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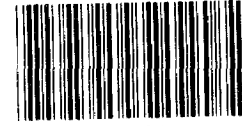
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-199187

JULY 17, 1980

Dr. Joan S. Wallace
Assistant Secretary
for Administration
Department of Agriculture



112795

Dear Dr. Wallace:

Subject: Improvements Are Needed in the Department of
Agriculture's Centralized Payroll System
(FGMSD-80-69)

Weaknesses in the U.S. Department of Agriculture's (USDA's) centralized payroll system--which pays out approximately \$2.3 billion annually--have caused pay problems such as duplicate, late, or erroneous payments, and incorrect deductions for health care premiums. A redesigned payroll system is scheduled for implementation in late 1980. However, the new system will not correct many of the current pay problems which result from inadequate controls over manual processes. To correct these problems, better controls are needed over

- time and attendance (T&A) documents,
- manually prepared payrolls,
- health care enrollment records, and
- installation security.

The payroll/personnel system is operated by the National Finance Center (NFC) in New Orleans, Louisiana. This system, which was the first activity to be centralized by USDA at the Finance Center has operated under the same basic design for the past 17 years. The system, which we have approved, annually pays about 130,000 employees in almost 15,000 USDA offices.

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We reviewed the transmission of payroll-related documents from the agencies to NFC, the automated and manual payroll-processing procedures and controls, physical security, and security planning. In addition, we reconciled the health care plan records between USDA and the two major health care carriers. None of these processes will be substantially altered by the new payroll system.

We discussed our findings with NFC officials who generally agreed that improved procedures are needed. They have initiated a special study to improve the processing controls affecting manual payments and are developing a new security plan.

INADEQUATE CONTROLS OVER
TIME AND ATTENDANCE DOCUMENTS
AND MANUALLY PREPARED PAYROLLS

USDA needs better controls over time and attendance (T&A) documents--the basic documents supporting employees' paychecks--as well as over manual payroll processing procedures. On many occasions, we have reported and testified on improper payments resulting from inadequate controls over source documents such as T&As.

Even though we did not determine the extent of those problems at USDA, we did note instances where checks were returned because they were for incorrect amounts or represented duplicate payments. For example, our review of 87 checks returned to NFC during a 4-month period revealed that 52--or 60 percent--were returned because they were duplicate payments, and 35--or 40 percent--were returned because they were for wrong amounts. We believe that these improper payments resulted, in part, because USDA failed to ensure that (1) predetermined control totals of T&As are established by all submitting offices and (2) manually prepared paychecks are independently verified. Even though the error rate is low, agency officials agreed that improved procedures are needed.

Predetermined control totals not used

Control totals, such as the number of T&As and total hours worked, should be established by the submitting offices and placed on the transmittal documents to serve as a control over processing. These totals, established as close to the preparation of source documents as possible, provide safeguards to ensure that all documents are received and processed through the system.

Finance Center personnel are required to count and sort the documents upon receipt at NFC. However, since separate counts are not always received from the submitting offices, the counts performed at NFC are not necessarily accurate. In addition, NFC personnel ignore minor differences between the manual and computer counts. For example, in one group of T&As the manual batch count was 4,602 and the automated batch count was 4,624. Although the net discrepancy (22) could be the net of several larger overcounts or undercounts, NFC personnel did not think reconciling this difference was necessary.

Near the end of the processing cycle, the system generates a list of missing T&As. NFC personnel phone the submitting units to determine if the T&As have been forwarded. Although NFC accepts unconfirmed T&A information over the phone, the data is not always received in time for automated processing. Late data is either processed manually or is held for the following payroll cycle.

Processing controls should require agency personnel submitting T&As to place on the transmittal documents adequate control totals to ensure that all documents are processed. This control would result in earlier detection of late or missing T&As and therefore reduce the work necessary to follow up and pay late T&As.

Manual payments bypass system edits

Better procedures for manually processing T&As are needed to prevent erroneous payments. Current NFC procedures, which bypass machine edits, do not require that payment accuracy be verified before payment is made.

Although supervisors often verify payments prepared by new employees, the work of more experienced clerks generally is not checked. Furthermore, when the manual payment is posted to the employee's master pay record, most automated edits and controls built into the payroll system are bypassed. The payroll system will detect erroneous calculations, but pay rates or deductions are not verified. The number of erroneous payments would be reduced by requiring the payment accuracy of all manually prepared paychecks to be independently verified.

PERIODIC RECONCILIATIONS OF HEALTH ENROLLMENT RECORDS ARE NEEDED

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 20.6) requires that employee health

enrollment records be properly maintained and periodically reconciled with health carriers' records. However, NFC has not complied with this requirement and, as a result, improper payroll deductions have been made for health insurance payments.

NFC maintains enrollment records showing which plan each USDA employee is enrolled in. Approximately 74 percent of NFC's enrolled employees are covered by Blue Cross/Blue Shield or Aetna. NFC also maintains payroll health coverage records for USDA employees.

To determine if discrepancies existed in NFC's health enrollment records, we compared NFC's inventory of employees covered by health insurance with payroll records showing individual employee's coverage. Our comparison showed the following discrepancies:

	<u>Blue Cross/ Blue Shield</u>	<u>Aetna</u>
	(number of employees)	
NFC's health enrollment inventory	50,543	19,635
NFC's payroll records	<u>48,480</u>	<u>18,942</u>
Enrollment records difference	2,063	693

These discrepancies indicate problems within USDA's health enrollment records which could result in incorrect health premium deductions. To find out if they have, we provided Blue Cross/Blue Shield with a computer tape of NFC's payroll records for health premiums. Blue Cross/Blue Shield matched the NFC payroll records against its enrollment records and noted the following discrepancies:

- 114 employee records had erroneous identification numbers.
- As a result of incorrect withholding, 57 employees either overpaid or underpaid health insurance premiums for the coverage provided.

Erroneous identification numbers hinder NFC from reconciling its records with Blue Cross/Blue Shield. In addition, employees filing health claims with erroneous identification numbers will have their claims rejected until they can prove eligibility. This situation is not only confusing and frustrating to the employees, but also adds to the administrative costs of the health program for both the agency and the health carrier.

Our review of the 57 employees who paid incorrect premiums revealed that 32 had underpaid premiums by \$9,114 during the 38-week test period, while 25 overpaid premiums during the same period by \$6,493. The net loss of \$2,621 represents an under-withholding of employees' premium deductions for the coverage provided and, therefore, represents an underpayment of premiums to the health plan. This underpayment must be made up through increased health insurance rates to all health plan participants. Incorrect deductions could be avoided if periodic reconciliations were performed and health enrollment records of NFC and carriers were kept in agreement.

We recently issued a report to the Director, Office of Personnel Management entitled, "Errors in Health Benefits Enrollment Data Push Up Health Enrollment Costs" (FGMSD-80-8). That report shows that problems similar to those at USDA exist Government-wide. We recommended that the Director of the Office of Personnel Management take steps to automate the exchange of data between agencies and carriers.

SECURITY AT NFC NEEDS IMPROVEMENT

In 1977 we reported that as a result of deficiencies in such areas as physical security, administrative controls, and security planning, the computer operations at NFC are not properly safeguarded. This condition still exists.

Effective internal controls in a computerized operation require that the duties of individuals concerned with systems planning and programming be separated from those concerned with the day-to-day operation of the system. Many procedures which ordinarily would be included in a conventional system of checks and balances are eliminated by a computerized operation. For example, control procedures should prevent programmers from having access to computer operations. This control is needed because programmers have the technical ability to skillfully manipulate computer programs and records.

In our report, we pointed out that programmers at NFC often test their own programs or program changes without independent testing and approval. Without that, there is insufficient control to ensure that programs do what they are authorized to do and nothing more. Since the NFC annually pays out about \$2.3 billion in employee payrolls, procedures should be established to independently test all new programs or program changes before implementation.

Entry to the computer room at NFC is restricted by a magnetic key card system. Cards, which make opening access doors possible, should be issued only to persons with a legitimate need to enter the computer room. We found, however, that three key cards were being used by persons other than those to whom the cards were issued. Additionally, one card was issued to a secretary who had no need to enter the computer room.

To make this control effective by limiting access to the computer room, magnetic cards should be used only by the original recipient. Periodically, the cards should be validated to ensure that all holders of cards are the original recipients and that those people continue to have a need to enter the computer room.

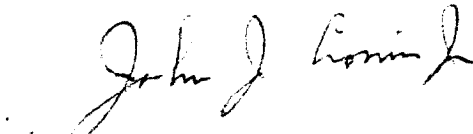
We previously reported that the security plan, approved in early 1977, was inadequate because it was based on the operating environment of the computer system which was being replaced. Even though NFC acquired a great deal of computer equipment since our report, the previously approved security plan has still not been updated. A new plan is needed to provide adequate security controls over the new system. According to responsible officials at NFC, a new security plan is now being prepared and should be completed in 1980.

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Our findings were presented to responsible USDA officials who generally agreed with our suggested improvements and have initiated corrective actions. Therefore, this report contains no formal recommendations. We would, however, appreciate your comments on any actions taken or planned on matters discussed in this report.

We appreciate the courtesies and cooperation extended by NFC officials to our representatives during the review.

Sincerely yours,


J. F. Simonette
Associate Director