

**Memorandum**

Date . MAR 3 I 1992

From Richard P. Kusserow  
Inspector General *For Bryan Mitchell*

Subject Review of Regional Administrative Support Center's  
Procedures for Recording, Maintaining and Reconciling  
Sustained Audit Disallowances in Region IV

To (A-04-91-00001)

Arnold R. Tompkins  
Assistant Secretary for  
Management and Budget

The attached final report provides you with the results of our review of the Region IV Regional Administrative Support Center's (RASC) procedures for recording, maintaining and reconciling sustained audit disallowances. The RASC provides accounting services for what was formerly the Office of Human Development Services and is now part of the Administration for Children and Families.

We identified weaknesses in the debt collection process used by the RASC which allowed \$1.1 million in sustained audit disallowances to go without collection actions. We also identified interest charges, penalty charges and administrative costs that should have been accrued on recorded accounts receivable.

In response to our draft report, your office generally agreed with our findings and recommendations. The response stated that in March 1992, staff from your office will review Region IV's debt management activities. The review will focus on the establishment and collection of accounts receivable. The response is attached to the report as Appendix C.

We would appreciate receiving comments within 60 days on any additional actions you take on this report. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

OFFICE OF  
INSPECTOR GENERAL

REVIEW OF REGIONAL ADMINISTRATIVE  
SUPPORT CENTER'S PROCEDURES FOR  
RECORDING, MAINTAINING AND  
RECONCILING SUSTAINED AUDIT  
DISALLOWANCES IN REGION IV



Richard P. Kusserow  
INSPECTOR GENERAL

A-04-91-00001



Memorandum

Date . MAR 31 1992

From Richard P. Kusserow  
Inspector General *For Bryan Mitchell*

Subject Review of Regional-Administrative Support Center's  
Procedures for Sustained Audit Disallowances in Region IV  
(A-04-91-00001)

To Arnold R. Tompkins  
Assistant Secretary for  
Management and Budget

This final report presents the results of our review of the Region IV Regional Administrative Support Center's (RASC) procedures for recording, maintaining and reconciling sustained audit disallowances. The RASC provides accounting services for what was formerly the Office of Human Development Services (HDS) and is now a part of the Administration for Children and Families. We identified weaknesses in the debt collection process used by the RASC disallowances to remain on the accounting records for over 10 months without appropriate collection actions

We further determined that interest of \$571,098, penalty charges of \$197,662 and administrative costs of \$13,725

We also determined that \$611,370 in sustained audit disallowances for Fiscal Years (FY) 1989 and 1990 RASC's

Appendix B). At least \$23,567 in interest charges,

amount of penalty charges should have been accrued on the unrecorded amounts. the RASC records showed \$61,855 in accounts receivable were understated

properly recorded.

The disallowances were not subject to appropriate

did not adhere to prescribed instructions pertaining to management of debt collection. unrecorded because the RASC did not reconcile its records with records that contained amounts sustained as audit

Thus, receivables were not recorded or that amounts recorded

were incorrect. We are recommending that the RASC adjust its accounting records to accurately reflect accounts receivable, interest, and administrative and penalty charges. Also, reconciliations should be made monthly and training should be provided to personnel involved in the debt management system.

The Assistant Secretary for Management and Budget (ASMB) generally agreed with our findings and recommendations. The response stated that in March 1992, ASMB staff will conduct a review of Region IV's debt management activities. The primary focus of the review will center around the establishment and collection of accounts receivable resulting from audit disallowances. The response is attached to the report as Appendix C.

## INTRODUCTION

### Background

The framework for establishing and collecting accounts receivable in the Federal Government, has been mandated by the Debt Collection Act of 1982, Public Law (P.L.) 97-365. In addition, P.L. 96-304 requires that each Federal Department take diligent action to collect debts, charge interest on delinquent debts and reduce the amount of debts written off as uncollectible. Further guidance and instructions have been promulgated by the General Accounting Office, Office of Management and Budget, Department of the Treasury (Treasury) and Department of Justice (DOJ). The Department of Health and Human Services (HHS or Department) Grants Administration Manual (GAM), chapter 1-105, and the Office of Inspector General (OIG), Office of Audit Services (OAS), Policies and Procedures, chapter 20-19, also provide guidance on recording audit disallowances for the Department and components.

The OIG-OAS audits the HHS programs to ensure that funds are properly used for their intended purposes. Findings of misused funds and recommended disallowances by OIG auditors are reviewed by the appropriate operating division (OPDIV) officials, called action officials. Action officials have 6 months to review the final audit report and sustain none, some, or all of the amounts recommended by the OIG. In some cases, the OPDIV will increase the amounts disallowed. After determining whether the recommended disallowance is sustained, the OPDIV will notify the grantee of the decision. If the finding is sustained, the OPDIV will notify the grantee

regarding the amount owed, repayment terms and appeal rights and procedures. In addition, the OPDIV will also prepare an OIG Clearance Document (OCD). The OCD was formerly known as an Audit Clearance Document. The OCD records the action taken in response to the recommendation and specifies the amount of funds to be recovered.

The Department policy requires that in cases where the OIG's recommended disallowances are sustained, the debt becomes a formal accounts receivable and is entered into the accounting records.

The OIG uses the information on the OCD to enter the OPDIV's resolution action into its automated Audit Inspection Management System (AIMS). Included in the AIMS output is a series of listings collectively called the OAS Stewardship Report which tracks the OPDIV's decision on OIG recommendations.

The RASC, Division of Finance (DOF) is the accounting office for the regional offices of HDS. The Department's Accounting Manual provides instructions on collecting audit disallowances. The Accounting Manual requires the program office to send the auditee the first demand letter for payment and the accounting office to send two additional demand letters, if needed.

Within HDS, audit disallowances are settled by either cash repayments, expenditure report adjustments or payment by offset against future reimbursement rates (letter-of-credit). The HDS prepares the OCDs and assigns one of three accounting offices to account for the receivable. The accounting office is assigned according to the type of repayment method used by the grantee.

The accounting for debt collection is located at either the Division of Accounting Operations (DAO), the RASC, or the Payment Management System (PMS). The DAO handles the debt management collection for headquarters' grantees (i.e., Head Start, Migrant, and Indian) and for other regional grantees that pay through a letter-of-credit. The repayment method under the letter-of-credit involves an agreement between the grantee and HDS' headquarters and regional officials where the amount owed will be recovered from the current year's contract or grant or by offset from reimbursable expenditures. The RASC was responsible for HDS' Region IV debt management involving OCDs, direct cash payments and expenditure report adjustments made by reductions through PMS' quarterly expenditure reports.

scope

The objective of the audit was to review the RASC's actions related to audit disallowances in FYs 1989 and 1990 as identified in the OAS Stewardship Reports. We reviewed Department actions related to 100 percent of the \$3.7 million in sustained disallowed costs determined to be outstanding receivables for FYs 1989 and 1990. Our selection of these FYs enabled us to examine audit disallowances that should be resolved within the RASC's accounting and monitoring system, as well as, provide an opportunity to include proper consideration of interest income, administrative costs, penalty charges and reduced accounts receivable. However, we expanded our scope to include the identified recorded and unrecorded accounts receivable in FYs 1989 and 1990 per the RASC's records. Based on this approach, we computed interest and penalty charges which should have been assessed on sustained audit disallowances from February 5, 1987 to January 31, 1991. We selected October 31, 1990 as the cutoff date for outstanding audit disallowances because we used the December 1990 AIMS report to identify disallowances.

Our review was performed in accordance with generally accepted Government auditing standards applicable to financial related audits. Other than the issues identified in the **RESULTS OF REVIEW** section of this report, we found no instances of noncompliance with applicable laws and regulations. The review was conducted at the RASC, DOF, Region IV office in Atlanta, Georgia during the period October 1990 to August 1991.

As part of our audit, we evaluated the RASC's internal control relating to accounts receivable. We tested adherence to the guidance provided for the audit disallowance process, including the Federal Claims Collection Standards, Code of Federal Regulations [CFR] chapter 4, parts 101-105; HHS Claims Collection Regulations, 45 CFR, part 30; HHS Departmental Accounting Manual, chapter 10-41; and the HHS GAM, section 1-105-110.

Our study and evaluation of the internal control structure was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. We also held discussions with regional and headquarters personnel involved in the resolution process. Our review was limited because an

adequate internal control structure did not exist. One person was responsible for receiving payments and offsets and recording transactions relating to audit disallowances. This lack of segregation of duties presented a situation where unauthorized use of assets could occur and not be detected within a reasonable period. In addition, we relied on substantive testing because the existing structure contained many weaknesses.

#### RESULTS OF REVIEW

Our review of the RASC operations relating to recording, maintaining and collecting sustained audit disallowances showed several areas where improvements in procedures were needed. Cognizant RASC staff were not knowledgeable of policies and procedures for handling audit disallowances. Unless improvements are made, millions of dollars of Federal funds could be lost. Our findings are discussed in detail in the paragraphs that follow.

#### Collecting Delinquent Accounts Receivable

The RASC did not meet the standards established by HHS regulations in maintaining the accounts receivable. In FYs 1989 and 1990, approximately \$1.1 million in debts were delinquent over 10 months. The RASC accounting officer stated that after notifying the grantee twice of the debt owed, collection efforts stopped. The RASC accounting officer told us that he was not aware that additional actions needed to be taken. We are recommending that the RASC follow applicable procedures for resolving accounts receivable in a timely manner.

The HHS Accounting Manual, chapter 10-41, states that rigorous standards must be set and enforced by the accounting officer in documenting receivables and in actions taken to collect receivables. Furthermore, the Federal Claims Collection Standards in 4 CFR, sections 104.3, 105.1 and 105.4; the HHS Claims Collection Regulations, 45 CFR, part 30, subparts D and E; and the HHS Accounting Manual, chapter 10-41-40, require referrals to the DOJ for litigation ordinarily within 1 year following the initial billing date. For debts exceeding \$100,000, the agency should refer the matter to the Civil Division of DOJ and for debts of less than \$100,000, to the appropriate United States (U.S.) Attorney. The OPDIV/components (finance office included) are to exercise due diligence in order to collect on the outstanding receivables. After the finance office exhausts all collection efforts and is still unable to

collect a debt or work out an installment repayment agreement within 10 months or sooner, the finance office is responsible for referring the debt to the component's claims collection officer. The referral should contain a recommendation to either suspend collection efforts, compromise the amount of the debt, terminate collection or forward the case to the Departmental Claims Officer, the DOJ, or the U.S. Attorney.

The RASC accounting officer told us that his collection actions had consisted of notifying the grantee twice, one notification after the accounts receivable was established and the second notification 30 days later. If no response was received, the RASC notified HDS and the RASC terminated collection efforts. The RASC accounting officer also told us he was not aware that additional actions needed to be taken. During our audit, the ASMB notified the RASC to follow up and collect from the grantees.

During FYs 1989 and 1990 approximately \$1.1 million applicable to 14 grantees was not subject to collection efforts (see Appendix A). Included in the \$1.1 million were 18 accounts receivable which were on the RASC records for an average of 61 months.

Of the 18 accounts receivable over 10 months old, the RASC was not aware that 15 were the responsibility of the DAO. Accordingly, in March 1990, RASC transferred the 15 to DAO. According to the RASC's records, the remaining three accounts receivable totaling \$52,018 were reduced. The RASC accounting officer was unable to provide documentation as to why the three accounts receivable had been reduced. Thus,

Thus,

DAO's

In FY 1990,

DAO in Washington, D.C.

**Assessing Interest, Administrative Costs and Penalty Charges on Recorded Accounts Receivable**

Interest, administrative costs and penalty charges on recorded audit disallowances were not assessed



as provided for by HHS regulations. During FYs 1989 and 1990, 38 of 56 recorded audit disallowances were delinquent and eligible for interest assessment. The interest potentially lost on the 38 accounts totaling about \$2 million was \$571,098 and potential administrative income lost was \$13,725. Also, potential penalty income of \$197,662 was lost on the accounts over 90 days delinquent. The RASC accounting officer told us he was unaware of the procedures for charging interest, administrative costs and penalty charges on delinquent accounts. We are recommending that the RASC implement procedures to account for the accrual of interest, administrative costs and penalty charges on the delinquent debts.

The HHS Claims Collection Regulations, 45 CFR, section 30.13, provides for the accrual of interest on accounts 30 days overdue. It also provides that delinquent debtors shall be assessed the administrative costs of handling and collecting the debt. The HHS used an average cost basis in establishing administrative costs of \$15 per month. This regulation further provides that a penalty rate of 6 percent is to be charged on delinquent accounts 90 days overdue beginning after the first 30 days. The 45 CFR, section 30.11 requires that a debtor file be maintained which includes communications to and from the debtor. Furthermore, the HHS Accounting Manual, chapter 10-41-40, states that within the Department, the pertinent OPDIV/component is responsible for assuring that financial management controls and systems are in place for adequately managing the OPDIV/component's credit and debt activities.

The accounting records maintained by the RASC showed the delinquent receivables. However, these records did not show any assessments for interest, administrative costs and penalty charges. We computed the interest and administrative income potentially lost based on when the recorded accounts receivable should have been established. Grantees classified as either State or local governments and Indian tribes were exempted as provided by regulations. In our computations, interest, administrative and penalty charges were assessed until the debt was either paid, transferred to DAO or was still outstanding as of October 31, 1990. We determined that 38 delinquent audit disallowances had potential interest income losses of \$571,098 and potential administrative income losses of \$13,725. In addition, 35 delinquent audit disallowances were not assessed penalty charges. As a result, \$197,662 of penalty income was lost.

We requested copies of demand letters sent to auditees to determine if the auditee organizations were being informed of these charges. The RASC accounting officer told us that copies were unavailable. Instead, we were given examples of "form" collection letters that are sent to the grantees. The form letters contained a statement informing the grantees that interest would be charged on delinquent accounts and provided space for an interest rate to be shown. We could not readily determine if letters were sent and if interest rates were specified because the RASC did not provide us with copies of the letters sent to grantees.

The RASC accounting officer told us he had not assessed interest, administrative, and penalty charges on delinquent accounts. Furthermore, he was not aware of what interest rate to charge. We believe the accounting officer needs training in this area.

The RASC accounting officer informed us that in September 1990, he was notified by the Deputy Assistant Secretary for Finance (DASF) to account for the accrual of interest. Because the RASC sent a "Schedule 9 Report" to ASMB on a regular basis, we believe action taken by ASMB should have been taken sooner. The RASC regularly sent a "Schedule 9 Report" to DASF which showed the accounts receivable outstanding and collected quarterly amounts and year-to-date totals. The HHS Accounting Manual also required that the "Schedule 9 Report" include interest assessment. The RASC report did not show any interest assessed.

#### **Recording and Maintaining HDS Audit Disallowances**

The RASC did not adequately maintain accounting records in accordance with Federal requirements. During FYs 1989 and 1990, the RASC did not record 21 sustained audit disallowances. As a result, \$611,370 in sustained audit disallowances plus interest of \$23,567 were not subjected to collection efforts. The RASC was not aware of these disallowances because it did not receive the OCDs and did not reconcile its records to the OAS Stewardship Report. We are recommending that the RASC ensure that the \$611,370 is recorded, assess applicable interest and continue the reconciliation process it initiated.

The HHS GAM, chapter 1-105-110, requires that all audit disallowances be entered into the accounting system based on information contained in the OCD. The HHS Claims Collection Regulation, 45 CFR, section 30.13,

states that interest will accrue after 30 days on delinquent accounts, administrative costs shall be assessed and penalty charges are to be assessed on delinquent accounts more than 90 days overdue. In addition, the HHS Accounting Manual, chapter 10-41-40, states that accounting systems must provide for promptly recording, collecting, reporting and controlling applicable interest, penalty, and administrative costs due the Department on delinquent debts.

Under an agreement with HDS, RASC received the OCDs for recording accounts receivable. However, even if HDS sustained the audit disallowance, HDS only sent the OCDs to RASC that contained amounts subject to cash collection. The HDS added a column to the OCD titled "Establish as Accounts Receivable." This column was used to recognize disallowances HDS considered subject to cash repayment. If other methods could be used for collection, such as expenditure report offset, HDS did not forward the OCD to the RASC.

The RASC accounting officer informed us that as of September 1990, DASF had issued verbal instructions stating that all sustained disallowances should be recorded as accounts receivable. Furthermore, a reconciliation process was initiated by ASMB. We were informed since early FY 1990, the DASF staff has performed monthly reconciliations with the OAS Stewardship Report.

Prior to September 1990, the RASC did not record all sustained audit disallowances. As a result, 21 sustained audit disallowances, totaling \$611,370 were not established as accounts receivable at the RASC and were not subject to further collection efforts (see Appendix B). Since the \$611,370 was not subject to collection efforts, applicable interest of \$23,567 has been potentially lost from grantees eligible for interest assessment.

We computed interest by using the Secretary of the Treasury's consumer rate in effect during the time the accounts receivable should have been booked. Our computations of interest started 30 days after the demand letter should have been sent to the auditee and interest was accrued through January 31, 1991. We did not compute interest on receivables applicable to grantees classified as either State, local governments or Indian tribes.

In addition to the interest potentially lost on the \$611,370 of unrecorded audit disallowances, charges for

administrative costs and penalties were also potentially lost. The potential administrative costs lost on the disallowances eligible for interest assessment was \$4,050. Furthermore, the regulation provides that a penalty charge will be assessed at a rate of 6 percent on accounts delinquent after 90 days. We did not compute penalty charges because the grantees were not notified that the debt was due.

The RASC did not detect that OCDs were not being received because the RASC did not use available documents and perform reconciliations. The RASC accounting officer stated that two of the RASC's internal reports were used in reconciling the accounts receivable. However, this reconciliation was not effective because external documentation was not used. The OAS Stewardship Report contains a listing of audit disallowances and the amount of the sustained disallowance. The RASC could have obtained and used this document to verify that it had recorded all required sustained audit disallowances as accounts receivable.

#### **Maintaining Accounting Records**

The RASC needed to adhere to Federal requirements in maintaining accurate records to control amounts due and funds received. The RASC records understated the accounts receivable owed to HDS and amounts collected were not properly recorded. Furthermore, the RASC acknowledged a lack of segregation of duties in the recording, receiving and depositing the sustained audit disallowances. Reconciliations of records could have detected the discrepancies. We are recommending that the RASC reconcile its records with the Stewardship Reports, and ensure that duties are segregated.

The HHS GAM, chapter 1-105-110, requires that all audit disallowances be entered into the accounting system based on information contained in the OCD. Accounting control should be maintained thereafter.

In FY 1989, the RASC maintained two reports on HDS' accounts receivable. The "1900 Report" details the age and amount of the outstanding receivables and the HDS Audit Disallowance Activity Summary (ADAS) Report details the beginning and ending balance, the receivables established during the year, and any reductions during the year. The balances on these two reports should agree. We noted reductions totaling \$61,855 in accounts receivable were not adequately documented as noted below:

- o The sustained audit disallowances on two OCDs totaled \$56,439. The amount recorded by RASC was \$12,274. The RASC accounting officer told us that the \$12,274 was recorded based on the OCD. However, he could not provide an OCD supporting the \$12,274. The remaining \$44,165 (\$56,439 less \$12,274) was not recorded as an accounts receivable.
- o In FY 1990, the RASC maintained an HDS ADAS Report. The ending balance as of March 31, 1990 was \$1,140,662. The beginning balance on April 1, 1990 was \$1,122,972. The difference of \$17,690 was a reduction of outstanding accounts receivable which was not adequately documented.

The RASC accounting officer provided documentation to show that \$10,510 had been collected. However, the \$10,510 was collected during FY 1989 and should have been previously recorded. The remaining balance of \$7,180 (\$17,690 less \$10,510) was not explained.

Collections totaling \$61,522 in collected accounts receivable were not properly accounted for as follows:

- o In FY 1989, \$34,984 consisting of eight sustained audit disallowances was not established as accounts receivable on either the 1900 Report or the HDS ADAS report. We found evidence on a work sheet prepared by the RASC accounting officer that \$34,984 was collected and deposited. However, there was no other documentation supporting these accounts receivable as being collected. The RASC accounting officer told us he did not establish the accounts receivable and show collections because the grantees paid the amounts before he established the accounts receivable.
- o In FY 1989, the beginning balance of the 1900 Report did not agree with the beginning balance of the HDS ADAS Report. The RASC accounting officer told us that the 1900 Report's beginning balance was \$26,538 more because it did not reflect a payment in the prior fiscal year. However, the RASC accounting officer could not provide evidence to support this payment.

These errors could have been detected if the RASC had performed monthly reconciliations of the 1900 Report to

the RASC's ADAS report. In addition, the RASC could have compared the recorded receivables to the OAS' Stewardship Report.

Finally, the RASC accounting officer acknowledged that he was responsible for receiving payments and offsets and recording transactions relating to sustained audit disallowances. We believe this lack of segregation of duties presented a situation where unauthorized use of assets could occur and not be detected within a reasonable period.

#### RECOMMENDATIONS

As shown below, we are making recommendations for the RASC to improve its controls over recording, maintaining and reconciling HDS' audit disallowances which allowed:

(1) \$1.1 million in sustained audit disallowances to remain on the books for over 10 months without appropriate actions being taken; (2) \$571,098 in interest, \$197,662 in penalty charges and \$13,725 in administrative costs that should have been accrued on recorded accounts receivable; (3) \$611,370 in sustained audit disallowances for FYs 1989 and 1990 to go unrecorded in the RASC's accounting system, resulting in additional losses of \$23,567 in interest charges and \$4,050 in administrative cost; (4) \$61,855 in accounts receivable to be understated and (5) \$61,522 in collected accounts receivable not be properly recorded. We believe that if the accounting officer had been more knowledgeable of his responsibilities, the accounts receivable would have been better maintained.

Although the RASC has taken corrective steps in eliminating some of the problems, additional measures need to be implemented. We recommend that ASMB provide oversight for the RASC to:

- o Establish procedures to ensure that due diligence is exercised in efforts to collect outstanding receivables and document these efforts. If no collection is made after 10 months, the receivable should be referred to the claims collection officer. The referral should also include a recommendation to suspend, compromise, terminate or forward the claim to the Departmental Claims Officer, the U.S. Attorney or the DOJ as appropriate.

- o Determine the current status of the accounts receivable totaling \$52,018 and document actions taken.
- o Accrue interest and administrative costs on audit disallowances overdue 30 days and accrue penalty charges on audit disallowances delinquent over 90 days in accordance with HHS Claims Collection Regulations.
- o Assure that the \$611,370 in sustained audit disallowances for FYs 1989 and 1990 is recorded and continue the reconciliation already initiated. Also, initiate collection efforts on the \$611,370 and assess related interest, penalty and administrative charges when appropriate.
- o Keep an accurate and reliable account of all payments received and adjust the accounts receivable to reflect payments made.
- o Review the inconsistencies between the 1900 Report and the OAS AIMS Stewardship Report and make appropriate adjustments so that the records reflect the accurate amount of outstanding receivables due the Department.
- o Assure that the \$61,855 in understated accounts receivable and \$61,522 in collected accounts receivable are properly recorded in the RASC records.
- o Assure that segregation of duties exist between the person receiving the payments and offsets and the person recording transactions relating to sustained audit disallowances.
- o Provide training to ensure that accounting officers have an adequate knowledge of debt management.

#### **ASMB Comments**

In the written response to our draft report, ASMB officials generally agreed with our findings and recommendations. The response stated that throughout 1989 and 1990, the Department sent instructions to regional RASC offices to implement guidelines that would correct the weaknesses identified. In FY 1991, ASMB

conducted follow-up reviews in two regional offices. As a result of these reviews, further guidance was issued to help identify additional weaknesses and reinforce the overall debt management function.

The ASMB stated that all regions will be required to conduct an internal control review of their debt management functions in FY 1992. To assist the regions in completing their internal control reviews, ASMB developed and issued a debt management review guide. The ASMB staff will use the guide in a March 1992 review of Region IV's debt management activities.

Further, the ASMB review will address whether or not receivables are being collected; the timeliness of collections; the assessment of late charges, such as interest, administrative costs and penalties; the handling and disposition of debts determined not to be collectable; the day-to-day operating procedures of regional office staff, and the implementation of OMB and Treasury debt management directives. Training is also planned for staff members involved in debt management activities. In addition, a new Director of Finance for Region IV, who is knowledgeable in debt management, has recently been hired.

Please advise us within the next 60 days of any further actions taken on this report. Should you have any questions on the above, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.



RASC PROCEDURES FOR RECORDING, MAINTAINING AND RECONCILING OHDS AUDIT DISALLOWANCES  
AUDIT DISALLOWANCES DELINQUENT OVER 10 MONTHS THAT DID NOT RECEIVE APPROPRIATE COLLECTION EFFORTS

Audit Report	Sustained Disallowance	Date Account Receivable Established	Date Account Receivable Reduced	Notes	No. of Months Without Any Collection Actions Taken
89-002506	\$ 1,513	12-07-82	06-89	A	79 Months
04-20638	\$448,841	01-31-84	07-89	B	66 Months
04-20638	\$ 3,138	01-31-84	07-89	B	66 Months
04-26229	\$170,928	02-08-84	07-89	B	66 Months
04-16196	\$ 44,341	01-31-84	03-90	A	74 Months
04-36002	\$ 44,653	01-30-84	03-90	C	74 Months
04-36060	\$ 39,090	01-30-84	03-90	C	74 Months
04-36209	\$ 500	01-31-84	03-90	C	74 Months
04-37171	\$ 33,664	01-31-84	03-90	C	74 Months
04-46007	\$ 60,018	06-27-85	03-90	C	57 Months
04-46181	\$ 15,105	06-27-85	03-90	C	57 Months
04-46181	\$ 546	06-27-85	03-90	C	57 Months
04-55000	\$ 52,729	06-20-85	03-90	C	57 Months

RASC PROCEDURES FOR RECORDING, MAINTAINING AND RECONCILING OHDS AUDIT DISALLOWANCES  
AUDIT DISALLOWANCES DELINQUENT OVER 10 MONTHS THAT DID NOT RECEIVE APPROPRIATE COLLECTION EFFORTS

Audit Report	Sustained Disallowance	Date Account Receivable Established	Date Account Receivable Reduced	Notes	No. of Months Without Any Collection Actions Taken
04-55059	\$ 1,247	06-20-85	03-90	C	57 Months
04-45096	\$ 1,577	06-20-85	03-90	C	57 Months
04-46914	\$ 77,448	09-19-85	03-90	C	54 Months
04-55186	\$ 81,184	04-24-86	03-90	C	47 Months
87-07572	\$ 6,164	12-21-88	04-90	A	15 Months
	<u>\$1,082,686</u>	Total Receivables Outstanding Over 10 Months			
		Average No. of Months Receivable Was Outstanding			<u>61 Months</u>

FOOTNOTES:

- A. RASC did not provide documentation to support these 3 accounts receivable reductions totaling \$52,018.
- B. In FY 1989, these 3 accounts receivable were reduced by an offset and by payments received. The remaining outstanding balances were transferred to DAO in March 1990.
- C. In March 1990, these 12 accounts receivable were transferred to DAO.

RASC PROCEDURES FOR RECORDING, MAINTAINING AND RECONCILING OHDS AUDIT DISALLOWANCES  
AUDIT DISALLOWANCES FOR WHICH ACCOUNTS RECEIVABLE SHOULD HAVE BEEN ESTABLISHED

Audit Report	Audit Recommendation	Amount Sustained	Account Receivable Established	Difference
87-06868	\$ 10,493	\$ 895	\$ 0	\$ 895
88-05070	\$491,501	\$491,501	\$ 0	\$491,501
88-06876	\$ 9,310	\$ 480	\$ 0	\$ 480
88-06892	\$ 1,455	\$ 1,455	\$ 0	\$ 1,455
88-06895	\$ 4,408	\$ 4,408	\$ 0	\$ 4,408
88-06930	\$ 3,295	\$ 3,295	\$ 0	\$ 3,295
88-06943	\$ 12,798	\$ 12,798	\$ 0	\$ 12,798
88-06958	\$ 961	\$ 961	\$ 0	\$ 961
88-06958	\$ 2,759	\$ 2,759	\$ 0	\$ 2,759
89-06810	\$ 842	\$ 842	\$ 0	\$ 842
89-06872	\$ 14,893	\$ 14,893	\$ 0	\$ 14,893
89-07508	\$ 8,892	\$ 8,892	\$ 0	\$ 8,892
89-08201	\$ 1,761	\$ 1,211	\$ 0	\$ 1,211

RASC PROCEDURES FOR RECORDING, MAINTAINING AND RECONCILING OHDS AUDIT DISALLOWANCES  
AUDIT DISALLOWANCES FOR WHICH ACCOUNTS RECEIVABLE SHOULD HAVE BEEN ESTABLISHED

Audit Report	Audit Recommendation	Amount Sustained	Account Receivable Established	Difference
89-08308	\$ 32,771	\$ 32,771	\$ 0	\$ 32,771
88-08367	\$ 324	\$ 324	\$ 0	\$ 324
88-06284	\$ 4,262	\$ 4,262	\$ 0	\$ 4,262
88-06284	\$ 134	\$ 134	\$ 0	\$ 134
90-06506	\$ 10,174	\$ 10,174	\$ 0	\$ 10,174
89-05642	\$ 1,531	\$ 1,531	\$ 0	\$ 1,531
88-06895	\$ 20,911	\$ 20,911	\$ 0	\$ 16,471
88-07556	\$ 1,313	\$ 1,313	\$ 0	\$ 1,313
				<u>\$611,370</u>



MEMORANDUM

DATE : MAR 16 1992

RECEIVED 3/17/92

TO : Richard P. Kusserow  
Inspector General

FROM : *[Signature]* Assistant Secretary for Management and Budget

SUBJECT : Review of Regional Administrative Support Center's Procedures for Sustained Audit Disallowances in Region IV (A-04-91-00001, Draft Report) -- RESPONSE

We are in basic agreement with the draft audit report concerning the Region IV Regional Administrative Support Center's (RASC) procedures for recording, maintaining and reconciling sustained audit disallowances.. As reported, certain audit disallowances were either not recorded or were improperly recorded as accounts receivable, due to the weaknesses in the debt collection process. The report concludes that, although the RASC has taken corrective steps in eliminating some of the debt collection problems, the ASMB should provide oversight in the implementation of additional measures needed to improve the debt management process.

In FY 1989 the Office of Financial Operations (OFO), located within the ASMB/Office of Finance, determined the accounts receivable/debt management function to be unacceptable and declared debt management a material weakness in the 1989 Federal Managers' Financial Integrity Act (FMFIA) Report. After the initial debt management Internal Control Review, OFO implemented a detailed corrective action plan to correct the problem areas cited as a material weaknesses. The material weakness in ASMB headquarters was corrected in FY 1990 and reported as such in the 1990 FMFIA Annual Report.

Beginning in 1989, the Office of Finance provided the Regional Offices with written policy and guidance to correct any weaknesses that existed. These actions included: the reconciliation of the monthly OIG AIMS Report with the Regional Program Reports; establishment of a single audit control point; issuance of guidance for the assessment of administrative costs, assessment of late penalty charges, and the accruing of interest on delinquent audit and program disallowances; and the timely processing of funds received in the debt collection process.

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In FY 1991, the required follow-up Corrective Action Review (CAR) was completed in ASMB headquarters along with two debt management reviews in the Boston and Philadelphia Regional Offices. The Corrective Action Review addressed subsequent collection action(s), the assessment of late payment charges (interest, administrative costs, and penalties) and the disposition of uncollectible debts under the jointly issued Department of Justice/General Accounting Office regulation, 4 CFR Parts 101-105 "Federal Claims Collection Standards." The CAR examined the actual Debt Management Records to ensure that accounts receivable transactions were properly recorded. These reviews reflected an overall improvement in the debt management process and no new material weaknesses were identified. As a result of these reviews, further guidance was issued and implemented in headquarters and the Regions to help identify additional weaknesses and reinforce the overall debt management function.

As with headquarters, our review of the Regions found that a number of large unrecorded receivables were the result of incorrect guidance received from the former Office of Human Development Services "Audit Clearance Documents", which specifically stated that no accounts receivables (debt) existed. Since then, working in conjunction with the Office of Financial Policy and the OIG, we have implemented new procedures dealing with the establishment, collection and reconciling of accounts receivables.

OFO's FY 1992 Management Control Plan requires that all Regions conduct an internal control review of their debt management functions by the end of this fiscal year. To assist the Regions in the ICR process, a Debt Management Audit Guide for Audit Reimbursement and Programs Disallowance was developed and issued by OFO to all RASC Directors on February 24, 1992.

A Debt Management Review of Region's IV debt management activities by ASMB/Finance staff using the new Debt Management Review Guide is scheduled for this month. The purpose of the review will be to identify and resolve problems being experienced by Regional finance personnel in accounting for and collecting debts owed to the Government. The primary focus of the review will center around the establishment and collection of accounts receivable (debts). The review will address whether or not receivables are being collected: the timeliness of the collections; the assessment of various late payment charges such as interest, administrative costs, and penalties; the handling and disposition of debts determined not to be collectible under the Federal Claims Collection Act of 1966, as amended; the day-to-day operating procedures of Regional office staff; and the implementation of OMB and Treasury debt management directives under OBM Circular A-129. Additionally, we plan to provide

training to ensure that staff members who are involved in debt management activities have adequate knowledge to successfully complete their assign tasks.

The results of this review will be documented and reviewed with the Director of Finance in Region IV. The former Director of Finance has recently retired and a new Director is expected to come on board March 23, 1992. The new Director is extremely knowledgeable in the area of debt management and will no doubt improve Region's IV overall performance in all areas of financial management.

Should your staff have any questions, or require additional information, please do not hesitate to have them contact Henry Leach at (202) 245-0401.

Arnold R. Tompkins