



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

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ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-210637

FEBRUARY 7, 1983

The Honorable John R. Block
The Secretary of Agriculture



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Dear Mr. Secretary:

Subject: Improvements Needed in Internal Controls at
the National Finance Center (GAO/AFMD-83-37)

This report summarizes the results of our review of internal controls over procurement-related payments made by the United States Department of Agriculture's (USDA's) National Finance Center (NFC). Our work revealed a number of control weaknesses in NFC's payment processing. At the time of our review, controls at NFC were inadequate to prevent payments from being made too early. Thus, over \$1.6 million in interest may be lost annually due to early payments. In addition, \$293,000 could have been lost due to late payments if recently enacted late payment penalties had been required.

We also found procedural weaknesses which increased the vulnerability of large payment systems to fraud and abuse, including the following:

- Inadequate verification of authorizing signatures on payment vouchers processed through the miscellaneous payments system could have allowed improper payments to be made.
- The purchase order system had over \$10 million in old, inactive purchase orders which had not been canceled, creating the possibility of payments being made for goods or services not received.
- The gasoline credit card system did not provide field offices with reasonable means of verifying charges to the field offices' funds, and relied on inappropriate audit procedures to identify improper charges.

Our findings are presented in detail in enclosure I.

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Our review included an examination of the general financial controls over NFC's miscellaneous payments, purchase order, and gasoline credit card systems. Together, these systems paid over \$818 million to vendors and individuals during fiscal 1981. Our estimate of additional Treasury borrowing costs is based on interest losses from early payments. We calculated these interest costs using various statistical and nonstatistical estimating techniques. (See encl. II for methodology.)

We visited selected headquarters offices of USDA and selected field stations in Arkansas, Louisiana, and Mississippi. We obtained comments from officials of the Treasury Department, the General Services Administration, and the Veterans Administration's Data Processing Center in Austin, Texas, regarding how they process payments. We performed this review in accord with generally accepted Government audit standards.

At the conclusion of our review, we met with officials at NFC and briefed them in detail on our findings and recommendations. We recommended that controls be developed to ensure that

- payments are made neither too early nor late,
- discounts offered for prompt payment are evaluated and taken where appropriate,
- authorizing signatures on miscellaneous payment vouchers are verified prior to payment,
- purchase orders are regularly reviewed and invalid purchase orders are canceled, and
- payments are made to the proper vendors and under the correct purchase order numbers.

We also recommended a risk analysis of electronic transmission of payment vouchers, and that field offices be provided with information to verify gasoline credit card charges.

In an October 27, 1982, letter and during a November 15, 1982, meeting, the Director, Office of Administrative Systems, advised us of the corrective actions planned and taken on our findings and recommendations, and the comments are reflected in this report as appropriate. The actions taken or planned are generally responsive to our suggestions for improved controls. We recommend that the Department monitor the actions taken and promised to ensure full implementation of our suggestions.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to prepare a written statement on actions taken on our recommendations. You must send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the Director of the Office of Management and Budget and to your Inspector General.

Sincerely yours,

A handwritten signature in black ink, appearing to read "W. D. Campbell". The signature is written in a cursive style with a large, looped initial "W".

W. D. Campbell
Acting Director

Enclosures - 2

GAO FINDINGS ON INTERNAL CONTROLS OVER
COMMERCIAL PAYMENT SYSTEMS OPERATED BY
USDA'S NATIONAL FINANCE CENTER

The National Finance Center in New Orleans needs additional controls to reduce the impact on Government borrowing costs and to minimize the risk of fraud, waste, and abuse. Our review of NFC procedures for processing payments showed that:

- Controls were needed to properly time payments and evaluate prompt payment discounts.
- More extensive payment verification was needed to avoid improper payments in NFC's miscellaneous payments system.
- The purchase order payment system needed stronger controls to identify and cancel inactive purchase orders and thereby minimize the risk of fraud and abuse.
- Agency field offices had no reasonable means to verify gasoline credit card charges to their funds and relied on NFC to detect improper charges through audit procedures not designed for that purpose.

As the last link in the Department's commercial payments chain, NFC has the final opportunity to prevent improper payments through automated edits and manual audits. Agencies can assure themselves that the documents they submit to NFC for payment are correct and proper, but they cannot be certain that NFC pays and charges them for only the documents they authorize for payment. They are notified of NFC payments primarily through NFC monthly reports, and therefore can detect improper payments only well after they are made.

NFC officials generally agreed with our findings and have promised or undertaken corrective action on all matters we reviewed. These findings are discussed below.

CONTROLS NEEDED TO PROPERLY TIME PAYMENTS

At the time of our review, controls at NFC were inadequate to prevent payments from being made too early. Thus, over \$1.6 million in interest may be lost annually due to early payments. In addition, over \$293,000 annually could have been lost due to late payments, if recently enacted late payment penalties had been required. Moreover, the purchase order system needed a mechanism to assure that prompt payment discounts offered by vendors were evaluated and taken where appropriate.

Because the Treasury borrows funds to finance disbursements and bears the related interest costs, agencies often do not consider those costs in making payment decisions. Some agencies, such as NFC, have greatly emphasized quick invoice and voucher payments, regardless of due dates. An earlier GAO report dealing with Government bill paying estimated at least \$900 million could be saved annually if the Government paid all bills when due.¹ Although late payments are less a problem for NFC than early payments, the 1982 Prompt Payment Act generally requires all agencies to pay interest on payments made over 15 days late beginning in October 1982.

Cost of early and late payments is substantial

We estimate that NFC's practice of paying invoices as soon as possible resulted in an interest loss to the Government of over \$1.6 million in fiscal 1981. Moreover, had the Prompt Payment Act been in effect during the period of our review, USDA would have had to pay over \$293,000 in late payment penalties during that period. The components of these amounts for the major systems examined are shown below. We considered any payments made before or after the due date as early or late, respectively.

Interest on NFC early and late
fiscal 1981 payments through purchase order
and miscellaneous payments systems

<u>System</u>	<u>Estimated amount paid early</u>	<u>Estimated interest on early payments</u>	<u>Estimated amount paid late</u>	<u>Estimated interest on late payments (note a)</u>
Purchase order	\$ 97,489,308	\$ 501,487	\$ 20,035,779	\$ 58,932
Misc. pay- ments	<u>389,093,538</u>	<u>1,102,756</u>	<u>151,575,966</u>	<u>234,191</u>
Total	<u>\$486,582,846</u>	<u>\$1,604,243</u>	<u>\$171,611,745</u>	<u>\$293,123</u>

a/Applies to payments made over 15 days late.

¹"Actions to Improve Timeliness of Bill Paying by the Federal Government Could Save Hundreds of Millions of Dollars" (AFMD-82-1, Oct. 9, 1982).

Discount-taking performance
needed improvement

NFC strives to ensure that Agriculture obtains all available prompt payment discounts offered by vendors. The discounts are generally given for payments made within a specified time prior to the final due date. For example, if payment is due 30 days from the invoice date, a discount may be offered for payment made within 10 days of the invoice. However, NFC did not (1) evaluate whether the savings provided by the discounts exceeded the Government's cost to borrow funds and (2) ensure that discounted payments were made neither early nor late (before or after the discount due date). These are important considerations because, as payments are made more quickly, Treasury must accelerate its borrowing to finance the disbursements. Since taking discounts requires making payments earlier than necessary, they must be measured against Treasury's borrowing costs. Our analysis of purchase order payments indicated that some discounts should not have been taken, and most discounted payments were made before they were due.

For various reasons, including the short span of data retention on NFC's automated purchase order file, we limited our analysis to a 2-month period--October 15 through December 14, 1981. (See encl. II.) During that period, NFC lost about \$68,000 in prompt payment discounts, or about 27 percent of the discount dollars offered. We selected 30 cases from throughout NFC's files of about 2,600 lost discounts. Our analysis of 30 lost discounts revealed that 20 resulted from the absence of documents required from the various USDA units to legally authorize the payments. NFC personnel attributed seven of the remainder to delays from computer problems, particularly downtime resulting from efforts to replace the computer. However, they could not explain, or had insufficient data to explain, the other three.

The data provided by NFC permitted us to analyze about \$113,450, or 63 percent, of the discounts taken during the 2-month period. Of that amount

--\$100,496 was for bills that were paid earlier than the maximum time allowed to obtain the discounts,

--\$7,431 represented discounts which had expired and should not have been taken,

--\$1,608 in discounts was worth less than the cost of money to the Treasury, and

--\$3,915 represented discounts properly taken on time.

While expired and uneconomical discounts should not be taken, payments before discount expiration dates are a more serious problem. We estimate that such early payments eroded the value of discounts taken on those payments by over \$22,000, or about 20 percent.

Prior payment timing recommendations
not implemented

Had NFC acted to implement payment timing recommendations and suggestions made as early as 8 years ago, we believe NFC could have saved the Treasury millions of dollars in interest. However, during our review, NFC reconsidered its position and began developing payment timing controls in anticipation of this report and passage of the Prompt Payment Act.

As early as 1974, before most NFC vendor payment systems were operational, a visiting Treasury official questioned NFC's practice of paying invoices upon receipt, rather than ensuring that payments were properly timed to reduce Government borrowing costs. Also, the Joint Financial Management Improvement Program's 1976 "Money Management Study" warned that:

"The highly mechanized computer system at the National Finance Center (NFC) is designed to expedite current payments. Thus, interest costs associated with early payments may well increase in the future as the administrative time required to execute appropriate paperwork decreases due to use of sophisticated EDP techniques. This, of course, could be avoided by policy decisions which would call for changed scheduling of payments."

In 1978, a member of the Presidential Reorganization Project staff recommended that NFC properly time payments and estimated annual savings at over \$355,000. By July 1979, USDA had incorporated 1978 Treasury requirements into its own administrative regulations requiring that agency payment systems "* * * be designed to provide for scheduling the issuance and mailing of checks for receipt by the payee as close as administratively possible to the due date * * *."

Instead of implementing this guidance, NFC adopted a goal of faster and faster payments. For example, NFC's first 5-year plan, issued in December 1979, set objectives of improving NFC's average processing (in-house) time by 6 percent in 1983 and 10 percent in 1985. Also, NFC offered much faster payments to oil companies for their cooperation in providing automated billings. Although increased processing efficiencies are generally desirable, they should not be implemented if the net result is paying bills before they are due.

NFC initially performed no formal study of the impact. It said in 1981 that scheduling payments for disbursement near their due dates would entail a major redesign of its payment systems, which was not planned for the immediate future. Moreover, such changes would require NFC to capture and track payment due dates, which is only done for the relatively few invoices which carry prompt payment discounts. Such positions are not uncommon in Federal agencies, as there are no incentives for a Federal agency to use its resources to bring about savings to the Treasury--even though the financial savings to the Government are substantial.

After we began our review, NFC requested GAO approval to implement new purchase order processing procedures that would probably result in even faster payments. A USDA official advised us that the new procedures were also designed to provide savings through reduced paper flow. We did not concur with NFC's request because NFC had no plans to implement payment timing controls. NFC then developed an approach to implement such controls, which avoided the need for a major system redesign. NFC officials expected to have such controls operating by October 1, 1982.

Also during our review, Congress passed the Prompt Payment Act (Public Law 97-177) which requires Federal agencies to pay interest on payments made over 15 days late. Our earlier Government-wide findings support NFC's contention that late payments primarily result from late receiving reports.¹ Such reports are necessary before payment to demonstrate that the Government received and accepted what was ordered. We believe that the act, if properly implemented, will encourage correction of the receiving report problem and greatly reduce USDA's late payments. When we completed our review, we briefed NFC officials on our findings and recommendations for payment timing. In an October 27, 1982, letter, the Director, Office of Administrative Systems, advised us that payment targeting had been implemented and the invoices would be paid when due, including discounted payments. Also, economic analyses of discounts offered will be made. That action, if properly implemented, will correct the deficiencies identified.

¹"The Federal Government's Bill Paying Performance Is Good But Should Be Better" (FGMSD-78-16, Feb. 24, 1978).

MISCELLANEOUS PAYMENTS SYSTEM
HIGHLY VULNERABLE

NFC's largest administrative payment system, miscellaneous payments, lacks sufficient controls to prevent improper payments. In a live test, we obtained checks for 10 bogus vouchers through this system, which paid nearly \$555 million to vendors, contractors, and individuals in fiscal 1981. With such a large volume, this system needs strong financial controls to prevent fraud and abuse.

Weak verification and reporting

NFC attempted to ensure that payments made through its miscellaneous payments system were proper by comparing certifying officers' signatures on sample vouchers to signature cards on file. Unlike the Treasury Department's 100-percent prepayment signature verification effort, NFC randomly checks only 1 percent of the signatures on vouchers for less than \$100,000--after payment. Such vouchers accounted for about \$433 million, or 78 percent, of the domestic commercial payments made through this NFC system in fiscal 1981. (Signatures on all vouchers valued at \$100,000 or more are checked.) NFC voucher examiners have noted some cases where signatures on file did not match those on vouchers; however, we could not ascertain how they were handled because there was no documentation on what action, if any, was taken.

About the 20th of each month, agencies receive NFC reports detailing such payments made the previous month. The cutoff date for receiving data for these reports extends to about the 5th of the current month. Therefore, erroneous, improper, or fraudulent payments would be reported to agencies between 2 and 6 weeks after they were made.

Moreover, the detailed reports on such transactions are not intended for routine internal controls. We contacted several field stations and the headquarters of the Forest Service regarding their procedures to prevent fraudulent payments through the miscellaneous payments system. The Forest Service is the dominant user, accounting for 95 percent of the miscellaneous payment vouchers in our cash management sample. Forest Service regulations do not require--and even discourage--detailed examination of monthly "transaction registers," which show all payments made.

A 1979 internal NFC study recognized the need to guard against unauthorized use of miscellaneous payment vouchers, recommending that sampled vouchers be verified with agency representatives. While the procedure is provided for in NFC manuals, it was never implemented. However, a similar procedure is in effect for purchase orders, NFC's other large administrative payment system.

Special test demonstrates vulnerability

To illustrate the system's vulnerability, we conducted a special test by mailing 10 bogus vouchers to NFC for payment. All were promptly paid to our fictitious individuals and companies. Although NFC's automated system selected one voucher for manual postaudit, timely followup action was not taken. Moreover, agency offices to which the vouchers were charged had not queried NFC as of 6 weeks after the payments were made.

During visits to USDA field sites, we easily obtained more than 100 blank vouchers. We entered payment code data on the vouchers that were readily available at the NFC and other USDA sites we visited, and created fictitious names for the preparers, auditors, and certifying officers. On several of the vouchers, signatures of the certifying officers were deliberately made illegible, with no printed or typed name. To minimize the impact on the Department's funding availability, we limited the number of vouchers to 10, the amounts to less than \$200 each, and spread the charges among field stations in Colorado and Nebraska. As mentioned previously, the voucher amount (below \$100,000) has no bearing on the probability for audit selection. Prior to conducting the test, we obtained the cooperation and endorsement of the Acting Assistant Secretary of Agriculture for Administration, who was particularly interested in the test outcome in light of the recent concentration on improving internal controls in the Federal Government.

We mailed the vouchers in four groups from June 24 to July 2, 1982. NFC had processed nine for payment by July 15 and processed the other on July 20. One of the vouchers was statistically selected for postpayment audit. The voucher examiner could not match the certifying officer's signature to any on filed cards and referred it to NFC's Certification Branch for disposition. However, the branch had not acted on it until 3 weeks later and after we disclosed the test to NFC officials.

On July 29, 1982, we met with NFC officials and advised them of the test and the results. To determine whether the field offices would detect and report the improper charges, NFC officials held the checks and agreed not to compromise our test. Three payments appeared on reports that field offices probably received about July 20; the remainder appeared on reports probably received about August 20. However, as of September 8, NFC's inquiry management system showed no queries for the test documents. NFC officials concurred ample time had elapsed; hence, we concluded the test and told NFC to return the checks for cancellation and credit to the appropriations. However, contrary to our instructions, which were consistent with Treasury regulations, NFC deposited the checks, along with other income and reimbursement items, rather than returning them to the Treasury for cancellation.

USDA proposed automated verification procedure

As an alternative to manually verifying all signatures on miscellaneous payments vouchers emanating from about 460 USDA certifying officers, the Director of USDA's Office of Administrative Systems suggested a secret identification number system which would substitute machine verification for the manual effort. Essentially, all certifying officers would be given numbers which they would inscribe on vouchers just before mailing them to NFC. NFC data entry clerks would key enter these numbers with other data transcribed from vouchers, and machine edits would confirm them during automated processing. If USDA implements procedures to ensure that the numbers are safeguarded, we believe this approach can provide the needed verification. Those safeguards should (1) limit access to files containing the numbers; (2) change the numbers periodically; (3) require certifying officers to inscribe the numbers only on NFC payment copies of the vouchers that they mail themselves; (4) limit number authorizations to applicable fund/unit codes; and (5) continue the existing limited signature verification procedure. This proposal had not been implemented at the completion of our review.

The Director, Office of Administrative Services, notified us in an October 28, 1982, letter that another automated verification method would be implemented early in calendar 1983. That method involves creating an automated certifying officers file. The certifying officers' names will be entered and verified along with the payment data. While this proposed change would reject transactions submitted by nonexistent certifying officers as used in our test, it would not significantly reduce system vulnerability. In a November 15, 1982, meeting, the Director stated that both this method and the secret identification number system would be implemented to provide better control.

NFC officials agreed to provide timely reports to agencies intended for their use in verifying payments made through the miscellaneous payments system. While improved reporting can aid in eventual detection of improper payments, up front controls are needed to prevent them. We believe that as long as the manual system is operated, all of the voucher signatures should be checked prior to payment.

Electronic payment system being implemented before risk analysis

USDA needs to analyze risks associated with electronically transmitting payment vouchers to NFC. Although one agency has begun millions of dollars in such transmissions and several agencies, including the Forest Service, have plans to do so, we were

told no risk analyses have been performed covering this issue by either USDA or NFC. In 1977, we reported that Government telecommunications systems were exceedingly vulnerable to various penetration techniques and that unauthorized information could easily be inserted into systems for fraudulent purposes.¹ While procedures used for existing transmissions may be sufficient to minimize errors, we believe the potential financial volume to be converted to electronic transmission calls for a thorough Department-wide vulnerability assessment. A Department official advised us that USDA now plans to make such an assessment at the appropriate time.

PURCHASE ORDER SYSTEM NEEDS STRONGER
CONTROLS TO PREVENT FRAUD AND ABUSE

USDA's purchase order payment system operated by NFC did not have adequate controls to prevent improper payments. NFC automated files contained over \$10 million in old, inactive purchase orders, many of which were no longer valid obligations. Moreover, an absence of essential controls resulted in about 100 erroneous payments during a 2-month period. These conditions unnecessarily exposed Federal funds to risk of loss through fraud or abuse and needlessly increased the Government's operating costs.

Invalid purchase order obligations
should be canceled

Old, inactive purchase order obligations provide the potential for fraud and abuse, overstate the dollar obligations of the Government, and waste system resources. NFC had approximately \$10 million in old, inactive purchase order obligation records in the payment system master file. Over \$2 million worth of these obligations either had receiving reports or required none, and were awaiting vendor bills. Our limited examination of selected records indicates that many of the obligations for which there were no receiving reports were no longer valid and should have been purged from the master file. Moreover, NFC programming officials told us that notwithstanding any internal control problems, invalid purchase order obligations waste ADP resources.

Upon our request, NFC generated the following data to summarize unliquidated purchase orders.

¹"Vulnerabilities of Telecommunications Systems to Unauthorized Use" (LCD-77-102, Mar. 31, 1977).

<u>Fiscal year</u>	<u>Number of purchase order obligations</u>	<u>Total obligated balances</u>
1976	7	559
1977	71	165,406
1978	702	754,388
1979	6,184	3,808,986
1980	<u>8,980</u>	<u>5,342,723</u>
Total	<u>15,944</u>	<u>\$10,072,062</u>

We examined 15 of the old, inactive purchase orders selected from throughout the NFC report to determine why, after considerable time, they were still outstanding. The selected obligations had been outstanding for 1 to 4 years and ranged from \$2,500 to over \$46,000. Of the 15, 12 had at least partial receiving reports and were payable upon receipt of any invoices citing their numbers.

Discussions with agency procurement staff revealed that only 7 of the 15 were valid, outstanding purchase orders. The remainder were not valid for various reasons, ranging from prior payment through other NFC systems to agency or NFC mistakes.

For example, an item in our sample was one of many fiscal 1980 purchase orders made by a single office for an estimated number of subscriptions. Some of these subscriptions did not materialize, leaving this and several other orders open for over \$125,000. Such orders required no receiving reports and are highly susceptible to erroneous or other improper payments. An agency procurement agent told us that the agency recognized that the obligations were no longer valid, but the agency had no established local procedures for removing them.

More than \$2 million of these old inactive purchase orders are immediately payable upon invoicing and are particularly vulnerable to fraudulent or erroneous payments. Purchase orders become immediately payable up to the amounts indicated on receiving reports submitted by agencies. Furthermore, one type of purchase order commonly used by USDA requires no receiving reports in order to become immediately payable. Any invoice showing a number for a valid purchase order, which is immediately payable for the amount of that invoice or more, will be automatically paid. As discussed below, this condition has resulted in numerous erroneous payments.

After we discussed this problem with NFC officials, NFC acted to eliminate open purchase orders outstanding since fiscal 1980 and earlier that were inactive for the last 150 days. They accomplished this by sending a turnaround document to USDA agencies listing their old purchase orders outstanding, stating that those not marked for retention would be deleted within 90 days. NFC made similar efforts in 1980, covering purchase orders dated through fiscal 1978, but at the time of our review, it had no plans to do so again. After discussing our findings with NFC officials, the Director, Office of Administrative Systems, advised in an October 27, 1982, letter, that prior fiscal year obligations will be validated by the agency every 6 months. Obligations not validated by the agency will be deleted from obligation records. This action, if properly implemented, will correct the deficiencies identified.

Erroneous payments demonstrate vulnerability and consume resources

NFC's purchase order processing controls did not include adequate procedures to ensure that payments were being made to the proper vendors and were under the correct purchase order numbers. This condition caused NFC to make about 100 erroneous payments during a 2-month period. While the number and dollar amount of these erroneous payments were small compared with NFC's annual volume, we believe the problem reflects a serious system control weakness.

To examine this problem, we used the same data NFC provided for our discount analysis covering the period October 15 through December 14, 1981. (See encl. II.) We limited our analysis to "standard" purchase orders which represented about 69 percent of the invoices paid during the period. The purchase order form was designed for issuance to single vendors; hence, payments to more than one vendor under the same purchase order number are potentially erroneous.

The erroneous payments we found within this period were caused by incorrect purchase order numbers appearing on vendors' invoices and by NFC data entry errors. As shown below, we classified erroneous payments in three categories.

<u>Type of error</u>	<u>Number of cases</u>	<u>Incorrect payment amount</u>
Wrong vendor paid	11	\$ 2,763
Vendor paid under wrong purchase order number	85	18,239
Other	<u>5</u>	<u>361</u>
Total	<u>101</u>	<u>\$21,363</u>

We found six additional purchase order payments that could have been erroneous, but we were unable to verify them because of missing invoices.

The most common type of erroneous payment occurred when NFC paid one vendor's invoice under another vendor's purchase order number. This happened when (1) an agency mistakenly issued a purchase order bearing a previously used number, (2) the vendor transcribed the purchase order number incorrectly, or (3) NFC erroneously keypunched the number.

Less common erroneous payments may result in the wrong parties receiving payment checks. In some cases, NFC actually paid the wrong vendor because its data entry staff entered incorrect vendor names and addresses. In other cases, NFC paid the buyers rather than the sellers.

NFC's existing system cannot prevent such erroneous payments because it does not have a means to validate payee names on invoices against vendor names on purchase orders. This condition is a serious weakness in internal controls which could result in fraudulent payments. Anyone knowing a valid purchase order number which has at least some amount reported as "received" may submit an invoice and be paid under any name. This condition could also be used to circumvent spending limitations. For example, an agency could--with little chance of detection--informally instruct vendors to bill against purchase order numbers for the old, invalid obligations discussed previously.

While the errors are caused by vendors, agencies, and NFC, NFC is in the best position to detect and correct the errors before they result in erroneous payments. NFC officials told us that controls to prevent such payments could be incorporated in their vendor file being developed for other purposes. These controls would require that unique vendor numbers be placed on all purchase orders and invoices. A match of numbers would be necessary before payment could be made. We believe that if such controls are implemented in the near future, erroneous payments and the opportunity for fraud or abuse will be reduced. Implementation was scheduled for fiscal 1983.

GASOLINE CREDIT CARD PURCHASES

In fiscal 1981, USDA paid vendors over \$19 million for gasoline credit card purchases without adequate verification that these charges were proper. With about 50,000 USDA credit cards used to fuel over 30,000 vehicles across the United States, strong controls are needed to reduce the risk of fraud and abuse. However, we found that agency field offices had no reasonable means to verify

charges applied to their funds and were relying on NFC to detect improper charges through audit procedures not designed for that purpose. NFC officials agreed with our recommendation to implement an agency purchase verification procedure.

The highly automated, centralized nature of NFC's gasoline credit card payment system reduces NFC's ability to prevent improper charges against valid account numbers. Essentially, NFC receives statements directly from oil companies in both automated and manual form, enters the data required for payment, processes it, and sends appropriate payment instructions to a Treasury disbursing center. During processing, the charges are subjected to various automated tests to ensure that they apply to valid USDA cards, are within "reasonable" limits, and are mathematically consistent. NFC clerks audit statistically selected charges after processing primarily to ensure that they are supported by complete, but not necessarily proper, charge tickets which agree with the statement amounts. Because of the number of possible drivers USDA-wide, NFC cannot verify signatures on purchase tickets. NFC makes no attempt to check license numbers appearing on the tickets to ensure that the products were purchased for a Government vehicle. However, our limited examination of purchase tickets revealed that such an effort would be of very limited effectiveness, because stations frequently do not place a valid license number in the appropriate space.

Agency field office officials told us they were not attempting to verify gasoline charges appearing on NFC monthly reports, because the reports contained insufficient detail to make this feasible. Some told us they might notice large improper charges through gasoline consumption reports; however, they had no systematic means to detect gasoline purchases for use in personal cars or to detect altered charge tickets. With 50,000 gasoline credit cards easily accessible to departmental employees and no spot checking or reconciliation of purchases, the potential for fraud and abuse is substantial.

While we found no cases of fraudulent charges (other than with one card reported as stolen), USDA's Office of Inspector General noted cases of misused cards in a 1980 report which suggested detailed gasoline credit card charge reports for agencies. NFC argued that its existing controls minimized the likelihood of credit card misuse and did not act on the report. However, we believe that agency-level review of gasoline credit charges on a sampling basis is essential for this system. The General Services Administration, which pays gasoline credit card charges for other Federal agencies, implemented a sample verification system as a deterrent.

We recommended that NFC expand its audit procedures to include mailing selected charge tickets for field verification. This procedure would enable agencies to match paid charges with charge

tickets turned in by drivers and/or with vehicle use logs. NFC officials agreed, implemented the procedure, and advised us in an October 27, 1982, letter.

CONCLUSIONS AND RECOMMENDATIONS

At the time of our review, NFC needed

- controls to ensure that payments are scheduled for disbursement as close as possible to their due dates,
- a mechanism to evaluate prompt payment discounts to ensure that only cost effective discounts are taken,
- more extensive reporting verifications to prevent improper payments through the miscellaneous payments and gasoline credit card purchases systems,
- procedures to ensure that invalid obligations in the purchase order system are purged, and
- controls in the purchase order system to minimize erroneous payments.

Internal controls for large financial systems, such as miscellaneous payments, are indispensable to sound management and should be implemented regardless of whether actual losses have occurred. This principle is implicit in recent actions taken by the Reagan administration and the Congress. In October 1981, the Office of Management and Budget issued Circular A-123 requiring all agencies to maintain adequate financial control systems and periodically assess the systems' effectiveness. Also, the recently enacted Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires the head of each executive agency to prepare

- an annual statement of whether the agency's systems of internal accounting and administrative control fully comply with standards prescribed by the Comptroller General and
- a separate report on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

The reports are due December 31 of each year, beginning in 1983.

We believe the problems identified in this report warrant substantial internal control improvements. These improvements will place the Department in a more favorable position to report on the adequacy of its internal controls as required by the Federal Managers' Financial Integrity Act.

In an October 27, 1982, letter and during a November 15, 1982, meeting, USDA generally concurred with our conclusions and has implemented, is in the process of implementing, or has promised corrective measures. We were told that controls have been implemented to ensure that (1) payments are made neither early nor late, (2) prompt payment discounts are properly evaluated and taken, and (3) field offices are provided with information to verify selected gasoline credit card charges. They also said they plan to act on our recommendations to

- verify, prior to payment, that all miscellaneous payment vouchers are submitted by authorized certifying officers;
- perform a risk analysis of electronically transmitting payment vouchers;
- review open purchase orders and cancel those that are invalid; and
- review and develop controls to ensure that payments are made to the proper vendors and under the correct purchase orders.

To help ensure that the necessary improvements are made and maintained, we recommend that you require the Department to monitor the corrective actions planned, taken, or discussed in this report.

GAO METHODOLOGY USED IN EVALUATINGNFC PAYMENT TIMING AND DISCOUNT PERFORMANCE

Differences in the nature of NFC payment systems and NFC automated files required us to use different approaches to estimate dollars paid early and late and interest costs. We limited our analysis to NFC's largest systems which process commercial payments--miscellaneous payments and purchase orders.

MISCELLANEOUS PAYMENTS

Because NFC makes miscellaneous payments based on vouchers supported by information retained in agency offices, we had to obtain due date information from the agencies. Accordingly, we developed a random sample of 381 fiscal 1981 vouchers from a total of 171,586 and obtained due date information from the field offices that submitted them to NFC. In cases where the agencies could not ascertain due dates using contracts or invoices, we applied the Treasury criteria (Treasury Fiscal Requirements Manual, vol. I, part 6, section 8040) to establish due dates based on the dates invoices and goods or services were received. We compared the disbursement dates from NFC files with the due dates to establish days paid early or late and applied applicable Treasury interest rates to calculate imputed interest. Treasury promulgates these rates quarterly for agency use in charging interest on amounts owed the Government and for evaluating prompt payment discounts. The 1982 Prompt Payment Act, passed after we had begun our analysis, requires the use of another rate for interest on late Government payments to vendors; however, for consistency, we used the same rate for both early and late payments. We projected dollars paid early, on time, and late, and interest costs using generally accepted statistical methods.

Statistical sampling enables us to draw conclusions about a universe on the basis of information in a sample of that universe. The results from a statistical sample are subject to some uncertainty (sampling error) because only a portion of the universe has been selected for analysis. The sampling error consists of two parts: confidence level and range. The confidence level is the degree of confidence that can be placed in the estimates derived from the sample. Our sample size was chosen to provide a 95-percent confidence level. The range is the upper and lower limits between which the actual universe value is likely to be found. The ranges for each of the categories we projected are shown on the next page.

	<u>Range</u> (thousands)
Estimated amount paid early	\$242,754 to \$535,433
Estimated interest on early payments	\$672 to \$1,533
Estimated amount paid late	\$60,666 to \$242,486
Estimated interest on late payments	\$79 to \$389

PURCHASE ORDERS

NFC begins purging purchase orders from automated files to microfilm as early as 1 month after full payment; therefore, we could not draw a valid statistical sample projectable to a year's dollar volume. As the next best alternative, we used an NFC payment timing study covering the month of April 1982, which NFC officials claimed was representative of fiscal 1982, but not of 1981, because their new computer brought about faster payments. NFC's only other such study covered October 1981 which officials deemed unrepresentative because of yearend closing efforts and computer reliability problems. From the more representative April 1982 study, we derived average days and dollars paid early and late, adjusted those amounts to remove the influence of the new computer, and applied the results to the applicable fiscal 1981 dollar volume and the average fiscal 1981 Treasury interest rate.

DISCOUNT ANALYSIS

We limited our discount analysis to NFC's purchase order system. As in payment timing, our analysis was constrained by NFC automated file limitations. Accordingly, we requested NFC to provide tapes containing the longest available period of reasonably complete purchase order payment data.

For a variety of reasons, the best data it could furnish covered the 2-month period October 15, 1982, through December 14, 1982. While NFC programming officials initially told us processing problems and yearend closing had little impact on payments made during this period, fiscal officials later disagreed, attributing lost discounts to these and other problems. If the fiscal officials are right, NFC may normally take a somewhat greater percentage of discounts than indicated by our analysis and may take fewer expired discounts, but it would also make even more discounted payments early, worsening possible interest losses.

We analyzed the payment tapes using commercial data retrieval software. About 0.4 percent of the dollars paid during that period

were missing from the data tapes, probably because of file purges and 20 "unreadable" records contained in the tapes. We were unable to evaluate about 37 percent of the discounts taken because (1) NFC provided erroneous dates that invoices were received or (2) discount period information was missing or conflicted with full payment due dates. Because the data may not be fully representative, we did not attempt to project our 2-month findings to a whole fiscal year.