Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

SURVEYING STAFF TO IDENTIFY UNNECESSARY MANAGEMENT REGULATIONS AND INTERNAL CONTROLS

Tracking and Analysis

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E X E C U T I V E S U M M A R Y

PURPOSE

The purpose of this inspection was to develop and test a prototype that agencies could use to track, analyze, and eliminate management regulations and internal controls that may be unduly burdensome or unnecessary.

BACKGROUND

Executive Order to Reduce Management Regulations

On September 11, 1993, President Clinton signed Executive Order 12861 which required that all executive departments and agencies reduce their internal management regulations by 1996. The President signed the Executive Order immediately following release of the National Performance Review which described and detailed the time and resources consumed by unnecessary management regulations and internal controls.

Continuous Improvement Program

In response, Department of Health and Human Services Secretary Donna Shalala instructed her Continuous Improvement Program (CIP) Steering Committee to oversee the reduction of management regulations and internal controls within the Department. The CIP's work group on internal controls requested the Office of Inspector General's assistance in developing a methodology that could be used to identify duplicative or unnecessary controls and requirements.

OIG Study

This is the second of two reports that we have issued on this subject. The first report, "Surveying Staff to Identify Unnecessary Internal Controls" (OEI-09-94-00210), describes how to identify potentially unnecessary management regulations and internal controls through focus groups and interviews with staff. For purposes of this study, the term ***management regulations and internal controls*** includes all of the elements in the Executive Order, CIP, and National Performance Review definitions.[1] This report describes how to analyze and track selected management regulations and internal controls to determine if they should be retained, modified, or eliminated. The goal of the methodology is to eliminate controls that are inefficient or ineffective and retain those that protect programs from fraud, abuse, and waste.

[1] This includes the terms "management controls," "accounting controls," and "budget controls."

For both reports, we tested our methodology by interviewing Public Health Service (PHS) staff, including the Food and Drug Administration (FDA) and the Indian Health Service (IHS), and tracking and analyzing the management regulations and internal controls that affect them. We selected PHS because of its diversity and complexity. After we issued the first report, we provided PHS with a list of the 260 management regulations and internal controls that staff identified during focus groups and interviews as potentially unnecessary. Some of these management regulations and internal controls have already been addressed, and others are in the process of being reviewed.

After we completed tracking and analysis, in December 1995, the Secretary initiated a Departmental reorganization. The Assistant Secretary for Health became the head of a new agency, the Office of Public Health and Science, within the Office of the Secretary. The PHS agencies became HHS operating divisions, reporting directly to the Secretary. These operating divisions now constitute the U.S. Public Health Service, with the Secretary as its head.

STEPS IN THE TRACKING PROCESS

Tracking and analyzing the list of management regulations and internal controls--and eliminating those that are unnecessary--requires eight interrelated steps. These steps include: (1) refining the list by consolidating, clarifying, and reviewing the problems, concerns, and issues identified by staff; (2) identifying *quick hits*--issues that the agency can address with a minimum of review; (3) ranking the remainder of the list; (4) conducting a series of interviews with officials who are responsible for program operations and those who mandate or oversee the controls and management regulations, (5) obtaining relevant documentation, such as appropriate statutes, regulations, policy statements, manuals, directives, memoranda, and guidance; (6) analyzing the purpose and need for the controls; (7) taking action (if appropriate); and (8) informing staff about the results of tracking and any changes that have been implemented.

PITFALLS AND TIPS TO AVOID THEM

We experienced some pitfalls that inhibited our ability to track and analyze management regulations and internal controls successfully. These included interviewees who were (1) reluctant to participate in tracking, (2) unaware of the reasons that certain controls and management regulations were initiated, and (3) unable to think of creative alternatives to burdensome controls and management regulations. We were able to overcome these pitfalls through a combination of strategies, but we believe that most of the pitfalls would be avoided if agencies cooperate in all aspects of the review, educate staff, and encourage staff to participate in the effort.

GENERAL LESSONS LEARNED THROUGH CASE STUDIES

To test the tracking and analysis methodology, we selected six management regulations and internal controls in collaboration with PHS: (1) the imprest fund requirements for an FDA district office, (2) the requirements for review of FDA seizure recommendations, (3) the preparation and submission of several FDA district office administrative reports, (4) the regional office's role in PHS' Community Health Center program administration, (5) the process to purchase a computer in an IHS area office, and (6) the IHS conference management system.

Management regulations and internal controls are necessary to insulate programs from fraud, waste, and abuse and to conserve limited resources. Nevertheless, based on the case studies, we learned several lessons about the reasons why some management regulations and internal controls may be unnecessary or unduly burdensome:

- All levels of government, including Congress and the Office of Management and Budget, have mandated burdensome controls and routine reporting requirements that limit agencies' reduction efforts.

- Agencies sometimes overreact to the findings of oversight agencies.

- Agencies are reluctant to delegate authority.

- Agencies sometimes exceed reasonable assurance and/or legal requirements when developing management regulations and internal controls.

- Multiple agencies and individuals become involved in approving actions and processing reports.

- Agencies rarely eliminate obsolete management regulations and internal controls.

The case studies illustrate these points. In each case, we describe options that agencies could consider, based on the results of our tracking and analysis.

AGENCY COMMENTS

We received comments on the draft report from the Assistant Secretary for Planning and Evaluation (ASPE). We did not receive formal comments from the Director of IHS, the Administrator of HRSA, or the Commissioner of FDA, although we did receive comments from their staff. The ASPE believes that the tracking and analysis methodology will assist the Department in its efforts to reduce unnecessary management regulations and internal controls. The IHS staff concurred with ASPE.

The HRSA staff did not comment on the tracking and analysis methodology. They did, however, mention that the concerns expressed in the community health center program case study will be addressed in HRSA's 1996 reorganization plan.

The FDA staff also did not comment on the tracking and analysis methodology. Staff provided technical comments on the case studies that differed from those we received during the course of our inspection. Clearly, FDA management will have to determine how it can best balance the need to meet the requirements set forth in Executive Order 12861 with their staff's perceived need for continuation of certain management reports and processes.

The full text of the comments appears in Appendix B.

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PURPOSE

The purpose of this inspection was to develop and test a prototype that agencies could use to track, analyze, and eliminate management regulations and internal controls that may be unduly burdensome or unnecessary.

BACKGROUND

On September 11, 1993, President Clinton signed Executive Order 12861 which required that all executive departments and agencies eliminate 50 percent of their internal management regulations by 1996. The President signed the Executive Order immediately following release of the National Performance Review which described and detailed the time and resources consumed by unneeded management regulations and internal controls.

In October 1993, the Office of Management and Budget (OMB) issued instructions to all executive departments for implementing the Executive Order. The OMB instruction stated that "the goal of this reduction effort is to weed out needless internal regulations so that: (1) the outcomes to be achieved in a regulation are clearly articulated; (2) responsibilities for decision making and action are clearly assigned; and (3) oversight can shift from process to outcome." The OMB encouraged agencies to re-examine internal business practices and determine how these practices can be re-engineered to accomplish necessary reductions.

In response to the Executive Order and OMB instructions, Department of Health and Human Services (HHS) Secretary Donna Shalala instructed her Continuous Improvement Program (CIP) Steering Committee to oversee the reduction of management regulations and internal controls within the Department. The CIP's Advisory Group on Organization and Management Structure and Processes established a work group to focus on management regulations and internal controls. The CIP work group requested the Office of Inspector General's (OIG) assistance in developing a methodology that could be used to identify duplicative or unnecessary management regulations and internal controls.

This is the second of two reports that we have issued on this subject. The first report, "Surveying Staff to Identify Unnecessary Internal Controls" (OEI-09-94-00210), describes how to identify potentially unnecessary management regulations and internal controls through focus groups and interviews with staff. This report describes how to analyze and track selected controls and management regulations to determine if they should be retained, modified, or eliminated. The goal of the methodology is to eliminate controls that are inefficient or ineffective and retain those that protect programs from fraud, abuse, and waste.

Defining management regulations and internal controls

As stated in the National Performance Review, the traditional view of internal controls is rooted in financial management and accounting. Since the late 1980s, however, government has increasingly integrated this view into the broader context of "management controls." According to the National Performance Review, internal management control techniques include "polices, procedures, and organizational plans, and physical arrangements."

The Executive Order defines an internal management regulation as an agency directive or regulation that pertains to its organization, management, or personnel matters. The OMB synthesized the definitions of management regulations and internal controls by stating that, for the purposes of the reduction effort, an internal control is defined as:

> ...any agency directive, regardless of what you call it, that prescribes agency policies or procedures--including internal agency acquisition regulations and grant management requirements--that pertain to an agency's internal organization, management, or personnel.

The OMB stated that certain regulatory provisions should not be included in this reduction effort. Excluded are provisions that (1) are non-discretionary (i.e. those required by statute, court order, Executive Order, or other external agency directive), (2) promote public information access, and (3) are determined to be necessary for the delivery of "essential services."

The CIP clarified the definition of internal controls for purposes of HHS' reduction effort to include any "inappropriate or wasteful internal controls regardless of the organizational origin of those controls." A CIP memo defined internal controls as:

> ...any imposition by an organizational unit upon another of a requirement for approval of decisions or activities, guidance or procedures on how to accomplish an assignment or mission, or reporting of information...internal controls include any such imposition, regardless of the origin of the requirement.

For purposes of this study, the term ***management regulations and internal controls*** includes all of the elements in the Executive Order, CIP, and National Performance Review definitions.[2] For clarity and brevity, we have consolidated these definitions into the following three primary categories:

[2] This includes the terms "management controls," "accounting controls," and "budget controls."

- ***approvals:*** layers of review and approvals;

- ***procedures:*** written manuals and guidance as well as unwritten controls such as policies and instructions that have become standard; and

- ***reports:*** written or automated reports describing grantee or staff performance, requirements to use specific reporting systems, and paperwork requirements.

Results of focus groups and interviews

To test our methodology, we conducted interviews--either individually, in small groups, or in focus groups--with 154 staff working for Public Health Service (PHS) agencies in California. We selected PHS for the case study because of its diversity and complexity. The sample included the PHS regional office in San Francisco, the Food and Drug Administration (FDA) regional office in San Francisco, the FDA district office in Alameda, the FDA resident post in San Jose, and the Indian Health Service (IHS) Area Office in Sacramento. We also interviewed staff from the IHS district office in Sacramento.

During the focus groups and interviews, staff identified 260 management regulations and internal controls that they believe should be modified or eliminated. Most of these (56 percent) fell into the category of approvals. One-third pertained to reports, and 11 percent pertained to guidance. We provided PHS with the list of the 260 management regulations and internal controls. Some of these items have already been addressed, and others are in the process of being reviewed. For a more complete description of the focus group and interview methodology, see "Surveying Staff to Identify Unnecessary Internal Controls" (OEI-09-94-00210).

This report is divided into four parts: The first part describes the steps required to rank, track, and analyze the management regulations and internal controls that were identified by staff during the focus groups and interviews. The second part describes the pitfalls we encountered when applying the methodology and some tips to avoid such pitfalls. The third part describes the lessons we learned during the tracking and analysis. The fourth part contains full descriptions of the six management regulations and internal controls that we tracked.

After we completed tracking and analysis, in December 1995, the Secretary initiated a Departmental reorganization. The Assistant Secretary for Health became the head of a new agency, the Office of Public Health and Science, within the Office of the Secretary. The PHS agencies became HHS operating divisions, reporting directly to the Secretary. These operating divisions now constitute the U.S. Public Health Service, with the Secretary as its head.

STEPS IN THE TRACKING PROCESS

Tracking and analyzing the list of management regulations and internal controls--and eliminating those that are unnecessary--requires eight discrete but interrelated steps:

STEP 1: REFINE THE LIST

The purpose of this step is to expedite the tracking process by consolidating management regulations and internal controls that are similar, clarifying the potential problems with each control and management regulation, and reviewing the list to ensure that each issue is valid and has not been addressed already.

Consolidate: When tracking and analyzing management regulations and internal controls, it's helpful to group controls and management regulations that pertain to similar processes or originate in the same office. This allows reviewers to save time by conducting fewer interviews. If they consolidate management regulations and internal controls into more general process reviews, they can also reduce the disruption to agency officials by interviewing them about several controls at one time.

Clarify: Reviewers must ensure that they have an accurate understanding of staff's problems and concerns by conducting follow-up interviews with focus group and interview participants.

Review: We found many instances where focus group and interview participants described concerns that they believed were management regulations and internal controls but, instead, were simply complaints about specific managers or coworkers. Reviewers should examine the list of staff-generated management regulations and internal controls and eliminate those that are clearly tied to personality conflicts rather than policy or procedural issues. After eliminating these, reviewers should assess whether the problems with each control and management regulation identified by staff still exist, are under study by the agency, or have been addressed already. Management regulations and internal controls that are the subject of agency review could be eliminated from the list or given lower priority than other controls that had not been identified previously. Although *review* should occur throughout the tracking process, it is particularly important to conduct a thorough review at this initial step.

STEP 2: IDENTIFY QUICK HITS

Reviewers should scan the aggregate list of management regulations and internal controls and identify those that are obvious targets for quick action. Some management regulations and internal controls do not require the same in-depth analysis as others because they have been evaluated already or the problems and solutions are obvious. These should be removed from the list and referred to the agency for immediate remedy.

STEP 3: RANK

To ensure that the most important issues receive prompt attention, reviewers should rank the management regulations and internal controls that remain on the list after steps 1 and 2. Reviewers may wish to consider one or more of the following factors when ranking the management regulations and internal controls for further analysis:

- the relative number of staff who mentioned the control or management regulation during focus groups and interviews;
- the extent to which staff ranked the control or management regulation in their top three controls that are most burdensome or unnecessary;
- the number of staff who are affected by the control or management regulation;
- the organizational level at which the control or management regulation could be addressed and modified;
- the ease with which the control or management regulation could be addressed and modified; and/or
- the apparent negative impact of the control or management regulation (e.g., negative effects on public or employee health and safety or significant impairment of the agency's ability to accomplish its mission).

STEP 4: INTERVIEW

The interview process consists of a "chain" of interviews, each leading upward through or laterally across an agency to reach "the top" level or outside agency where the management regulation or internal control was initiated--or could be changed. In some cases, it might be necessary to track a management regulation or internal control only to a supervisor (such as for a staff activity report). In other cases, a management regulation or internal control might be tracked to a statute, another federal department, or an independent agency. The interview process consists of two parts, each of which must be repeated until the source of the management regulation or internal control has been determined:

1. Obtain the name and phone number of the person who directly oversees the management regulation or internal control.

This individual may have been identified during the initial focus groups and interviews with staff or during the clarification interviews discussed in Step 1. This may not be the individual who originated the requirement. Each interview should include a discussion of the next level, until the originator of the management regulation or internal control is identified.

2. Conduct interviews with all offices and agencies that impose the control or management regulation on a lower office or agency.

We used a structured discussion guide (see appendix A) to determine:

- how the control or management regulation originated;
- how it benefits clients;
- whether the control or management regulation is appropriate or outdated;
- whether a supervisor, another agency, law, Congressional guidance, or regulation requires the individual to enforce the control or management regulation;
- how much time is devoted to overseeing or complying with the control or management regulation;
- whether the respondents believe that the control or management regulation should be modified or eliminated; and
- whether elimination would jeopardize the agency's stewardship responsibilities.

In general, the questions should be tailored to the individual or group of individuals being interviewed. The purpose of each interview is to clarify the purpose of the control or management regulation and how it is used. At each step, the interviewers should determine whether changes in technology or procedures indicate a lesser need for the management regulation or internal control.

For agencies that have convened management regulation and internal control reduction teams, reviewers will find it helpful to interview these team members to ascertain what their views are, even if they are not in the chain of interviews.

STEP 5: DOCUMENT

Relevant documentation includes appropriate statutes, Congressional committee reports, regulations, policy statements, manuals, directives, memoranda, and guidance. When analyzing documentation, it is important to compare it to its source. For instance, reviewers should examine statutory or regulatory citations in a policy manual and conduct their own review or analysis of those laws and regulations to identify discrepancies or questionable interpretations. Reviewers then can ask questions that will help discover why a manual apparently goes beyond what a law or regulation specifically requires. Reviewers should also analyze audits, inspections, and other oversight reports that may have led to the implementation of more stringent management regulations and internal controls.

STEP 6: ANALYZE

Analyzing all interviews and documentation is necessary to allow reviewers to develop a list of options for decision makers. Overall, reviewers should (1) differentiate between administrative controls and internal accounting controls and (2) look for indications that a control or management regulation might be excessive. Indicators include affirmative responses to the following questions:

- Was the control initiated in response to an isolated occurrence or abuse. If so, are the resulting management regulations and internal controls appropriate?
- Can the control or regulation be eliminated without increasing the agency's risk to fraud, waste, or abuse?
- Have technological advances, such as systems automation, been implemented since the control was established?
- Does agency guidance significantly vary from applicable law and regulation without any clear reasoning behind it?
- Do interviewees, including Congressional or Executive Branch agencies (if appropriate), agree that the control could be modified or eliminated?

In the case of an internal accounting control, additional analysis is necessary. This would include the following steps:

- analyzing the control environment,
- identifying and analyzing inherent risks,
- testing the control's effectiveness, and
- determining whether the analysis supports eliminating control.

We have provided additional details explaining these four steps in appendix C.

STEP 7: ACT

While reviewers might complete their tasks with Step 6, taking action on the options that they present is the most important step in the process. Ultimately, the success of the reduction effort hinges on the agency's ability to implement solutions to unduly burdensome or unnecessary management regulations and internal controls.

STEP 8: INFORM

Reporting the results of (1) the review and any corrective action or (2) the basis for retaining a regulation or control can have a positive effect on employee morale. Failure to do so, on the other hand, can be detrimental to staff who contributed time and ideas to the process.

PITFALLS AND TIPS TO AVOID THEM

During the course of tracking management regulations and internal controls identified by field staff, we experienced some pitfalls that inhibited our ability to track controls successfully. We offer some tips below to avoid them in the future.

PITFALL: INTERVIEWEES WERE RELUCTANT TO PARTICIPATE IN TRACKING

We encountered some staff who were unsure whether to participate fully in interviews. They appeared to be reluctant to share their thoughts about the control or management regulation because they did not want to undermine their agency, component, or manager. Other staff were defensive, believed it was a waste of time, and/or expressed hostility that anybody would question certain processes.

Tips

☞ This is one indication that an internal agency group might be more successful in conducting the tracking.

☞ We held introductory conference calls with staff from various agency components. It was important to involve senior-level staff in these meetings so that it was clear that the agency was a cooperative partner in the effort to reduce unnecessary management regulations and internal controls.

PITFALL: STAFF SOMETIMES DO NOT KNOW WHY A CONTROL OR MANAGEMENT REGULATION EXISTS, EVEN THOUGH THEY PLAY A MAJOR ROLE IN ITS ADMINISTRATION

This may make it difficult for reviewers to determine the basis for the control or management regulation and to discuss options. Most frequently, when staff did not know the basis or reason, they tended to assume that it was legally required. This may occur because some internal control systems require segregation of duties. In other cases, it may occur simply because the control or management regulation has been in place for a long time, and nobody ever questioned its existence.

Tips

☞ Agencies should educate staff about the reasons for specific management regulations and internal controls, especially when the they have been implemented in response to a requirement from another department or agency.

☞ Sometimes not knowing the reason a control or management regulation exists can be a benefit, because the interviewee can focus on what makes sense rather than

what he or she believes is required. Focusing on logical solutions can help reviewers overcome this barrier.

☞ Obtain statutory citations and documentation from other sources, perhaps using computerized on-line searches.

PITFALL: INTERVIEWEES FREQUENTLY WERE UNABLE TO THINK OF CREATIVE OR LESS BURDENSOME OPTIONS TO MANAGEMENT REGULATIONS AND INTERNAL CONTROLS

Throughout the identification and tracking phases, it was clear that staff have learned to accept and live with management regulations and internal controls. In many instances, we found it difficult to solicit ideas for modifying existing controls and management regulations because staff simply had never considered that they could be changed or eliminated. This was particularly true when the control or management regulation was mandated by an outside agency.

Tips

☞ In general, agencies need to foster an environment of change and creativity, where suggestions to streamline processes are valued and rewarded.

☞ Reviewers should research alternatives to the control or management regulation and make follow-up calls to interviewees to obtain their opinions about them. This requires obtaining all background information on the control or management regulation, including its purpose, results, and cost effectiveness. We sought to have interviewees make distinctions between what the law required and what was promulgated in the agency's regulations or policies.

PITFALL: BOTH INTERNAL AND EXTERNAL REVIEWERS HAVE ADVANTAGES AND DRAWBACKS

While any individual or group of individuals can apply this methodology to an agency's management regulations and internal controls, determining whether the review should be conducted by an internal or external team is a major decision. An internal team has the advantage of knowing the laws, regulations, controls, and personnel within the agency. However, an internal team may already have formed opinions about certain management regulations and internal controls, and staff might be less comfortable speaking honestly and freely with them. External reviewers--a team of reviewers from one or more outside agencies or a consultant--are more likely to be unbiased, but they probably require more time to become acquainted with the agency's structure, policies, and inner-workings.

Tips

☞ Agencies might want to consider using outside personnel to conduct the initial focus groups and interviews and then turning the effort over to an internal group that has detailed knowledge of the issues raised.

☞ Regardless of whether the agency selects internal or external reviewers--or a combination--it should seek objective reviewers, i.e., those who do not have a stake in either the continuance or the elimination of management regulations and internal controls.

GENERAL LESSONS LEARNED ABOUT INTERNAL CONTROLS

To test the methodology, we selected, in collaboration with PHS, six management regulations and internal controls to track and analyze:

- *the imprest fund requirements for an FDA district office;*
- *the requirements for review of FDA seizure recommendations;*
- *the preparation and submission of several FDA district office administrative reports, including the accounts receivable, emergency salary advances, gains and losses, and travel advance reports;*
- *the PHS regional office's role in the Community Health Center program administration;*
- *the process to purchase a computer in an IHS area office; and*
- *the IHS conference management system.*

In addition to using the methodology's criteria to select these controls and management regulations, we selected issues that represented a cross-section of the different control and management regulation categories (approvals, guidance, reports) as well as the agencies included in the study. The case studies are described in detail in the next section.

Management regulations and internal controls are necessary to insulate programs from fraud, waste, and abuse and to conserve limited resources. Nevertheless, based on the case studies, we learned several lessons about the reasons why some management regulations and internal controls appear to be unnecessary or unduly burdensome.

ALL LEVELS OF GOVERNMENT, INCLUDING CONGRESS AND THE OFFICE OF MANAGEMENT AND BUDGET, HAVE MANDATED BURDENSOME CONTROLS AND ROUTINE REPORTING REQUIREMENTS THAT LIMIT AGENCIES' REDUCTION EFFORTS

Mandates from Congress and OMB sometimes result in requirements that spawn a plethora of management regulations and internal controls. For example, when Congress requires a routine report, multiple agencies and layers within each agency must develop the capability to provide such information. This is particularly apparent in certain instances at FDA where several layers within FDA, as well as the Office of the Secretary, process data prior to submitting reports to Congress or OMB. Furthermore, Congress may impose the same reporting requirements on all agencies, even if the report does not

really apply to them. For example, all agencies must report accounts receivable to Congress and OMB even though many agencies, such as FDA, have minimal accounts receivable.

We also found instances where Congress would not allow certain authorities to be delegated below a certain level. By enacting this type of legislation--such as barring central office from delegating certain grantmaking authority to regional offices--Congress inhibits the agency's ability to administer its programs efficiently and reduce burdensome management regulations and internal controls.

AGENCIES SOMETIMES OVERREACT TO THE FINDINGS OF OVERSIGHT AGENCIES

Agencies come under extreme pressure to react strongly and swiftly when Congress, the General Accounting Office, OIG, or other oversight agencies identify material weaknesses or other problems in their programs. As a result, agencies sometimes implement strict management regulations and internal controls that exceed oversight agency recommendations and penalize agency components that have never exhibited the same level of vulnerability as the components where the weakness was identified. One example is the FDA imprest fund requirements. Isolated instances of abuse in other agencies that had large imprest funds resulted in a series of strict and, at times, excessive management regulations and internal controls.

AGENCIES ARE RELUCTANT TO DELEGATE AUTHORITY

Agencies are hesitant to delegate authority to subordinate offices or individuals, even when allowed by law or regulation to do so. Agency officials frequently cite the need for consistency among field offices as a rationale for not delegating. The IHS' conference management system, for example, would allow the Director of IHS to delegate authority to approve area offices' conference plans. To date, however, the director has not delegated this authority, even though other high-level IHS officials are involved in the review and approval of the conference plans.

AGENCIES SOMETIMES EXCEED REASONABLE ASSURANCE AND/OR LEGAL REQUIREMENTS WHEN DEVELOPING MANAGEMENT REGULATIONS AND INTERNAL CONTROLS

We found several instances where agencies required field offices to provide reports more frequently than the agency itself was required to. While the need for agencies to track certain data might be necessary for critical issues, in some cases these reports contain little information and are basically paperwork exercises. This is the case with two of the four FDA administrative reports that we tracked. Although Congress requires quarterly or annual reports, FDA headquarters requires district offices to submit monthly reports, even though the reports contain little or no new or useful information.

MULTIPLE AGENCIES AND INDIVIDUALS BECOME INVOLVED IN APPROVING ACTIONS AND PROCESSING REPORTS

In some instances, agencies and individuals become involved in a chain of approvals or report processing, even though their roles and the purpose for including them are unclear. Several of the case studies illustrate how many agencies and officials are unnecessarily involved and how these layers could be streamlined or eliminated:

- To procure a computer in an IHS area office, six separate reviews must be completed. Although the area office streamlined the operation by allowing some individuals to review more than one facet of the requisition, there are still too many reviewers and each review is too narrow in scope. For example, one official must certify that excess inventory to fill the need does not exist. Another official, who is part of a committee that reviews requisitions, must certify that the computer is actually needed. And yet another official has the authority to decide whether the computer should be purchased and, if so, what type of equipment would meet the requestor's needs.

- While FDA has streamlined its process for reviewing seizure recommendations, the process still requires that a number of different agencies review all recommendations, even if a specific case is identical to a previous case. The FDA currently is identifying certain regulated products that could be subject to fewer layers of headquarters review. So far, however, headquarters staff have been reluctant to consider eliminating more than one layer of review.

- The PHS' Debt Management Branch consolidated agencies' accounts receivable data but did not submit the data to the Treasury Department to meet the statutory requirement, nor did it assist in debt collection activities. Instead, FDA submitted the data directly to the Treasury Department. The Debt Management Branch simply provided comparative data to PHS agencies, although most of them, including FDA, had few accounts receivable.

AGENCIES DO NOT ALWAYS ELIMINATE OBSOLETE MANAGEMENT REGULATIONS AND INTERNAL CONTROLS

Even when agencies implement automated systems to replace cumbersome manual systems that require numerous management regulations and internal controls, they do not always eliminate the previous controls and management regulations, especially reporting requirements. Automated budget and personnel systems throughout PHS and the Office of Personnel Management did not result in significant reductions in the number of duplicative manual reports.

CASE STUDIES

THE IMPREST FUND REQUIREMENTS FOR THE FDA DISTRICT OFFICE

Numerous management regulations and internal controls govern the use of imprest (petty cash) funds, which are used in the district office to procure small-cost goods and services. These controls and management regulations were developed as a result of fraud, and because oversight agencies were concerned that the availability of cash invites abuse. The FDA is eliminating imprest funds in all district offices in favor of less burdensome and risky systems.

BACKGROUND

The district office's imprest fund totals approximately $1,000 for each fiscal year. Among the controls that govern the management of these funds,

- only the principal cashier--who must be designated by the Treasury Department--or a designated alternate may have access to the fund;
- cashiers may not be certifying officers;
- advances from the principal cashier to the alternate must be done with a signed interim receipt. If this cannot be done in advance, a committee of three will process the transfer to the alternate and sign the interim receipt;
- at least five accountability reports are required, including a daily reconciliation and an annual audit;
- in order to obtain a cash advance from the fund, requestors must submit a 393 form and obtain the approval of a branch manager or district director; and
- annually, all authorized cashiers and administrative officers must read a 31-page manual and sign on each of 17 separate pages. Each signature indicates that they have read and understood that page. They must submit the signed pages to headquarters.

STAFF CONCERNS

Managers and staff at the field level do not understand why so many controls and management regulations exist for such a small amount of money. "We can buy $60,000 lab equipment, but if $1 is missing from the imprest funds, it's a major problem," said one staff member.

TRACKING AND ANALYSIS

In June 1992, PHS declared a material weakness regarding FDA's imprest fund operations. This came after an FDA staff member obtained unauthorized cash payments from the FDA Headquarters imprest fund totaling more than $25,000. A subsequent review by the OIG determined that these losses could have been avoided if FDA had followed the management regulations and internal controls in place at the time when the illegal activities were perpetrated.

Although the OIG recommended corrective actions pertaining to imprest fund operations, it also recommended that FDA consider eliminating the imprest fund and using alternative methods, such as third-party drafts and credit cards, to eliminate all cash disbursements. The FDA is in the process of implementing third-party draft systems in all district offices.

We tracked imprest controls and management regulations through FDA headquarters. While imprest controls and management regulations could be tracked through FDA to PHS, the Office of the Secretary, the Treasury Department, and OMB, we stopped tracking upon learning that FDA had plans to eliminate all imprest funds within a year.

CONCLUSIONS/OPTIONS

Although FDA is eliminating imprest funds, valuable lessons can be learned from how these excessive management regulations and internal controls evolved. As is sometimes the case, burdensome requirements resulted from isolated instances of abuse. Some of the controls applicable to larger funds were unnecessary and burdensome when applied to smaller funds.

Many of the management regulation and internal control failures noted in the OIG audit report were unique to FDA headquarters. The size of the staff at FDA headquarters combined with the volume of transactions processed by the cashier in Rockville resulted in a situation where the cashier was not acquainted with funds requestors or approving officials. In district offices, the cashier is more likely to know most of the staff by name or face.

The FDA in Rockville processed hundreds of thousands of dollars in imprest transactions while the FDA district office rarely had a balance of more than $1,000. In this case, the burden of the controls and management regulations far outweighed the potential for fraud and waste.

STAFF COMMENTS ON THE DRAFT REPORT

In their written comments, FDA staff questioned their authority to eliminate imprest fund controls, asserting that only the Treasury Department can do this. We stopped tracking these controls when we learned that FDA was eliminating imprest funds. Nevertheless, the case study illustrates how cumbersome and inflexible management regulations and internal controls can be.

REQUIREMENTS FOR REVIEW OF FDA SEIZURE RECOMMENDATIONS

Field level staff believe the requirements for headquarters review of seizure recommendations cause unnecessary delays. The FDA follows an internally developed procedure for seizures that ensures an exceptionally high success rate. The FDA acknowledges concerns about delays and is convening a workgroup to develop alternative procedures.

BACKGROUND

A seizure is a regulatory action by the federal government against products that are found to be in violation of the federal Food, Drug, and Cosmetic Act. In a seizure action, FDA recommends that the U.S. Attorney file a Complaint for Forfeiture and a warrant for arrest, directing the U.S. Marshal to seize the violative products. Parties interested in the products, such as owners or agents, may claim them and litigate on the products' behalf. If there is no proper claimant, the federal government may destroy the products.

A seizure recommendation must pass multiple reviews. From the time a field investigator finds violative products until the U.S. Attorney files the case, numerous offices decide whether the seizure case will proceed, including (1) the FDA district office, (2) the appropriate FDA center, (3) FDA's Division of Compliance Management Operations (DCMO), (4) the Office of General Counsel (OGC) within FDA, and (5) the U.S. Attorney's Office. The FDA also notifies the Department of Justice's Office of Consumer Litigation when it formally recommends that the U.S. Attorney file a case.

STAFF CONCERNS

In the FDA regional office, district office, and resident post, staff said the multiple levels of review required for seizure recommendations cause untimely delays. While the recommendation is being reviewed, the violative products could be sold to consumers or otherwise moved from the site.

Staff identified several steps that they believe unnecessarily prolong the process:

- the requirements that both the centers and DCMO review seizure recommendations;
- the OGC's involvement in endorsing the seizure action before the case can be forwarded to the U.S. Attorney's Office;
- field staff's lack of authority to recommend a seizure action directly to the U.S. Attorney's Office; and
- the requirement that field investigators make availability checks and revalidate conditions several times to assure the products are present and still violative.

TRACKING AND ANALYSIS

The FDA Regulatory Procedures Manual Chapter 8-20 spells out the procedure for recommending a seizure. The FDA has developed this internal procedure over the years and periodically convenes workgroups to revise or update it. Headquarters staff believe that the procedure is highly effective. They acknowledge, however, that the multiple reviews sometimes result in delays. Currently, an FDA workgroup is reviewing ways to streamline the review of seizure cases.

Reviews by both the appropriate center and DCMO are specified in the Regulatory Procedures Manual. While the center checks for compliance with product-specific policy, DCMO checks for consistency with FDA policy nationally and among centers. The FDA decided this two-step review is more efficient than a previous system, in which compliance staff located in a single office did not have enough access to the technical expertise in the centers.

Each center has its own internal process for review, some much more complex than others. Depending on the center, the seizure recommendation may be subject to review and approval or disapproval by the consumer safety officer, branch chief, division director, and/or compliance office director. The FDA's timetable for center review of a seizure recommendation is 5 days. Center staff say their ability to meet this goal depends on the complexity of the violation.

Under a pilot program, not all seizure recommendations must be reviewed by the centers. The FDA Compliance Policy Guides direct the district office to forward certain cases directly to DCMO. This procedure, called "direct reference," is used in selected instances where policy is firmly established and evidence is strong, such as a massive infestation of insects spreading filth throughout a warehouse.

The FDA's internal policy extends OGC's authority, under federal regulation 21 CFR 5.10(b), to review seizure recommendations. According to headquarters staff, OGC review improves the process because the U.S. Attorney is more likely to file the case if it can use the food and drug expertise of OGC attorneys. Both FDA and OGC staff believe that OGC review satisfies the Department of Justice's Office of Consumer Litigation, which currently does not exercise its authority to review seizure recommendations [28 CFR 0.45(j)].

In only one circumstance--margarine substitution for butter--is the FDA district office allowed to forward the seizure recommendation directly to the U.S. Attorney. Although an FDA workgroup discussed increasing direct recommendation to the U.S. Attorney, FDA has not pursued this option. Some staff believe it should be tried on a limited basis, while others believe that the lack of headquarters and OGC review would raise red-flags with the Department of Justice and the U.S. Attorneys.

The Regulatory Procedures Manual states that violative conditions must be revalidated if the evidence is older than 30 days to ensure that the products are present and still violative

when the U.S. Marshal seizes them. Last year, FDA changed the procedures to avoid multiple revalidations. Now, OGC approves seizure recommendations, pending revalidation. Since the change in procedures, FDA staff reported there have not been any cases requiring multiple revalidations.

CONCLUSIONS/OPTIONS

The FDA should continue the workgroup's efforts to improve the seizure process. Members of the workgroup and other FDA staff have suggested ways to speed the process while maintaining appropriate review of seizure recommendations. These suggestions include:

- encouraging firms to hold or recondition violative products voluntarily;
- increasing the frequency of communication between the field, centers, DCMO, and OGC;
- improving the clarity and organization of the case documents;
- developing the charge most supportable by the evidence;
- transmitting case files by electronic mail or over-night mail on a diskette;
- improving the coordination of reviews between divisions within some centers;
- continuing and perhaps expanding a pilot program of "direct reference;"
- implementing concurrent review by the centers and DCMO in urgent cases;
- developing and implementing an on-line library of jurisdictional models for pleadings; and
- implementing a pilot program of direct recommendation of cases from the district office to the U.S. Attorney in carefully selected, clear-cut cases.

In addition to the options being considered by the workgroup, it may be helpful for FDA to examine whether reviews are unnecessarily repeated. For example, staff in the centers, DCMO, and OGC all mentioned cases that had elementary problems, such as omitted Interstate Commerce documentation, reaching their level of review. The FDA may want to explore ways to notify subsequent reviewers of the issues that have already been checked, the results of these checks, and any actions that should be completed.

FDA DISTRICT OFFICE ADMINISTRATIVE REPORTS

Staff from FDA's district office believe that only 3 of approximately 30 routine administrative reports serve any useful function. Others were useful at one time but are now obsolete, primarily because administrative processes have changed or become automated. Tracking of a sample of four reports revealed that these reporting requirements appear to be excessive when compared to the legal requirements. In general, however, FDA has been proactive in reviewing the need for these reports.

BACKGROUND

Food and Drug Administration district offices must submit approximately 30 routine administrative reports to headquarters on a monthly, quarterly, semi-annual, or annual basis. On a monthly basis, headquarters requires reports on travel advances, accounts receivable, and emergency salary advances. On a quarterly basis, headquarters requires more than a dozen reports, including summaries of procurement, usage of government vehicles, accidents and injuries, the aging of travel advances, and gains and losses. On a semi-annual basis, headquarters requires reports on use of commercial printing services, physical security, and computer security. On an annual basis, headquarters requires reports on copy equipment, safety, and imprest (petty cash) fund disbursements.

STAFF CONCERNS

During interviews, FDA staff stated that most of these reports no longer serve any useful purpose. When asked to evaluate the list of 30 reports to determine which reports they believed were truly necessary, FDA staff highlighted only 3 of the reports. The other reports are not necessary because (1) an administrative process has changed making a report obsolete, yet the report is still required, (2) the information is available to headquarters via computer system or data that they already have, and (3) headquarters does not appear to use the data.

In some cases, staff claimed that certain reports are no longer necessary because the processes had been automated or otherwise changed. One example is the monthly ***accounts receivable report***. "You generally submit a report with all 0's." said one staff member. A similar situation exists with the ***emergency salary advance report***. Although the expanded use of direct deposit has virtually eliminated emergency salary advance requests, FDA district office staff must still submit monthly reports to headquarters.

In other cases, automated administrative systems have replaced manual systems, meaning that the information is already available to headquarters via on-line systems. Despite this, headquarters continues to require manual reports. Examples cited by FDA district office staff include the monthly ***travel advance report***. Headquarters gives printouts including this information to the district offices but requires reports anyway. Another example is the quarterly ***gains and losses report***, which includes information about staffing changes. It duplicates a staffing report that the district office must send to the regional office every 2 weeks. Administrative staff wonder why so many staffing reports are required when

personnel data are available to the regional office and headquarters through the automated Administrative Resources Information Exchange System (ARIES) system.

In some instances, staff simply do not believe that headquarters uses the information they submit. For example, staff do not know of any instances where headquarters has acted on seriously delinquent accounts on the accounts receivable reconciliation report.

TRACKING AND ANALYSIS

We tracked the purpose and use of the four administrative reports highlighted above. We provided the entire list of reports that staff believe are unnecessary to PHS and FDA.

- The PHS and FDA accounts receivable reporting requirements exceed both OMB and Treasury requirements without any apparent enhancement. Congress requires agencies to report outstanding accounts receivable to OMB and the Secretary of the Treasury "at least once each year" [31 U.S.C. 3719]. Along with the annual report, the Treasury Department requires a quarterly report from all agencies with more than $100,000 in accounts receivable.

  Despite the quarterly and annual requirements, FDA district offices must submit *monthly* accounts receivable reports to headquarters. The FDA headquarters consolidates district office reports, annually transmits accounts receivable data to the Treasury Department, and quarterly submits a report to PHS' Debt Management Branch. The Debt Management Branch consolidates accounts receivable data and provides a quarterly comparative report to the PHS Office of Management and each reporting agency.

  In general, most PHS agencies have few accounts receivable. While the Health Resources and Services Administration (HRSA) has accounts receivable totaling more than $1 billion, FDA generally has less than $500,000. Despite this difference, FDA's reporting requirements are as strict (or more strict when looking at the monthly district office reporting requirement) as HRSA's. Officials from PHS believe that they will need to track FDA's accounts receivable in the future, however, because it recently started collecting user fees. Currently, these are not included in the reports, although these receivables may total up to $52 million. One headquarters' staff person stated that accounts receivable were more of a problem 10 years ago.

  Officials from PHS believe that an active oversight role is necessary because the agencies have not done a good job collecting overdue accounts receivable. While its stated role is to be the "focal point" for PHS debt collection activities, the Debt Management Branch is not involved in any debt collection activities. Agencies work directly with the Department of Justice to collect overdue accounts.

The HHS' Office of the Secretary also receives an annual accounts receivable report from the Office of the Assistant Secretary for Management and Budget. The data for this report are received directly from the Treasury Department.

- The ***emergency salary advance report*** is required by FDA's Office of Financial Management and does not go outside of this office. Managers concede that this report could be eliminated and are in the process of doing so for three major reasons. First, the need for emergency salary advances has decreased since agencies implemented direct paycheck deposit on a broad scale. Second, emergency salary advance balances are listed in each office's general ledger, negating the need for a regular report. Third, the availability of direct deposit as an option has allowed the agency to be stricter on giving emergency salary advances. According to agency policy, staff who refuse to use direct deposit may now receive only one emergency salary advance per year.

- We tracked the ***travel advance report*** from FDA's district office to the Accounting Reports and Analysis Branch within FDA's Office of Financial Management. This branch consolidates all district office travel advance reports and sends the data to PHS' Office of Management, Division of Budget, Resources Analysis Branch. On a quarterly basis, this office analyzes data from each PHS agency to identify trends in the numbers and average amounts of outstanding travel vouchers. This review is an internal PHS requirement that has the goal of implementing OMB Bulletin 88-17, which directs agencies to limit travel advances to out-of-pocket expenses.

  An FDA headquarters staff person indicated that agencies are mandated to make sure that travel advances are not outstanding for more than 30 days. In a 1993 audit of FDA's imprest fund requirements, OIG auditors found a "high level of outstanding travel advances." At that time, an FDA official noted that the agency rarely used its legal right to offset an employee's paycheck for delinquent travel vouchers.

- The ***gains and losses report***, which had been required by the Office of Regulatory Affairs in FDA headquarters, was eliminated in late 1994 because personnel information is available through the Office of Personnel Management's automated personnel system or through FDA's ARIES personnel system. Initially, the report was used by headquarters to manage downsizing of the agency. Improvements in the ARIES system allowed FDA headquarters to eliminate the report.

CONCLUSIONS/OPTIONS

The FDA has been relatively active in addressing unnecessary reports. Regional and district office staff have been involved in management regulations and internal controls reduction efforts. A major barrier to faster change, according to staff, has been the slow pace of automation due to limited resources. However, the ability to automate allowed FDA to eliminate the gains and losses report, and the emergency salary advance report appears to be on the brink of elimination.

In the case of the two other reports reviewed--the accounts receivable and travel advance reports--district offices must submit reports more frequently than the agency. In both instances, the offices that receive the reports do not take any collection action based on the data in the reports.

The FDA's accounts receivable are relatively small, especially when split among 21 district offices. The FDA and the Office of the Secretary could develop less burdensome methods to track accounts receivable. The information that is required in the reports is available from each district office's general ledger, and districts understand that they can call FDA's Office of Financial Management if they're having problems collecting overdue accounts. At the very least, this report could be required quarterly or annually rather than monthly and still meet the Treasury Department's reporting requirement.

The FDA could also seek an exemption from the reporting requirement due to its small amount of receivables. The Office of the Secretary might have to assist in this area, perhaps by requesting that OMB or the Treasury Department waive the reporting requirement in instances where an agency's receivables are less than $500,000.

Of the four reports we reviewed here, the travel advance report--also required by OMB--appears to be the one that is most necessary, according to staff. Since nobody outside of the district office routinely gets involved in delinquent travel advance instances, we question the necessity of so many offices being involved.

STAFF COMMENTS ON THE DRAFT REPORT

In their written comments, FDA headquarters staff disagreed with our options and conclusions regarding three of the four administrative reports. These comments contradict information provided during tracking interviews by Office of Financial Management staff, who acknowledged that these reports could be required less frequently, and layers of review could be eliminated without adverse consequences.

The purpose of our methodology is to identify and track internal controls and management regulations that may be unduly burdensome or unnecessary. This case study describes one category of management regulations and internal controls, administrative reports, that staff identified as problematic. Clearly, it is FDA management's responsibility to determine if the burden of these reports on district office and headquarters staff outweighs their value.

THE ROLE OF THE REGIONAL OFFICE IN THE ADMINISTRATION OF THE COMMUNITY HEALTH CENTER (CHC) PROGRAM

Regional office staff, who used to have significant input into decisions to award and renew grants and oversee CHC grantees, question their role since central office staff and contracted consultants have assumed more responsibility. Staff believe this is inappropriate, because they have more day-to-day contact with individual grantees than either of these other entities. Through management regulation and internal control tracking, we found that most changes in the CHC program were mandated by Congress.

BACKGROUND

Section 330 of the Public Health Service Act authorizes the federal government to provide grants for community-based organizations to provide primary and preventive health care to populations who would otherwise lack access to such care. The Bureau of Primary Health Care (BPHC) within the Health Resources and Services Administration is responsible for administering the CHC program.

Organizations submit applications for CHC funding to BPHC which determines who will receive funding and the amount of each award. Grantees typically receive multiple year grant awards but must submit annual renewal applications during the grant period. Grantees that wish to continue receiving CHC grants at the end of their grant periods must submit a project period renewal application. In most cases, renewal is automatic, except when another organization wishes to compete for CHC funding or when the existing grantee has serious service delivery or administrative problems. In these cases, staff must conduct site visits and document grantees' problems prior to defunding them.

Regional office staff conduct a variety of activities related to grantee funding and operation. While many of these activities support central office's decision-making authority when awarding new grants and renewing the grants of existing grantees, the regional office is also the primary point of contact for CHC grantees. Regional office staff duties include:

- reviewing applications for new and continued funding;
- providing on-site technical assistance, as needed, if resources are available;
- conducting desk reviews of grantees who are not up for grant renewal;
- conducting Primary Care Effectiveness Reviews of grantees that are applying for grant renewals; and
- participating on On-Site Review teams for grantees that exhibit significant service delivery and/or administrative problems.

STAFF CONCERNS

Regional office staff described a number of management regulations and internal controls that they believe are questionable or unnecessary. Staff believe that central office implemented these controls and management regulations to ensure fairness and uniformity

in grants administration. They expressed serious concerns, however, about the effectiveness of these controls. They stated that:

- *For applications for continuing and renewing grants, central office simply concurs with regional recommendations and therefore is frequently an unnecessary layer of review.* Regional staff could not recall an instance where central office did not concur with their recommendation for a grant continuation or renewal and therefore questioned central office's involvement in the process.

- *Central office should allow regional offices to approve grantees' requests to reprogram and carry-over budget dollars.* The regional office has the most contact with grantees and generally knows firsthand about the situations that would cause them to request reprogramming and carry-overs, because it has routine oversight responsibility. Central office does not have that kind of knowledge and must base its decisions on regional office input and grantee lobbying.

- *While regional offices have limited resources to conduct site visits, central office spends thousands of dollars each year for consultants to provide on-site technical assistance and conduct reviews.* While some of these consultants provide specialized technical assistance, others are simply former regional office staff. Current regional office staff question the appropriateness of these expenditures, since they believe that they are qualified to conduct these site visits. In addition, they noted that they frequently must consolidate or summarize consultants' reports into their own grantee reports or rewrite them to conform to central office's preferred format.

- *Grantees circumvent the regional offices by going "over their heads" when reviewers find problems.* Although reviewers might believe that a certain course of action is necessary, the regional office is left "out of the loop" when it comes to corrective action decisions. Central office is particularly susceptible to lobbying efforts and should allow regional offices to make the final corrective action decisions.

TRACKING AND ANALYSIS

While several of the above issues appear to be policy choices, federal law does not allow central office to delegate certain authorities to regional offices. These include the authority to enter into, modify, or issue approvals with respect to grants or contracts [42 U.S.C. 254C(j)]. This provision was passed as part of a series of reforms in 1988 to "assure that national program goals and requirements are consistently followed by all 10 HHS regions," according to one member of Congress. As a result, central office is legally bound to be involved in all grant approvals, even routine budget period renewals and reprogramming or carry-over requests. In addition, central office may not delegate new award authority to the regional office, even if it wished to decentralize this process.

According to central office staff, consultants have become more important in monitoring and technical assistance for several reasons. First, Congress enacted a cap on federal agency travel costs, but this cap does not apply to contracted service providers. Second, consultants provide specialized expertise on areas of current concern, such as managed care principles. Third, central office encourages more peer-to-peer interaction and assistance by using other CHC administrators and providers to conduct on-site technical assistance and review. The practice of using former staff as consultants is limited. These staff are experts in certain areas and help provide assistance to CHCs while staying under Congress' travel cap.

Central office staff acknowledged that grantees sometimes bypass regional offices and seek relief from them when reviewers find problems during site visits. Central office staff emphasized that decisions about how they should address these grantees are always made in concert with regional office managers, but line staff are not always involved. According to one staff person, regional office reviewers are more likely to endorse defunding grantees than central office, which will use this option only as a last resort because the community might lose all access to health care.

CONCLUSIONS/OPTIONS

Congress' mandate conflicts with the National Performance Review which endorses a strong regional office role. Chapter 3 focuses on staff empowerment and decisions being made at the level closest to the customer:

> *We must give decision making power to those who do the work, pruning layer upon layer of managerial overgrowth.... We must offer top-down support for bottom-up decisionmaking.... America's best-run businesses are realizing enormous cost savings and improving the quality of their products by pushing decisions down as far as possible and eliminating unnecessary management layers. The federal government will adopt this decentralized approach as its new standard operating procedure. This technique can unearth hundreds of good ideas, eliminate employee frustration, and raise the morale and productivity of an entire organization. Put simply, all federal agencies will delegate, decentralize, and empower employees to make decisions. This will let front-line and front-office workers use their creative judgment as they offer service to customers and solve problems....*

The Office of the Secretary or HRSA would have to petition Congress to revise the law if they wish to change the CHC administration system. Overall, HRSA has little legal authority to delegate CHC decisions to regional offices. Central office has assumed many of the roles traditionally held by regional offices. While central office staff emphasized that the regional office remains the focal point for grantee interaction, regional office staff do not believe that they have much authority and their morale appears to be low. Regional office staff were not aware of the statutory basis for some of the controls and management regulations. If Congress does not ease the requirements, HRSA should educate regional office staff about the mandates. Central office could also make a special effort to include

regional line staff along with their managers in conference calls to decide on corrective actions for problematic grantees, as well as other action items.

While using consultants is desirable in some cases, the Congressionally-mandated travel cost cap results in instances where HRSA *must* use consultants rather than regional office staff. In these cases, one could argue that using consultants is not necessarily cost-effective, and the travel cap actually results in higher cost to the taxpayer.

STAFF COMMENTS ON THE DRAFT REPORT

In their written comments, HRSA staff stated the future role and responsibilities of regional staff will be clearly defined in HRSA's 1996 reorganization plans. They also maintained that they have not used consultants merely to stay under the mandated travel cap. This contradicts assertions made by central and regional office staff during tracking interviews.

PURCHASING A COMPUTER IN AN IHS AREA OFFICE

Purchasing a computer in an IHS area office involves multiple requirements for approval from area office and sometimes headquarters staff. Area office and IHS policies, as well as federal statutes and regulations, govern computer procurement. While a recent increase in area procurement authority promises to facilitate buying a computer, HHS agencies should continue efforts to reduce internal restrictions where possible.

BACKGROUND

The process of purchasing a computer in an IHS area office begins when a staff person fills out a requisition either on IHS' automated procurement system or HHS form 393. Besides obtaining approval from a direct supervisor, the person requesting the purchase must also obtain the approval of (1) the Automated Data Processing (ADP) Committee, (2) the Information Systems Coordinator, (3) the Property Management Officer, (4) the Financial Management Officer, (5) an executive administrator, and (6) the Contracting Officer.

If the total cost of the purchase falls within delegated limits, the area office Contracting Officer can process a purchase order for the computer. Requisitions for a computer purchase above these limits must be forwarded to the IHS' Office of Information Resources Management (OIRM) in headquarters. The OIRM has purchase authority up to $2.5 million. Purchases greater than $2.5 million must have Departmental and/or General Services Administration (GSA) approval.

STAFF CONCERNS

Area office staff objected to:

- the number of officials who must approve the requisition within the area office;
- the requirement that the area office's ADP Committee review and approve the requisition, because its members lack technical expertise and the committee does not meet on a regular basis; and
- the requirement that headquarters review certain multiple computer purchases.

TRACKING AND ANALYSIS

The IHS computer procurement requirements come from the area office, the Indian Health Manual, federal statutes, regulations, and OMB, GAO, HHS, and PHS policies. Primarily, computer procurement must comply with the Federal Acquisition Regulation [48 CFR 1], the Health and Human Services Acquisition Regulation [48 CFR 301], and the Federal Information Resources Management Regulation (FIRMR) [41 CFR 201]. Federal laws relating to IHS computer procurement include the Paperwork Reduction Act of 1980 [44 U.S.C. 3501] and the Buy Indian Act Authority [25 U.S.C. 47]. Last year, Congress

passed the Federal Acquisition Streamlining Act, which, among other things, raised the simplified small purchase threshold to $100,000. The HHS is in the process of incorporating this act into the Health and Human Services Acquisition Regulation.

Required area office approvals

While some requirements for area office review originate in federal regulation or statute, the decisions to require ADP committee and executive administrator review were made by the area office.

- ADP Committee: The requirement for ADP Committee review of requisitions for computer equipment originates with the California Area Director. Impetus for this requirement was concern that too many lap-top computers were being purchased without adequate review of whether they were needed. Staff who had abused the purchase authority no longer work in the area office. At this time, the committee head reviews most requisitions without consulting the whole committee.

- The Information Systems Coordinator: The FIRMR and the delegation of authority from IHS headquarters give the area Information Systems Coordinator the authority to decide whether computer equipment should be purchased, and if so, what equipment best meets the needs, is compatible, and meets Energy Star requirements.

- The Property Management Officer: The Federal Property Management Regulations [41 CFR 101-26.101] require that agencies first check to see if excess property can satisfy the need.

- The Financial Management Officer: The General Accounting Office's Policy and Procedures Manual directs agencies to implement fiscal control systems to ensure that agency expenditures do not exceed the appropriation, in accordance with the Anti-Deficiency Act [31 U.S.C. 1341].

- An executive administrator: It is internal area office policy that the Associate Director of the Office of Administration and Management approve requisitions.

- The Contracting Officer: Only Contracting Officers appointed in accordance with the Federal Acquisition Regulation may enter into a contractual commitment on behalf of the government. Due to a recently corrected material weakness in procurement, IHS exercises caution in delegating procurement authority to the area offices.

Delegation of procurement authority to the area office

The limit on what computer purchases can be processed in the area office stems from the delegation of procurement authority specific to Federal Information Processing resources. The FIRMR gives GSA the ultimate purchase authority and the ability to delegate this authority to the agencies. The chain of delegation is as follows:

- GSA gave HHS procurement authority for $10 million ($1 million non-competitive).

- HHS delegated authority for $5 million ($500,000 non-competitive) to individual agencies, including IHS.

- Within IHS, OIRM has procurement authority for $2.5 million ($250,000 non-competitive).

- OIRM delegated procurement authority to each area director, who in turn delegated authority to the Information Systems Coordinator. Each area office has authority up to:
  (1) the small purchase limit--currently $25,000; or
  (2) for GSA-schedule, the smaller of $250,000 or the schedule limit.

While the amount delegated to the area office used to be only $5,000 for computer equipment, OIRM increased the delegation in July 1994. Now, almost all computer purchases can be approved in the area office.

CONCLUSIONS/OPTIONS

Increased delegation of procurement authority for Federal Information Processing resources to the area office has substantially reduced the number of computer purchases that must be reviewed and processed in headquarters. Staff reported the increased delegation was a great improvement.

Although many of the requirements on computer procurement are government-wide, HHS and its agencies can make efforts to streamline procurement and other requirements further. The HHS should consider coordinating the implementation of the Federal Acquisition Streamlining Act with the recommendations of a departmental workgroup on streamlining acquisition requirements.

Within IHS, the number of approval levels could be streamlined without undermining the need to ensure that all acquisitions are not only necessary and economical but also compatible with current equipment and consistent with IHS' IRM strategic plan. The area office could reduce or eliminate the requirement for ADP Committee approval. It also could evaluate the need for an executive administrator's review of computer purchases. The Information Systems Coordinator has been delegated this authority from the Area Director and has already reviewed the proposed purchase.

IHS CONFERENCE MANAGEMENT

Annually, the IHS area office submits a proposed conference plan for headquarters review. Area office staff believe this review takes too much time and requires excessively detailed documentation. Conference management controls stem from IHS policy, HHS policy, GSA's Federal Travel Regulation, and OMB Bulletin 93-11. The IHS may want to consider delegating authority for conference management and reducing duplication of records maintenance.

BACKGROUND

Annually, IHS determines which proposed conferences will take place that fiscal year. Under IHS conference management procedures, any conference for 30 or more IHS-sponsored participants must be part of a *conference plan* that is subject to reviews by area office and headquarters staff. The conference plan must be approved by:

- the Area Director, in consultation with the area office's Executive Committee;
- the headquarters Office of Administration and Management, Division of Administrative Services, which verifies that the required documentation has been submitted;
- the Executive Leadership Group of the Council of Area and Associate Directors, which recommends approval of proposals to the Director; and
- the Director of IHS.

Each conference proposal includes a description of the conference's purpose and benefits, a tentative agenda, a cost comparison for three proposed sites including travel and employees' time costs, and a justification if the site is in a resort area that may appear extravagant to the public. Area offices submit detailed reports on the conferences held during the year to headquarters by October 15 of the next fiscal year. Both the area office and headquarters maintain these records for 3 years.

STAFF CONCERNS

Many IHS area office staff said the procedure for submitting an annual conference plan for headquarters approval takes too much time. Although IHS headquarters is supposed to approve plans by October 15, area office staff stated that they must wait until February or March of the following year to learn whether the plan has been approved. Staff avoid planning conferences for the first quarter of the fiscal year, because the plan may not be approved in time. Some staff believe the review takes too long because too many officials must approve the conference plan.

Some area office staff questioned why the conference management policy requires them to submit such detailed information in each conference proposal. Other staff believe the

requirement to keep detailed records on conferences for 3 years wastes file space in both the area offices and headquarters.

TRACKING AND ANALYSIS

Conference management policy appears in the IHS General Administration Manual Chapter 1-40. The IHS developed this policy to comply with HHS General Administration Manual Chapter 1-40, GSA Federal Travel Regulation provisions [41 CFR 301-16], and management control aspects of the Federal Managers' Financial Integrity Act. The IHS implemented certain controls and management regulations without regulatory or statutory bases.

Conference management approval procedures were strengthened in recent years in response to an IHS-reported material weakness. As its corrective action, IHS supplemented the existing HHS General Administration Manual Chapter 1-40 with policies specific to IHS. As in the HHS policy, IHS policy requires that conference plans be submitted for "top level management" review on a fiscal year basis. The HHS is in the process of rescinding its conference management policy, however.

The IHS updated its policy last year to incorporate Federal Travel Regulation provisions, which are based on OMB Bulletin 93-11 "Fiscal Responsibility and Reducing Perquisites" and a Presidential Memorandum. The Federal Travel Regulation requires that:

- "a senior agency official" authorize government sponsorship of a conference involving travel of 30 or more participants;
- agencies use GSA space when possible, avoid sites that might appear extravagant to the public, and use approved accommodations meeting the guidelines of the Fire Prevention and Control Guidelines for Places of Public Accommodation [15 U.S.C. 2225];
- agencies document cost comparisons for alternative conference sites, including the travel and time costs for all conference participants; and
- agencies keep these records for 3 years.

The IHS policy on conference management exceeds the requirements of the Federal Travel Regulation and the HHS policy because it:

- requires the Area Director's approval before sending the plan to headquarters;
- charges the Executive Leadership Group with reviewing plans and recommending them to the Director;

- designates the Director, or his/her designee, as the only IHS official who may approve the annual IHS Conference Plan -- in practice the IHS has not delegated authority past the Director; and

- requires **both** area office and headquarters staff to maintain records.

The IHS staff said the review by the Executive Leadership Group is time-consuming, primarily because IHS' appropriation is always delayed, the group's workload is burdensome, and it meets infrequently. Other staff pointed out that the group's review is beneficial because its diverse members contribute different viewpoints and specialized knowledge. For example, a member of the group who is a clinician can review a conference proposal to determine whether the clinical aspects of a conference are appropriate and necessary.

Headquarters staff believe the current procedures have increased fiscal responsibility, saved money, and resulted in a greater percentage of funds for direct service delivery. They also believe, however, that the procedures could be streamlined by eliminating excessively detailed documentation which would provide for a more timely approval process.

CONCLUSIONS/OPTIONS

While IHS has experienced positive results in controlling costs and potential mismanagement, it nevertheless has developed requirements that many consider too bureaucratic, excessive, and time-consuming. To improve and simplify the conference management procedures, IHS may want to consider:

- delegating approval authority to a level lower than the Director;

- using alternatives to Executive Leadership Group review, such as review and recommendation by headquarters Office of Administration and Management;

- allowing certain types of conferences to go through less strenuous review and/or implementing prior approval requirements;

- maintaining conference management records in one site to save file space and staff resources;

- using a different review cycle, other than annual, to distribute the workload over the year; and

- working with HHS officials, including the OIG to see how the recision of the HHS conference management policy will affect IHS' policy options.

AGENCY COMMENTS

We received comments on the draft report from the Assistant Secretary for Planning and Evaluation (ASPE). We did not receive formal comments from the Director of IHS, the Administrator of HRSA, or the Commissioner of FDA, although we did receive comments from their staff. The ASPE believes that the tracking and analysis methodology will assist the Department in its efforts to reduce unnecessary management regulations and internal controls. The IHS staff concurred with ASPE.

The HRSA staff did not comment on the tracking and analysis methodology. They did, however, mention that the concerns expressed in the community health center program case study will be addressed in HRSA's 1996 reorganization plan.

The FDA staff also did not comment on the tracking and analysis methodology. Staff provided technical comments on the case studies that differed from those we received during the course of our inspection. Clearly, FDA management will have to determine how it can best balance the need to meet the requirements set forth in Executive Order 12861 with their staff's perceived need for continuation of certain management reports and processes.

The full text of the comments appears in Appendix B.

APPENDIX A

DISCUSSION GUIDE USED FOR TRACKING INTERVIEWS

Date: _____ Interviewer _____

Internal Control: _____

Name and Title: _____

Agency/Office: _____

Telephone: _____

Hi. This is _____ from the Office of Inspector General. Our office has been conducting a national policy study at the request of the Office of the Secretary on reducing internal controls. As part of this study, we developed a prototype methodology that involved interviewing field staff to determine which internal controls they believe are unduly burdensome or unnecessary.

We tested the methodology by conducting focus groups and interviews with staff from PHS, IHS, and FDA in the San Francisco area. During these interviews, staff identified numerous controls that they believe should be modified or eliminated.

Our next step is to determine the reasoning behind the control, its value, and its impact. Therefore, we are tracking selected controls "through the system" by interviewing the officials from the agencies that require the control. That is why I'm calling today.

One of the controls that staff mentioned was (give description of control) . I wanted to ask you a few questions about this control in order to understand why it exists and to determine what, if anything, should be done about it.

According to staff, (give full description of problem) .

1. Is this an accurate description of the control?

2. HOW did this control originate? WHEN did it originate?
[PROBE: For what reasons was this control implemented?]
[PROBE: Has it changed since its inception?]

3. **Has the impact of the control been measured?**
[IF YES: HOW?]
[IF NO: COULD IT BE MEASURED? HOW?]

4. **How does the control benefit the agency and its clients?**

5. **Is this control as valid today as it was when it was implemented?**

6. **Are you required by a supervisor, another agency, or law or regulation to enforce this control, or does this control originate in your office?**
[OBTAIN CONTACTS IF ANOTHER AGENCY REQUIRES IT]

7. **How much time do you devote to overseeing or complying with this control? How much time do your staff members devote?**
[PROBE: What is your GRADE LEVEL, and what are the grade levels of all of your staff who devote time to overseeing or complying with this control?]

8. **Do you think that the control should be eliminated or modified, or do you think that it should remain as it is now?**
[PROBE: Is there another way to accomplish the purpose of the control? (Examples: Computerization, periodic random audit, better guidelines)

APPENDIX B

AGENCY COMMENTS

ASPE Comments

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of the Secretary

Washington, D.C. 20201

IG ✓
SAIG
PDIG ✓
DIG-AS
DIG-EI ✓
DIG-OI
DIG-MP
AIG-CFAA
OGC/IG ✓
EXSEC
DATE SENT 2/13

FEB 13 1996

TO: June Gibbs Brown
Inspector General

FROM: Assistant Secretary for Planning and Evaluation

SUBJECT: OIG Draft Report "Surveying Staff to Identify Unnecessary Management Regulations and Internal Controls" - CONCUR WITH COMMENT

We have reviewed the above document and concur with the following comments. The focus group activity resulted in very productive discussions and significant progress in identifying and eliminating unnecessary management controls in order to meet the requirements of Executive Order 12861. The report on tracking and analysis, like the first report on Methodology and Results presents a clear, useful description of OIG's approach and findings and provides a valuable roadmap for further focus group activity in the Department. In order to remain consistent with the earlier report, and with the interpretation used throughout the Internal Controls reduction process we request that you make the following change:

- Retain the original language on page 2 of the draft which stated: "The CIP *clarified* the definition of internal controls for purposes of HHS' reduction effort as ...". The new language states that "The CIP *expanded* the definition of internal controls to include the provisions that OMB stated should be excluded."

We do not feel that the CIP definition was an expansion of the Executive Order interpretation and that this wording may lead participants to believe incorrectly that the CIP went beyond the requirements of the EO.

My staff has discussed with your staff the valuable role that we feel the Office of Inspector General could play in following up on the options presented in this report, and in our continuous efforts to reduce unnecessary internal controls. The expertise that your staff developed in conducting focus groups and tracking and analyzing the findings, provide excellent tools for the Department to evaluate the impact of the REGO 2 reorganization, including the elimination of OASH. This type of management analysis presents an important new opportunity for the Inspector General to insure that Department meets its strategic goal to deliver health and human services more effectively.

We look forward to working collaboratively with the Office of Inspector General in order to meet the 50% reduction of internal controls outlined in the Executive Order. If you have questions, please contact Keith Lively, 690-8774.

Peter B. Edelman

Prepared By: Patti Hazard (401-8279)

IHS Comments

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Indian Health Service
Rockville MD 20857

DEC 13 1995

TO: Office of the Inspector General

FROM: Associate Director
Office of Administration and Management

SUBJECT: Indian Health Service Comments on the OIG Draft Report, "Surveying Staff to Identify Unnecessary Management Regulations and Internal Controls: Tracking and Analysis," (OEI-09-94-00211)

The Indian Health Service (IHS) believes that the review methodology presented in the subject report will prove to be useful in the Agency's efforts to eliminate unduly burdensome or unnecessary management regulations and internal controls and will be recommended to IHS program offices that do not already have some type of review methodology in place.

The term "management regulations and internal controls" needs to be clarified when referring to administrative activities or program functions and not confused with the definition for "internal controls." The definition for "internal controls," should refer only to the internal control processes within the administrative or program function.

Please direct any inquiries concerning this memorandum to Mr. Charles Miller, Chief, Management Control Branch, Division of Management Policy, on (301) 443-9597.

George Buzzard

RECEIVED
JAN 23 1996
OIG OEI IX

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service
Food and Drug Administration

Memorandum

Date MAR - 5 1996

From Deputy Commissioner for Management and Systems (Acting)

Subject Food and Drug Administration's (FDA) Comments on the Office of Inspector General (OIG) Draft Report, "Surveying Staff to Identify Unnecessary Management Regulations and Internal Controls: Tracking and Analysis," OEI-09-94-00211

To Deputy Inspector General for Evaluation and Inspections
Office of Inspector General

Thank you for the opportunity to review and comment on the referenced draft report. Attached are our comments.

If your staff has any questions, please have them contact Jim Dillon on (301) 443-6392.

Robert J. Byrd

Attachment

COMMENTS OF THE FOOD AND DRUG ADMINISTRATION (FDA) ON THE OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT, "SURVEYING STAFF TO IDENTIFY UNNECESSARY INTERNAL CONTROLS, TRACKING AND ANALYSIS," OEI-09-94-00211, OCTOBER 31, 1995

We appreciate the opportunity to comment on the subject OIG draft report. We are providing two technical comments for your consideration.

Technical Comments

Page 17, "Background," Second Paragraph, Fifth Line

The report refers to the Office of General Council. The word, council, should be "counsel."

Pages 20 through 23, section entitled, "FDA District Office Administrative Reports"

We are concerned with the impression conveyed in the case studies involving FDA's imprest fund requirements and the District Office administrative reports.

For the imprest fund case study, we question the emphasis placed on FDA to make changes when it is the Department of the Treasury (Treasury) which requires FDA, along with other Executive Branch agencies, to conform to its regulations covering imprest funds.

We note that Treasury regulations related to internal controls do not provide an option to lessen the control for small dollar funds (prevalent in FDA Field Offices). The OIG's case study states that many Imprest Fund controls are "unnecessary" and implies that FDA has the discretion to eliminate them. This is not true. The change must be sought from the Treasury not from FDA and the report should be revised to reflect that.

We disagree with the OIG's conclusion in three of the four reports cited in the case study involving District Office administrative reports. The OIG believes those travel advance reports, emergency salary advances, and accounts receivable reconciliations remain unnecessary and burdensome. To clarify our position, we are describing the reports and our justification for retaining them.

Travel Advance Reports and Emergency Salary Advances

Each District completes and submits a Travel Advance Reconciliation to FDA's Office of Financial Management (OFM) monthly, and a Travel Advance Aging Report quarterly. Both reports are a financial tool by which the Districts review and reconcile Standard Form 1038, "Advance of Funds," to the General Ledger.

Emergency Salary Advances must undergo a series of controls, that OFM monitors, to assure that proper approvals were made; the approved amount paid; and that the advance is cleared within thirty days. The report also comprises a reconciliation and aging report on open advances, as well as a means to assure OFM that the amount approved and actually paid was the same.

Through the process of review and reconciliation, the District and OFM verify that travel advances and emergency salary advances were properly posted, competently tracked and timely closed.

Accounts Receivable Reconciliations

This reconciliation of open receivables is done and submitted by each District monthly. The reconciliation includes an aging analysis which enables the District to review and act upon unresolved open receivables. The OFM reviews this report for assurance that there is follow-up by the District. While it is true that several Districts for the most part have no receivables, this status does change from time to time.

Additionally, the Schedule 220-9, "Debts Due from the Public," is prepared by OFM each quarter, and submitted to FDA's Chief Financial Officer, annually, for signature and submission to the Treasury.

Justification for Retaining Travel Advance Report, Emergency Salary Advance and Accounts Receivable Reconciliations

The origins of these reports can be traced through OFM. These traces can clear delinquent travel advances, emergency salary advances and uncollectible open receivables. OFM does, on occasion, call District Offices on open matters and can assist in the closing of outstanding matters by either answering questions, clarifying procedure; provide duplicate documents and, on occasion, they can even write-off uncollectible receivables. Prime examples would include: a) OFM received an accounts receivable reconciliation from a District Office showing no outstanding balance, while the General Ledger carried an uncollected outstanding balance; b) a District Office requested an offset for an employee who had received approximately $8,100 in emergency salary advance for a change of station. To alleviate these and other similar problems, we feel, monitoring on a monthly and quarterly basis is justified.

HRSA Comments

DEPARTMENT OF HEALTH & HUMAN SERVICES Public Health Service

Health Resources and Services Administration
Rockville MD 20857

DEC 11 1995

TO: Inspector General

FROM: Associate Administrator for Operations and Management, HRSA

SUBJECT: Office of Inspector General (OIG) Report "Surveying Staff to Identify Unnecessary Management Regulations and Internal Controls: Tracking and Analysis" OEI-09-94-00211

This is in response to your memorandum of October 31, 1995. Attached are the Health Resources and Services Administration's comments.

Staff questions may be referred to Sandy Seaton at (301) 443-2432.

Thomas G. Morford

Attachment

IG
SAIG
PDIG
DIG-AS
DIG-EI
DIG-OI
DIG-MI
AIG-CIAA
OGC/IG
EXEC
DATE SENT 12/15

**HEALTH RESOURCES AND SERVICES ADMINISTRATION (HRSA)
COMMENTS ON THE OFFICE OF INSPECTOR GENERAL (OIG)
DRAFT REPORT "SURVEYING STAFF TO IDENTIFY UNNECESSARY
INTERNAL CONTROLS: TRACKING AND ANALYSIS
OEI-09-94-00211**

GENERAL COMMENTS

There appears to be too much of a focus on field staff or regional offices. It is understandable how limiting interviews/focus groups to the State of California would save time and money; however, many of the findings and conclusions could not be considered objective or applicable PHS wide. Also, the relationship of centralized policy making to decentralized authority and responsibility does not seem to be well understood. It is important to note that the future role and responsibilities of regional staff continue to be studied and will be clearly defined when HRSA reorganization plans are finalized in 1996.

A case study in the draft report suggests that HRSA's Bureau of Primary Health Care (BPHC) educate the regional office (RO) staff regarding Congressional mandates around the administration of the Community Health Center (CHC) program. It states the belief that educating RO staff would help to address their low morale, which is at least somewhat attributable to their perceived minimal amount of authority. The suggestion made regarding inclusion on conference calls when problem situations are discussed is already common practice and has been incorporated in BPHC's internal step-by-step process for dealing with problem grantees. Decisions regarding troubled grantees are always made in concert with RO mangers and line staff, as appropriate. With regard to the cost-effectiveness issue of using consultants rather than staff to site visit grantees, BPHC maintains that the use of consultants, in most site visits, is a peer-to-peer interaction and essential to accomplish the mission of the site visit whether it be consultative or diagnostic. The peer experts used as Bureau consultants are able to accomplish the mission within a tight time-frame of one to three days. Although travel funds for Federal staff have been cut, and it is unrealistic to expect any increases in travel funds in the near future, the BPHC has not used consultants merely to stay under the given travel cap.

APPENDIX C

INTERNAL ACCOUNTING CONTROLS

An internal control structure consists of the policies and procedures established to provide ***reasonable assurance*** that specific objectives will be achieved. The concept of reasonable assurance recognizes that the cost of an agency's internal control structure should not exceed expected benefits. Although the cost-benefit relationship is a primary criterion in designing the structure, the precise measurement of costs and benefits usually is not possible. Thus, management makes both quantitative and qualitative estimates and judgments in evaluating the cost-benefit relationship.

As noted in the body of the report, additional steps are necessary when analyzing internal accounting controls. Following is more detailed information about these additional steps:

STEP I: ANALYZE THE CONTROL ENVIRONMENT

Once the potentially unnecessary control is identified, the analyst must gain an understanding of the general control environment (1) to identify the degree to which the work setting supports a system of management controls and (2) to identify needed corrective action. Specifically, the analyst must determine whether the agency has:

- an effective and efficient organizational structure to support a system of management controls,
- clear-cut, understandable, and precisely-stated policies and procedures to ensure that established control systems are used successfully,
- systematic budgeting and planning,
- appropriate delegation or limitation of authority,
- personnel practices that ensure employees' competency and integrity,
- automated data processing controls,
- efficient reporting of needed data to management, and
- appropriate levels of organizational checks and balances.

The applicability and importance of these factors should be considered in the context of the agency's (1) size, (2) operational diversity and complexity, (3) data processing methods, and (4) applicable legal and regulatory requirements.

STEP II: IDENTIFY AND ANALYZE INHERENT RISKS

Inherent risk is the susceptibility to a material misstatement assuming there are no related internal control structure policies or procedures. ***Control risk*** is the probability that a possible material misstatement will not be prevented or detected on a timely basis by the agency's internal control structure policies and procedures. Factors to consider in this step include the:

- ease with which government assets can be lost, stolen, or otherwise diverted,
- ease of compromising government integrity,
- significant and repeated audit findings, and
- minimal audit/review coverage.

STEP III: TEST THE CONTROL'S EFFECTIVENESS

Tests of controls must be performed to determine whether specific policies or procedures are suitably designed to prevent or detect material misstatements in specific financial statements. Similarly, tests must be performed when a control is a candidate for elimination to determine whether: (1) alternate controls exist, (2) the benefits from elimination outweigh the potential risk of errors and irregularities, and (3) the cost of elimination is excessive.

Control procedures are established by management to supplement the control environment and accounting system in order to provide reasonable assurance that specific agency objectives will be achieved. They are applied at various organizational and data processing levels. They may be integrated into specific components of the control environment and the accounting system. Generally, they pertain to:

- proper authorization of transactions and activities,
- segregation of duties that reduce the possibility for any individual to be able to both perpetrate and conceal errors or irregularities in the normal course of duty (e.g., assigning different people the responsibilities to authorize transactions, record transactions, and maintain custody of assets),
- design and use of adequate documents and records to ensure the proper recording of transactions and events (e.g., monitoring the use of prenumbered shipping documents),
- adequate safeguards over access to and use of assets and records (e.g., secured facilities and authorization for access to computer programs and data files), and

- independent checks on performance and proper valuation of recorded amounts (e.g., clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer-generated reports).

Tests to obtain such evidence ordinarily include inquiries about involved personnel, inspections of documents and reports, and observations of how specific policies and procedures are applied. For agencies with a complex internal control structure, the analyst should consider (1) using flowcharts, questionnaires, or decision tables to facilitate the testing process and/or (2) designing other approaches to obtain evidence.

STEP IV: DETERMINE WHETHER THE ANALYSIS SUPPORTS ELIMINATING THE CONTROL

In deciding whether to eliminate a control, decision makers should:

- determine whether a particular control system affects major program objectives or management's assertions embodied in the agency's financial statements,

- obtain concurrence of the agency's Chief Financial Officer (CFO),

- seek the involvement of the Department of Health and Human Service Management Oversight Council, and

- obtain concurrence of the Department's Deputy CFO if the control also affects the Department's consolidated financial statements or the Secretary's annual attestation under the Federal Managers' Financial Integrity Act.