounting services. Clients divested or to be divested are as follows:

1. Commissary support of the Troop Support Agency to Fort Meade, MD.
2. Defense Nuclear Agency support to Fort Belvoir, VA.
3. Defense Civil Preparedness Agency to the Federal Emergency Development Agency.
4. USA Nuclear and Chemical Agency to Fort Belvoir, VA.
5. Materiel Development & Readiness Command activities support to Aberdeen Proving Ground, MD.
6. USA Computer Systems Command to Fort Belvoir, VA.
7. Defense Telephone Service accounting support to Secretary of the Army Administrative Assistant's Office.
8. Office, Corps of Engineers Major Command and Field Operating Agencies' civilian payroll and travel voucher payment support to Omaha, Nebraska, central paying office and Baltimore FAO, respectively.
9. Office of the Surgeon General Field Operating Agencies' payroll and other paying services to Fort Detrick, MD.
10. Defense Communications Agency support to Bolling Air Force Base.
11. Office of the Secretary of Defense (location of support to be determined).
12. Defense Intelligence Agency (location of support to be determined).

Other approved measures to further reduce the scope of services provided by MDW FAO and the associated workload are Army activities utilizing the services of Defense Supply Service, Washington, will no longer be allowed to cite MDW as the paying office or the office to which invoices should be sent unless MDW FAO provides accounting support on the basis of fund authorization documents; MDW FAO will no longer be authorized to accept or receive allotment documents issued by Army operating agencies for activities located outside the National Capital Region when such acceptance would result in the requirement for performance of FAO services; effective September 30, 1980, all commercial accounts remaining subject to payment by the MDW FAO will be paid on the basis of pertinent pre-certification procedures; and MDW FAO will cease all commercial voucher examination functions except those directly associated with its own command activities.

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