DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date JUN 7 1993

From Bryan B. Mitchell
Principal Deputy Inspector General

Subject Review of the Food and Drug Administration's Headquarters Imprest Fund (A-15-92-00019)

To Audrey F. Manley, M.D., M.P.H.
Acting Assistant Secretary
for Health

The attached final report presents the results of our review of the Food and Drug Administration's (FDA) Parklawn Headquarters Imprest Fund (HQIF). In February 1992, the Commissioner of Food and Drugs requested that the Office of Inspector General (OIG) determine the adequacy of the internal controls relating to the HQIF operations. The Parklawn HQIF is a cash-based fund maintained at a fixed-amount for the purpose of providing FDA headquarters employees with funds for travel advances, reimbursement for local travel and small purchases, and emergency salary advances.

The Commissioner's request was prompted by FDA's discovery in January 1992, that a former employee had falsified travel advance forms to fraudulently obtain over $25,000 in cash from the Parklawn HQIF between September 1991, and January 1992. The Commissioner requested that we examine the changes FDA has made to improve the HQIF's integrity and determine if any additional safeguards are required.

Our review of the Parklawn HQIF showed that, had FDA followed the internal controls in place at the time travel advances were being illegitimately obtained from the HQIF, the agency could have prevented or detected in a more timely manner the fraudulent activity. Most importantly, FDA had not complied with the Department of the Treasury and Department of Health and Human Services requirement that the imprest fund cashier examine photo identification from persons seeking cash advances. Further, we found that the cashier did not comply with the requirement to review documentation submitted by claimants prior to disbursing cash, and to verify the completeness and legitimacy of such documents. In addition, the travel review group did not conduct a required similar review after cash had been disbursed. Moreover, FDA did not take full advantage of its quarterly and annual review requirements to verify the Parklawn HQIF transactions.

Based on our review, we determined that noncompliance with existing controls and an absence of management emphasis on compliance with such controls were the principal reasons why the fraud was not prevented and not detected earlier.

In June 1992, as part of the Federal Managers' Financial Integrity Act process, the Public Health Service (PHS) declared a material weakness regarding FDA's imprest fund operations. The FDA has developed a corrective action plan aimed at strengthening all of the agency's imprest fund operations nationwide.

Although FDA has taken measures to improve the Parklawn HQIF operations, such as requiring the cashier to examine a claimant's photo identification prior to disbursing cash; holding training classes on proper imprest fund procedures; and meeting with employees to discuss their responsibilities regarding imprest fund operations; we determined that additional safeguards should be implemented before the material weakness can be considered corrected.

This report includes several recommendations for these corrective actions. However, because operating this fund poses an unnecessary continuing vulnerability for FDA, we recommend that the agency eliminate the Parklawn HQIF and implement alternative methods for making advances and payments. For example, to replace cash disbursements, a third-party draft system (TPD), which involves using checks to draw funds through an outside contracted financial institution, could be used independently or in conjunction with a policy requiring employees to use credit cards for various transactions. The TPDs are already used extensively throughout PHS. In two field offices, the FDA has already eliminated imprest funds and implemented a TPD system, and is taking similar action at other locations. Implementing a TPD system and making greater use of credit cards can be a significant step in improving controls and correcting the existing material weakness.

The PHS, in its April 20, 1993 response to our draft report, concurred with our recommendations, and described actions underway or planned to implement them. The PHS comments have been incorporated into the Agency Comments and OIG Response section of the report and are included in their entirety in the Appendix. The PHS also offered several technical comments, which we incorporated where appropriate in the results section of this report.

We would appreciate your comments on this final report within 60 days. Should you wish to discuss the issues raised by our review and recommendations, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301)443-3582.

Attachment

cc:
David A. Kessler, M.D.
Commissioner of Food and Drugs

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE FOOD AND DRUG ADMINISTRATION'S HEADQUARTERS IMPREST FUND

JUNE 1993 A-15-92-00019

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The Commissioner's request was prompted by FDA's discovery in January 1992, that a former employee had falsified travel advance forms to fraudulently obtain over $25,000 in cash from the Parklawn HQIF[1] between September 18, 1991, and January 27, 1992. The Commissioner asked that we examine the changes FDA has made to improve the HQIF's integrity and determine if any additional safeguards are required.

In June 1992, as part of the Federal Managers' Financial Integrity Act (FMFIA) process, the Public Health Service (PHS) declared a material weakness regarding FDA's imprest fund operations. This declaration was made at the recommendation of OIG's Office of Investigations (OI), which reported several breaches of internal controls at four field imprest fund locations in August 1992, and which conducted the investigation of the Parklawn HQIF during January 1992, leading to the former employee's arrest. To address the

[1]In addition to the Parklawn location, FDA has HQIFs located on the campus of the National Institutes of Health, Bethesda, MD; Radiological Health on Piccard Drive, Rockville, MD; Radiological Health, Twinbrook Building, Rockville, MD; Bureau of Foods, C Street, Washington, D.C.; Davisville, Rhode Island; and Dauphin Island, Alabama. Regarding this fraud case, FDA identified fraudulent transactions at the Parklawn location only. The FDA also maintains imprest funds at many of its field locations throughout the United States.

material weakness, FDA developed a corrective action plan aimed at strengthening all of the Agency's imprest fund operations nationwide.

Our review of the Parklawn HQIF showed that, had FDA followed the internal controls in place at the time travel advances were being illegitimately obtained from the fund, the Agency could have prevented or detected in a more timely manner the fraudulent activity. Specifically, we found that the cashier did not comply with the requirement to review documentation submitted by claimants prior to disbursing cash, and to verify the completeness and legitimacy of such documents. Further, the travel review group did not conduct a required similar review after cash had been disbursed. Moreover, FDA did not take full advantage of its quarterly and annual review requirements to verify the Parklawn HQIF transactions. Based on our review, we determined that noncompliance with existing controls and an absence of management emphasis on compliance with such controls were the principal reasons why the fraud was not prevented and not detected earlier.

Although FDA has taken measures to improve the Parklawn HQIF operations, such as requiring the cashier to examine a claimant's photo identification prior to disbursing cash; holding training classes on proper imprest fund procedures; and meeting with employees to discuss their responsibilities regarding imprest fund operations; we determined that additional safeguards should be implemented before the material weakness can be considered corrected.

This report includes several recommendations for corrective actions pertaining to the Parklawn HQIF operations. However, because operating the Parklawn HQIF would pose a continuing vulnerability for FDA, we recommend that the Agency consider eliminating the imprest fund and using alternative methods to make advances and certain payments. For example, to replace cash disbursements, a third-party draft (TPD) system, which involves using checks to draw funds through an outside contracted financial institution, could be used independently or in conjunction with a policy requiring employees to use credit cards for various transactions. Implementing a TPD system and making greater use of credit cards can be a significant step in improving controls and towards correcting the existing material weakness.

The PHS, in its April 20, 1993 response to our draft report, concurred with our recommendations, and described actions underway or planned to implement them. The PHS also offered technical comments, which we incorporated where appropriate in the results section of this report. The PHS comments have been incorporated into the PHS Comments and OIG Response

section of the report and are included in their entirety in the Appendix.

BACKGROUND

The Parklawn HQIF, administered by FDA's Division of Financial Management (DFM), maintains an authorized fund balance of $50,000 for the purpose of: (1) making travel advances to its employees when there is inadequate time to obtain a Department of the Treasury (Treasury) check; (2) paying employee claims for unreimbursed travel expenses on completed trips; (3) making emergency payroll advances; and (4) paying for small purchases of goods and services. Although there is a $500 limit per transaction, emergency disbursements of up to $750 may be made if properly authorized by FDA management officials.

In Calendar Year 1991, FDA's nationwide network of imprest funds processed 30,000 transactions, mostly related to travel, totaling $3.3 million. Of this amount, the Parklawn HQIF processed about 8,500 transactions totaling approximately $980,600. Of this amount, $740,400 was related to advances for travel.

Ideally, FDA's travelers will use a credit card and obtain a cash advance from an automated teller machine, or they know of travel plans far enough in advance to arrange for the issuance of a Treasury check for payment of meals and other costs. However, unusual circumstances may create a need for a traveler to obtain cash from the HQIF. In this situation, the traveler may obtain cash by presenting completed and properly signed travel advance forms to the imprest fund window cashier. The cashier then forwards the documents to the travel review group for secondary review and to replenish the fund to $50,000. Upon return from travel status, travelers who obtained cash advances are required to submit travel vouchers within 5 days.

A "former employee" obtained unauthorized cash payments from the Parklawn HQIF by presenting fabricated travel advance forms between September 18, 1991, and January 27, 1992. This individual was acting in a temporary clerical position in FDA's Office of the Commissioner between April 9, 1991, and May 10, 1991, and apparently became familiar with the accounting codes of that office. On July 28, 1991, the individual was hired on a permanent basis as a secretary in the Center for Drug Evaluation and Research and worked there until December 29, 1991. Even after dismissal in December 1991, due to excessive absences, the former employee continued to perpetrate fraudulent transactions. The former employee, who performed travel-related tasks as part of clerical position duties, devised 65 fraudulent transactions

at the Parklawn HQIF by filling out blank travel advance forms with a statement authorizing various fictitious employees to pick up funds on behalf of the travelers, who also were not actual employees. The former employee sometimes used accurate accounting codes associated with the Office of the Commissioner on the travel advance request forms.

The DFM identified the fraudulent transactions in January 1992, after letters sent to travelers with outstanding advances solicited no responses. Upon discovering the possible fraud, FDA conferred with OIG's OI to identify and apprehend the perpetrator, who was arrested on January 27, 1992, and sentenced on July 1, 1992, to 17 months imprisonment and 3 years supervised release.

When a Federal agency sustains a physical loss valued in excess of $1,000 due to an irregularity or theft, such as that sustained by FDA, the General Accounting Office (GAO) requires the agency to prepare a written request for relief including specific information about the loss. In this manner, the accountable Federal officers may obtain relief from responsibility for the loss sustained.

The FMFIA, Public Law 97-255, requires that annual evaluations be conducted by each executive agency of its system of internal accounting and administrative controls in accordance with guidelines established by the Office of Management and Budget (OMB). Each agency is required by OMB Circular A-123 to develop a 5-year management control plan which specifies the process for reviewing risk, and provides for necessary evaluations aimed at identifying and correcting material weaknesses in internal control systems. High risk components and previously identified material weaknesses must be acted upon during the first year of the plan.

In June 1992, as part of the FMFIA process, PHS declared a material weakness regarding FDA's imprest fund operations. This declaration was made at the recommendation of OIG's OI, which reported in August 1992, several breaches of internal controls at four field imprest fund locations and which conducted the investigation of the Parklawn HQIF during January 1992, leading to the former employee's arrest. To address the material weakness, FDA developed a corrective action plan aimed at strengthening all of the Agency's imprest fund operations nationwide.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to: (1) identify the internal control weaknesses that enabled over $25,000 to be fraudulently obtained from the Parklawn HQIF; (2) assess the adequacy of FDA's actions to improve the Parklawn HQIF

operations; (3) determine if additional safeguards need to be established and implemented; and (4) explore whether alternatives exist which would enhance or eliminate the need for the Parklawn HQIF operations.

We focused our review on the Parklawn HQIF. The review covered the period August 1, 1991, to May 12, 1992. We reviewed the complete cycle of travel funding and miscellaneous employee reimbursements. As part of our review, we determined whether DFM took adequate steps to identify all fraudulent transactions which may have occurred during the period when the perpetrator was employed by FDA, and reviewed its process for obtaining financial relief from GAO. To test the effectiveness of newly implemented controls, we performed tests of transactions processed after their effective date, February 7, 1992.

Since our objective was to focus on FDA's imprest fund internal controls, we did not perform certain financial audit procedures, such as, verifying: the cash on hand for the Parklawn HQIF; the amount of annual expenditures; and the related travel aging report balances.

We reviewed applicable laws, regulations, policies, and procedures such as those from GAO, Treasury, the Department of Health and Human Services (HHS), PHS, and FDA pertaining to imprest fund operations. In addition, we analyzed the fraudulent travel advances to assess FDA's level of compliance with certain imprest fund internal controls, and performed a transaction walk-through of current travel advance procedures to confirm our understanding of the process for issuing advances.

We judgmentally selected for review 37 travel advances (all advances over $500) processed through the Parklawn HQIF after February 7, 1992, to assess the agency's compliance with requirements specified in Treasury, HHS, PHS, and FDA policies. Further, we examined miscellaneous reimbursements (e.g., local travel and parking reimbursements) and small purchase transactions issued from the other two largest HQIFs, in addition to the Parklawn HQIF, to verify the legitimacy of transactions issued at those locations. Sampling from the other HQIFs was important, since the support documentation from those funds is also reviewed by DFM's travel review group.

During our review, we provided and discussed with DFM the results of our tests of internal controls so that it could initiate immediate corrective action before our work was completed and a report issued on the results.

Throughout our review, we conducted interviews with officials from FDA's DFM to obtain information on agency policies and practices regarding the Parklawn HQIF and to further understand how the fraud occurred. We also held discussions with employees of, and reviewed reports from, OIG's OI pertaining to FDA's imprest fund operations. Finally, we identified alternatives that could further strengthen the integrity of FDA's imprest fund operations.

Our review was conducted at FDA headquarters located in the Parklawn Building, Rockville, Maryland, between May and September 1992, in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

Our review of the Parklawn HQIF showed that, had FDA followed the internal controls in place at the time travel advances were being illegitimately obtained from the fund, the Agency could have prevented or detected the fraudulent activity earlier. Most importantly, FDA had not complied with the Treasury and HHS requirement that the imprest fund cashier examine photo identification from persons seeking cash advances. We found that the cashier did not adequately comply with the requirement to review documentation submitted by claimants prior to disbursing cash, and to verify the completeness and legitimacy of such documents. In addition, the travel review group did not conduct a required similar review after cash had been disbursed. Moreover, FDA did not take full advantage of its quarterly and annual review requirements to verify the Parklawn HQIF transactions. Further, follow-up activity, such as sending reminder letters to travelers and the travelers' administrative officers, was not performed timely.

Based on our review, we determined that noncompliance with existing controls and an absence of management emphasis on compliance with such controls were the principal reasons why the fraud was not prevented and not detected earlier.

The FDA has taken measures to improve Parklawn HQIF operations, such as holding training classes on proper imprest fund procedures; meeting with employees to discuss their responsibilities regarding imprest fund operations; and revising imprest fund policies. However, our tests of the revised internal controls disclosed that improvement was needed in certain control areas. We also found, and advised FDA during our review, that the draft request for relief of accountable officers required additional information in order to comply with GAO requirements. Finally, to reduce the vulnerability of the Parklawn HQIF, FDA should expedite actions to eliminate the Parklawn HQIF and implement

alternative mechanisms for making advances and payments, such as a TPD system, which would involve using checks to draw funds from an outside financial institution under contract, and subsequently reimbursing that institution for checks paid.

FDA Did Not Adhere to Preventive and Detection Controls

We determined that if FDA had been in compliance with its existing internal controls, the falsified documents would have been detected immediately by the cashier; and if not by the cashier, by travel reviewers within 5 days following the payment of the first fraudulent advance request. In this case, the amount of this fraud would have been limited to $1,175, which is the amount presented within 5 days of the first theft, rather than $25,559. However, our review of the Parklawn HQIF operations and analysis of fraudulent transactions disclosed that controls were not complied with by FDA employees, which in turn allowed the former employee to continue obtaining unauthorized cash payments. We have classified these controls into two categories: preventive and detection.

Preventive Controls Not Utilized

Several controls would have revealed the illegitimacy of the fabricated documents before they were paid. First, although required by Treasury's "Manual of Procedures and Instructions for Cashiers" and by HHS' Voucher Examination Manual (VEM), FDA did not, at the time of these fraudulent transactions, require its imprest fund cashier to obtain identification from the traveler. If FDA had complied with this key requirement, the fraudulent transactions could have been identified at the time of presentation to the cashier. Second, the cashier did not fully comply with FDA's procedures, contained in FDA Staff Manual Guide (SMG) 2310.5, to assure that: (1) the advance forms had been signed by the recommending and authorizing officials; and (2) the travel order form contained complete accounting information.

Our detailed analysis of the fraudulent advances revealed that the documents were, in most instances, not properly prepared. For example, 54 of the 65 transactions did not provide an adequate explanation of the purpose of the trip. There were numerous transactions where the purpose of the trip was described vaguely, such as to travel from one airport to another airport and return. In addition, the names of the approving and authorizing officials and travelers provided by the former employee were all fictitious. A check of an FDA employee listing may have revealed this to be the case. Further, the accounting information was frequently incorrect, incomplete, or missing.

The DFM's accounting branch chief agreed that, had these documents been properly reviewed, payments should not have been made by the cashier. However, DFM's accounting reports and analysis section chief informed us that due to the volume of transactions processed, the cashier cannot always perform the required detailed examination of the forms prior to disbursing cash, relying instead on the approving official's review and the travel review group's examination. However, our review showed that the cashiers cannot rely solely on these other controls and must, therefore, adequately examine, in accordance with HHS policy, the documentation presented to obtain cash. In its comments on our draft report, PHS stated that FDA does not exempt cashiers from their requirement to examine documents, even when confronted with a heavy volume of transactions.

Detection Controls Not Utilized

In the event that the preventive controls fail, FDA had several procedures in place when the fraudulent transactions occurred, which should have ensured timely detection of Parklawn HQIF irregularities. Our review of the fraudulent transactions revealed, however, that FDA had a low degree of compliance with these controls. As a result, the fraud went uncovered for over 4 months.

Subsequent to the cashier's issuance of funds, DFM's travel review group staff is required to perform a second check on the documentation forwarded by the cashier. According to FDA's internal travel review procedures, this review is to include verifying the validity of all signatures and checking the overall completeness of travel advance documents. Our review of the 65 fraudulent transactions showed that the travel review group had not adequately reviewed these advance request forms in accordance with its procedures. The supervisor of the travel review group informed us that employee turnover was a principal reason why there was poor compliance with established policies.

A third-level review, which ultimately detected the former employee's fraudulent transactions, was the HHS and PHS policy requiring DFM to perform follow-up and collection efforts after travelers' advances are outstanding over 30 days following the date of return. Such follow-up involves sending reminder letters to the traveler and the traveler's administrative officer. Our review disclosed that, prior to the follow-up performed by DFM in January 1992, which uncovered the 65 fraudulent transactions, the last such follow-up had occurred on May 14, 1991, 7 months earlier. The DFM's accounting branch chief cited employee turnover in the travel review group as the cause for not performing more frequent follow-up activities.

No Independent Verification of Parklawn HQIF Transactions

Although required by HHS' VEM, we determined that there is no independent subsequent verification that Parklawn HQIF transactions are valid. The procedures for such verification require a disinterested party, such as DFM accounting staff who are not involved in Parklawn HQIF operations, to confirm receipt of cash by the traveler and ensure that the authorizing and recommending officials' signatures are legitimate by examining a sample of transactions or all transactions if the universe is small.

There are several means for FDA to independently verify its HQIF transactions, including quarterly and annual reviews, reviews conducted under the FMFIA program, and periodic reports distributed to program managers. Through independent verification, FDA might have detected the forged transactions earlier. Further, the verification could be used by management to identify whether employees are complying with established policies and procedures.

We noted that the quarterly reviews performed by DFM are deficient because they do not include a verification of outstanding transactions, as required by HHS' VEM. A DFM official stated that the quarterly reviews did not include such verification due to time constraints and limited resources. This official stated that DFM instead relies on the verification of the administrative officer at the program level and the travel review group's analysis of documentation. However, as our analysis of the 65 fraudulent transactions revealed, the travel review group did not conduct sufficient reviews. Further, these reviewers did not verify the recommending or approving officials listed on travel advance request forms to a listing of employees designated as authorizing officials. The absence of authorizing and approving officials' signature cards precluded the travel review group from performing this significant control procedure.

We also noted that FDA does not have written procedures detailing steps to be taken by DFM employees to ensure that its quarterly reviews are completed in a timely manner and that problems identified in the reviews are resolved. Specifically, there is no time limit established for correcting identified problems, and no procedures requiring follow-up by the internal reviewers. For example, one quarterly review revealed that a voucher was outstanding for several months. No follow-up activity was performed and the employee who owed the amount to the Parklawn HQIF left FDA employment. Although employees are required to complete an exit clearance record form, which contains a check whether the employee has an outstanding fiscal obligation, the

administrative officer signed the form without noting the outstanding obligation owed by the employee. As a result, FDA had to write off this amount as a loss.

Another opportunity for FDA to perform verification of imprest fund transactions is through an annual review, which is required by HHS' VEM. The DFM's accounting reports and analysis section chief stated, however, that it is not necessary to perform an annual review since quarterly reviews are performed. However, as we indicated above, FDA cannot rely on the quarterly reviews because they do not adequately verify fund transactions. We believe that a properly performed annual review, which conforms to HHS requirements, could provide FDA not only with a means to verify fund transactions, but also an opportunity to collect additional important information, such as data on annual trends.

According to FMFIA requirements, an agency must review its handling of cash at least every 5 years. Regarding an imprest fund, such a review would be made to ensure that quarterly and annual reviews and other controls are working properly to safeguard the fund assets. In 1987, PHS performed an internal control review of FDA's imprest fund operations, which then classified the imprest fund as "low" risk, and found no weaknesses. Recently, FDA elevated the imprest fund risk level to "high" as a result of the fraud, and declared a material weakness, as previously discussed in the background section. The PHS informed us that FDA will use this OIG review as an alternate internal control review, which is allowed under the FMFIA guidelines. However, FDA is required under the FMFIA program to perform an additional review within 1 year of completing the planned corrective actions in order to ensure that the actions taken have appropriately resolved the material weakness.

We also determined that another opportunity exists, but is currently not used, for FDA to independently verify transactions processed through the Parklawn HQIF. Specifically, FDA program managers might be provided with a monthly listing of Parklawn HQIF transactions that originated in their area. These managers could then identify the specific improper expenditures processed through the HQIF, such as those submitted by the former employee.

FDA's "Improved Controls"
Since the Parklawn HQIF Fraud

Since identifying the fraudulent transactions made by the former employee, FDA has taken several steps to address internal controls, such as declaring a material weakness concerning FDA imprest fund operations and implementing a corrective action plan. This section of our report discusses

two continuing deficiencies with Parklawn HQIF that need further attention. First, while we are encouraged by FDA's efforts to improve the operation of the Parklawn HQIF, we believe that there are additional steps that can be taken to strengthen the Parklawn HQIF's internal control procedures and practices. Second, our review revealed that FDA must continue to emphasize to employees, through training and supervision, the need to adhere to established internal control procedures.

Additional Internal Control Steps

One significant step towards improving the Parklawn HQIF's controls was PHS' declaration of a material weakness as part of the FMFIA process and implementation of a corrective action plan, originally drafted in August 1991, and updated in June 1992. The plan listed several objectives and milestones aimed at improving imprest fund internal controls, such as holding training sessions for cashiers on proper imprest fund procedures; meeting with employees to discuss their responsibilities related to the imprest fund; and updating policies. According to the plan, each of these actions has been taken and will continue as appropriate.

The plan's major accomplishment was revising the SMG 2310.5 to include additional controls addressing the imprest fund material weakness. Specifically, DFM revised the SMG, effective February 7, 1992, to incorporate Treasury's and HHS' existing requirement that employees present a photo identification for the cashier to examine prior to issuing cash. It also revised the manual to include another key control--requiring an individual picking up funds on behalf of another employee to present that employee's photo identification, as well as his/her own identification.

We believe FDA can further strengthen the integrity of the Parklawn HQIF. For example, cashiers and DFM personnel should maintain a listing of employees who are designated as "authorizing officials." Currently, before disbursing cash, revised procedures do not require the cashiers to compare the names of authorizing officials listed on travel advance request forms to a listing of employees authorized to sign them. In addition, the cashiers do not have signature cards of these officials, and travel reviewers are not required to make such a comparison. As a result, the cashiers and travel reviewers do not verify the approving officials' signatures.

Complying with Internal Controls

Improving controls is a key step in resolving the Parklawn HQIF's material weakness, but the agency must ensure that its employees adequately understand the importance of the controls and that they comply with established internal control

procedures. To assess the level of compliance with imprest fund internal controls, we tested a judgmental sample comprising 37 travel advances issued after the effective date of the revised SMG. Our analysis disclosed that FDA had made improvements in providing adequate explanations on the purpose of trips and in providing accurate accounting codes. We found, however, that improvement was indicated for certain key controls areas.

Most significantly, travel advances in excess of the HHS, PHS, and FDA limitation of $500 were granted without adequate justification and/or documentation for 24 of the 37 travel advances reviewed. In its technical comments to our draft report, PHS indicated that FDA took immediate action after OIG brought this weakness to light by alerting cashiers to ensure that proper documentation accompanied advances.

Our review also showed that no authorization statement was provided on several of the forms. We further observed that, contrary to PHS policy, employees received consecutive travel advances without submitting a voucher for the initial advance. These consecutive advances were not approved by the chief fiscal officer, as required. Additionally, support documentation, which is to accompany cash claims, was not adequately canceled for 35 of 37 travel advances tested. Inadequate cancellation could result in an employee using a travel advance a second time to receive cash. In technical comments to our report, PHS stated that FDA, during our review and at our recommendation, initiated the practice of stamping "PAID" on all travel advance cards.

We also examined a judgmental sample of 12 miscellaneous reimbursement and small purchase transactions processed after the effective date of the revised SMG. This sample comprised transactions processed at the Parklawn HQIF location and two other headquarters locations, which also submit their documentation to DFM's travel review group for a second-level review and replenishment of funds. Our examination revealed that the accounting classification was properly completed for all transactions tested; and in only one incident involving mobile phone charges, did costs appear to be unreasonable. However, in several cases, we noted problems with the justification and/or cancellation of the accompanying documentation.

During our review, we noted that FDA maintains a high level of outstanding travel advances. This issue was raised in August 1992, by PHS' Deputy Assistant Secretary for Health Management Operations in a memorandum to PHS executive

officers, which noted an unacceptably high level of outstanding travel advances and requested each PHS agency to more rigorously implement published travel advance policies.

The FDA's DFM informed us that outstanding travel advances, as of August 31, 1992, amounted to $638,865 (of which we determined $124,011 was outstanding over 60 days). Notwithstanding this high level, an FDA official stated that DFM has only offset an employee's paycheck once within the last 12 months, although HHS procedures require FDA to initiate payroll offset after a travel voucher becomes 45 days delinquent.

Regarding current compliance with the requirement to conduct timely follow-up of outstanding advances, we found that DFM still needs to improve in this area. For example, we noted that follow-up activity, specifically contacting employees with overdue advances, was not performed in June 1992, despite numerous travel advances outstanding over 60 days. A DFM official acknowledged this oversight and stated the follow-up process may be automated to ensure timely and efficient collection efforts. Under an automated system, the computer would automatically generate the letters based on the travelers' return dates.

FDA's Accounting of Parklawn HQIF Loss

In order for FDA's accountable officers to obtain relief of fiscal responsibility for the amount fraudulently obtained from the Parklawn HQIF, the Agency must perform a complete accounting of the irregularity and submit a detailed report to GAO. Based on the draft request for relief that DFM provided to us in September 1992, we informed DFM officials that additional steps were needed to fully comply with GAO's requirements, as specified in GAO Policies and Procedures Manual, Title 7, Chapter 8, "Settlement of Accounts and Relief of Accountable Officers."

For example, GAO requires that the agency disclose the amount of funds that were involved in the irregular activity. We concluded, however, that FDA cannot provide reasonable assurance that it has adequately determined this amount. This is because after FDA discovered 65 fraudulent transactions at the Parklawn HQIF, it did not then review or sample other transactions processed through the Parklawn HQIF, such as small purchases and reimbursements. Further, since there was no independent verification of Parklawn HQIF transactions processed while the perpetrator was employed by FDA, the Agency could not be assured that the population of transactions excluded from its review did not include other transactions submitted by the former employee. In fact, we observed that these types of transactions require less

documentation, making them more susceptible than travel advances to falsification.

The draft request for relief also did not comply with GAO's requirements to provide a detailed statement of the facts of the irregularity, including information on the type of irregularity, date, amount, and names and positions of the accountable officers. Specifically, it did not contain the names of the cashier or accountable officers, and did not mention certain key information about the former employee's work history.

The DFM officials agreed that its draft request for relief needed improvement, and we have discussed with them specific steps needed to ensure that it complies with GAO's requirements.

In its technical comments to our draft report, PHS stated that OIG's findings in this area "...imply that FDA intentionally avoided the issue of accountability." We regret that our findings provided such an impression. At the time of our review, officials of both FDA and OIG recognized that the package needed various additional information, and we felt that our report should underscore this need. The PHS' comments indicate that FDA is awaiting OIG's report before preparing its final package. We believe, however, that in addition to OIG's report, other information was needed to make the package fully comply with GAO requirements. Our suggestions for improving the relief package are provided to FDA to ensure that the Agency fully complies with GAO's requirements.

Alternatives to Maintaining Cash on Hand

The FDA acknowledges the need to implement other less vulnerable mechanisms to provide for advances and payments to travelers and for other miscellaneous expenditures. We believe the Agency should expedite actions to implement such mechanisms. In a June 17, 1992 memorandum, DFM informed us that "accelerated efforts" were underway aimed at replacing the imprest fund with a TPD system. Such a system would eliminate the need to maintain cash on hand by using a negotiable instrument (draft) rather than cash. Specifically, under a TPD system, the Agency would use checks to draw funds from an outside financial institution under contract, and reimburse that institution at a later date for checks paid. A TPD system could be used independently or in conjunction with a policy requiring the use of credit cards for certain HQIF transactions.

A TPD would also shift the risk of loss to the contracting financial institution in cases of fraud, and would make Government funds available for investment. Other PHS agencies, such as the Health Resources and Services Administration and the Indian Health Service, have implemented a TPD system and realized the added benefits of strengthened internal controls, reduction in the risk of theft, and cost savings.

The DFM officials agreed that a TPD system is preferable to a cash-based imprest fund, and stated that work is underway to implement a TPD system agencywide. Specifically, at the time we completed our field work in September 1992, two FDA field offices in Denver, Colorado, and Orlando, Florida, had converted to a TPD; and two other field offices were scheduled for conversion at the beginning of Fiscal Year (FY) 1993. The DFM reported no significant problems in the conversion process.

As of the completion of our field work, FDA had still not converted the Parklawn HQIF to a TPD system. In September 1992, the FDA informed us that overall agencywide conversion would take up to 2 years, but the schedule for the Parklawn HQIF conversion was not specified. An FDA official indicated that the 2-year period is needed to allow for such activities as implementing new reconciliation procedures, installing equipment and software, and training employees.

OTHER ISSUES

Segregation of Duties

During our review, we noted that there was inadequate segregation of duties within the travel review group. Specifically, one employee had access to Parklawn HQIF replenishment checks and also prepared and mailed the documentation that generates Treasury's issuance of replenishment checks. Proper segregation is a control measure that would help prevent the occurrence of an irregularity.

CONCLUSIONS AND RECOMMENDATIONS

Based on our review, we determined that adequate compliance with existing controls should have resulted in FDA preventing, or, at least, detecting the falsified documents in a more timely manner. Specifically, the cashier's review of the documents prior to disbursement should have prevented the fraudulent transactions, while the subsequent review performed by the travel review group should have detected the fraud within 5 days. Further, had FDA performed timely collection efforts on overdue travel advances, the fraudulent transactions would have been detected after 30 days. Finally,

if FDA had been conducting routine independent verification of the Parklawn HQIF, the fraud may have been uncovered earlier because such verification requires confirming receipt of cash by the traveler and ensuring the legitimacy of the approving officials' signatures.

The DFM cited employee turnover in the travel review group as the primary reason for not detecting the fraud earlier. However, our review showed that an absence of management emphasis on compliance with existing controls contributed to the untimely detection of the fraud. We informed DFM that internal controls are not effective unless employees are required to comply with such controls.

We also determined that although FDA has attempted to improve Parklawn and other HQIF operations, compliance with existing policies and procedures still needs improvement. As a result of the procedural deficiencies and the level of noncompliance, it is possible for other fraudulent transactions to pass successfully through the Parklawn HQIF.

We are encouraged that the Agency is now converting several field office imprest funds to a TPD system. However, given the deficiencies noted during our review, we believe FDA should immediately convert its entire network of imprest funds to an alternate disbursement mechanism, such as a TPD system and/or credit card usage policy.

Based on our overall findings, we believe that the material weakness still exists regarding FDA's imprest fund operations, particularly because of continued procedural deficiencies and the absence of independent verification of fund transactions. Therefore, to improve the integrity of FDA's imprest fund operations or alternate funding mechanisms, we recommend that you direct the Commissioner of Food and Drugs to:

-- Expedite actions to implement alternatives to the Parklawn HQIF by implementing a TPD system rather than a cash-based HQIF, and/or require mandatory use of credit cards to obtain cash advances.

-- Review imprest fund policies and procedures to ensure they are in compliance with those of HHS, PHS, Treasury, and GAO; and revise the SMG to include additional imprest fund safeguards, such as requiring DFM to maintain a list of employees designated as "authorizing officials" and their signatures and periodically providing the cashiers and travel reviewers with an updated listing.

-- Revise the draft request for relief to fully comply with GAO requirements.

-- Verify, through a sample or a complete review, the validity of the miscellaneous reimbursement and small purchase transactions processed through the Parklawn HQIF from the time of the former employee's initial hire date to January 27, 1992.

-- Ensure that adequate annual and quarterly Parklawn HQIF reviews are performed by a qualified employee independent of the Parklawn HQIF and that such reviews include verifying open transactions.

-- Require program managers to periodically receive and review a summary of Parklawn HQIF transactions charged against their program.

-- Require DFM to take necessary measures such as offsetting employees' paychecks, training and counseling employees, and other actions deemed appropriate to ensure compliance with internal controls and reduce the level of FDA's outstanding travel advances.

-- Ensure proper segregation of duties exists within the Parklawn HQIF replenishment cycle.

-- Augment its corrective action plan relating to imprest fund operations to include the OIG recommendations delineated above.

-- Perform a follow-up review within 1 year after completing the corrective actions relating to the material weakness, and conduct future internal control reviews as required by the FMFIA program.

AGENCY COMMENTS AND OIG RESPONSE

The PHS, in its April 20, 1993 memorandum commenting on our draft report, concurred with our recommendations. Its complete response is included in its entirety in the Appendix to this report and certain responses are paraphrased in this section. The technical comments are addressed in the applicable portions of the results section of this report.

Regarding our recommendation to expedite actions to implement alternatives to the Parklawn HQIF, PHS stated that the TPD system is slated to be implemented in Parklawn during the fourth quarter of FY 1993. At the same time, FDA also plans to institute a requirement for the mandatory use of credit cards to secure travel advances.

The PHS concurred with our recommendation that FDA review its imprest fund policies and procedures to ensure they are in compliance with those of HHS, PHS, Treasury, and GAO; and to

revise its SMG to include additional safeguards, such as maintaining a list of employees designated as travel "authorizing officials" and their signatures. Although PHS described FDA plans to implement the concept of signature cards for authorizing officials by the fourth quarter of FY 1993, it did not articulate its position regarding our broader recommendation of ensuring that the Agency's imprest fund policies and procedures are in compliance with those of HHS, PHS, Treasury, and GAO. We therefore request PHS' 60-day comments to address what FDA plans in this regard.

The PHS concurred with our recommendation for FDA to revise its draft request for relief to fully comply with GAO requirements. According to PHS, FDA will revise its request to include all relevant GAO requirements and plans to forward it to GAO by June 30, 1993.

As to our recommendation that FDA verify, through a sample or a complete review, the validity of certain transactions processed through the Parklawn HQIF from the time of the former employee's initial hire date to January 27, 1992, PHS concurred and indicated that FDA will review an appropriate statistical sample of transactions during FY 1993.

The PHS concurred with our recommendation to ensure that adequate annual and quarterly Parklawn HQIF reviews are performed by a qualified employee independent of the Parklawn HQIF and for such reviews to include verifying open transactions. The PHS indicated that FDA plans to immediately modify its quarterly and annual audit procedures to increase verification of open transactions, but did not address the qualifications or independence of the reviewers. We therefore request the latter considerations to be discussed in PHS' 60-day status report.

The PHS concurred with the objective of our recommendation to require program managers to periodically receive and review a summary of Parklawn HQIF transactions charged against their program, but stated that the recommendation would require extensive efforts to develop summary reports by program and to set up a monitoring system. The PHS believed that FDA should instead focus its resources first on implementing a TPD and enhanced travel advance monitoring. After completing the latter efforts, PHS stated that FDA would begin periodic reviews of transactions charged against their programs.

Regarding our recommendation that DFM take necessary measures to ensure compliance with internal controls and reduce the level of outstanding travel advances, PHS concurred and stated that FDA's DFM is taking various actions designed to eliminate the high level of current outstanding travel advances by

September 1993. Specifically, during May 1993, it will issue letters to individuals with outstanding balances over 30 days old, and institute salary offsets for persons not responding within 30 days. The PHS also indicated that DFM expects to make mandatory, by July 1993, the use of the automated teller machine (ATM) feature of the Diner's Club Credit Card in order to eliminate travel advances. Prior to implementing these changes, DFM plans to distribute a memorandum in May 1993, to all FDA employees reiterating the HHS policy for voucher transmittal, use of salary offsets, and mandating use of the ATM feature of the Diner's Club Credit Card.

The PHS concurred with and stated that it is taking steps to implement our recommendation to separate the duties within the replenishment cycle for preparing replenishment check schedules and distributing the checks.

Finally, PHS concurred with our recommendation to augment its corrective actions plan relating to imprest fund operations to include OIG's recommendations. Further, it concurred that there is a need to perform a follow-up review within 1 year after completing corrective actions relating to the material weakness, and conduct future internal control reviews as required by the FMFIA program.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and recommendations, please call me or have your staff contact Daniel W. Blades, Assistant Inspector General for Public Health Service Audits, at (301)443-3582.

APPENDIX

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Memorandum

Date APR 20 1993

From Acting Assistant Secretary for Health

Subject Public Health Service (PHS) Comments on Office of Inspector General (OIG) Draft Report "Review of Food and Drug Administration's Headquarters Imprest Fund"

To Acting Inspector General, OS

Attached are the PHS comments on the subject OIG report. We concur with the recommendations and our comments outline the actions taken or planned to implement them.

Audrey F. Manley

Audrey F. Manley, M.D., M.P.H.

Attachment

IG	
PDIG	✓
DIG-AS	
DIG-EI	
DIG-OI	
AIG-MP	✓
OGC/IG	✓
EX SEC	
DATE SENT	4/26

PUBLIC HEALTH SERVICE (PHS) COMMENTS ON OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT "REVIEW OF THE FOOD AND DRUG ADMINISTRATION'S HEADQUARTERS IMPREST FUND"

The PHS reviewed the subject draft report on the results of the OIG review of the Food and Drug Administration's (FDA) Headquarters Imprest Fund (HQIF). The OIG concluded that additional safeguards, over and above the improvements FDA initiated in its own corrective action plan, needed to be made, and listed 10 recommendations for accomplishing further improvements. While PHS believes that the initial corrective actions taken have made major improvements to the overall management of imprest funds both at Headquarters and nationwide, PHS concurs with the OIG recommendations. Some of the recommendations relate to ongoing FDA initiatives; for example, replacement of cash funds with third-party draft system and automation of the travel advance follow-up process. Other recommendations relate to improvements in existing controls.

The following are the comments and description of actions being taken on the OIG recommendations.

OIG Recommendation 1

Expedite actions to implement alternatives to the Parklawn HQIF by implementing a third-party draft (TPD) system rather than a cash-based HQIF, and/or require mandatory use of credit cards to obtain cash advances.

PHS Comments

PHS concurs. FDA is completing development of the TPD system for use at Headquarters. Testing will begin in the third quarter of fiscal year (FY) 1993. Implementation of the TPD system is planned for the fourth quarter of FY 1993. In addition, FDA plans to institute a requirement for the mandatory use of credit cards to secure travel advances (with rare exceptions) during the fourth quarter of FY 1993.

OIG Recommendation 2

Review imprest fund policies and procedures to ensure they are in compliance with those of HHS, PHS, Treasury, and the General Accounting Office (GAO); and revise the FDA Staff Manual Guide (SMG) to include additional imprest fund safeguards, such as requiring FDA's Division of Financial Management (DFM) to maintain a list of employees designated as travel "authorizing officials" and their signatures and periodically providing the cashiers and travel reviewers with an updated listing.

PHS Comments

PHS concurs. DFM will notify the FDA's Program and Center Executive Officers of a requirement to gather signature cards for all employees designated as travel "Authorizing Officials." A copy will be retained by the cashier and a copy by the Travel Audit Staff. Periodic updates will be required, and relevant parts of the SMG will be changed. Implementation is scheduled for the fourth quarter of FY 1993.

OIG Recommendation 3

Revise the draft request for relief to fully comply with GAO requirements.

PHS Comments

PHS concurs. FDA will revise its request for relief to include all relevant GAO requirements. The documents will be forwarded to the GAO, through the Offices of the Assistant Secretary for Health and the Secretary, by June 30, 1993.

OIG Recommendation 4

Verify, through a sample or a complete review, the validity of the miscellaneous reimbursement and small purchase transactions processed through the Parklawn HQIF from the time of the former employee's initial hire date to January 27, 1992.

PHS Comments

PHS concurs. Because the time necessary to do a complete review would be extensive, FDA will conduct an appropriate statistical sample. FDA expects to complete the review during this fiscal year.

OIG Recommendation 5

Ensure that adequate annual and quarterly Parklawn HQIF reviews are performed by a qualified employee independent of the Parklawn HQIF and that such reviews include verifying open transactions.

PHS Comments

PHS concurs. FDA is modifying its quarterly and annual audit procedures to increase the verification of open transactions and to review some completed transactions to ensure delivery. Modifications will begin with the next quarterly audits of the Headquarters-based imprest fund.

OIG Recommendation 6

Require program managers to periodically receive and review a summary of Parklawn HQIF transactions charged against their program.

PHS Comments

PHS concurs with the objective of this recommendation. However, we believe this recommendation would require extensive efforts to develop summary reports by program and set up a monitoring system. At this time we believe FDA would be better served if its limited resources concentrated on implementation of a TPD system and enhanced travel advance monitoring. After completion of this effort, FDA managers will begin periodic reviews of transactions charged against their programs.

OIG Recommendation 7

Require DFM to take necessary measures such as offsetting employees' paychecks, training and counseling employees, and other actions deemed appropriate to ensure compliance with internal controls and reduce the level of FDA's outstanding travel advances.

PHS Comments

PHS concurs. FDA's DFM is taking various actions designed to: (1) eliminate the high level of current outstanding travel advances by September 1993; and (2) mandate by July 1993 the use of the automatic teller machine (ATM) feature of the Diner's Club Credit Card in order to eliminate travel advances.

DFM expects to issue letters to all individuals with outstanding balances over 30 days old during May 1993. DFM will also send copies of these letters to the Director of the Center/Staff Office in which the individual works. Should there be no response from the individual within a 30 day period, DFM will institute salary offset procedures. DFM expects to eliminate virtually all outstanding travel advances over 30 days old by September 30, 1993.

DFM also expects to make mandatory for all FDA employees the use of the ATM feature of the Diner's Club Credit Card, with few exceptions. The mandatory use of the Diner's Card ATM feature by the employees will eliminate the need to issue travel advances. DFM plans to have this change in place by July 1, 1993.

Prior to the implementation of the changes cited above, DFM will distribute a memorandum to all FDA employees reiterating the HHS policy for voucher transmittal, use of salary offset when needed, and mandating the usage of the ATM feature of the Diner's Club Credit Card. DFM expects to send the memorandum to all FDA employees during May 1993.

OIG Recommendation 8

Ensure proper segregation of duties exists within the Parklawn HQIF replenishment cycle.

PHS Comments

PHS concurs. FDA will take steps to separate the duties of preparation of the replenishment check schedules and distribution of the checks.

OIG Recommendation 9

Augment its corrective action plan relating to imprest fund operations to include the OIG recommendations delineated above.

PHS Comments

PHS concurs. Where appropriate, FDA will update its original corrective plan to include enhancements promised to implement the OIG recommendations from this audit.

OIG Recommendation 10

Perform a follow-up review within 1 year after completing the corrective actions relating to the material weakness, and conduct future internal control reviews as required by the FMFIA program.

PHS Comments

PHS concurs. FDA will perform the reviews as required.

TECHNICAL COMMENTS

1. Results of Review

The last paragraph, page six, states that "tests of revised controls disclosed a less than satisfactory degree of compliance," and "FDA's draft request for relief of accountable officers did not comply with GAO requirements."

In the first instance, during the review and detailed audit, the FDA Accounting Policy Section Chief participated on a daily basis with the auditors. All but one of the required control procedures was being adhered to consistently; the non-compliance item related to justification and approval for advances above $500. Immediately after the finding, FDA cashiers were alerted and corrective action was taken. The OIG also recommended a procedure to stamp "PAID" on all travel advance cards. FDA agreed and adopted that practice.

The second finding relates to a draft memorandum to GAO to seek relief from the loss. The FDA realized that the draft was very preliminary, including an early acknowledgement that GAO requires that relief requests be accompanied by OIG and other investigative findings. There was an agreement with OIG staff that FDA would develop the request after the completion of the OIG review, with the requisite details. As written, the findings imply that FDA intentionally avoided the issue of accountability.

2. Preventive Controls not Utilized

The last paragraph, starting on page seven and ending on page eight, states that the FDA Accounting Policy Section Chief informed the auditors that due to the volume of transactions processed, the cashier could not always perform an examination of forms prior to payment, and would rely on the after-the-fact review by the travel group. While acknowledging the heavy volume, the FDA does not exempt cashiers from their requirement to examine documents.

3. Detection Control not Utilized

The middle paragraph, page eight, states that the FDA Travel Supervisor informed us that "employee turnover and inadequate written instruction" were the cause of poor compliance with the procedures. The supervisor did mention the turnover of employees as a factor, but believes that adequate documented procedures for auditing vouchers was available at the time. The supervisor (actually the assistant supervisor) acknowledged that lack of timely follow-up letters was certainly a major factor.