



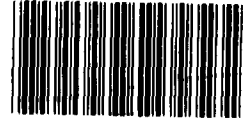
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

MAY 22, 1985

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The Honorable John J. Franke, Jr.  
Assistant Secretary for Administration  
U.S. Department of Agriculture

Dear Mr. Franke:

Subject: Internal Control Improvements in the Department of Agriculture's Centralized Payroll System (GAO/AFMD-85-39)

We are currently reviewing the Department's National Finance Center (NFC) accounting operations. The purpose of these reviews is to evaluate several systems' compliance with GAO's accounting principles and standards. As part of our work, we evaluated payroll operations at the center and briefed its personnel at the conclusion of our review.

Prior to our involvement, the Office of the Inspector General (OIG) had issued several reports and other correspondence citing problems noted during its monitoring of the development of the systems. In January 1984, at the start of our field work, the OIG issued another audit report citing weaknesses in the system's design and operation.

The OIG conducted its audit work in February and March 1983, and our review disclosed that many of the control weaknesses described in the OIG report still existed in February of 1984. These control weaknesses made the payroll system vulnerable to unauthorized manipulation of computer programs and pay records, and to inaccuracies in payroll processing and reporting. Because of the extent of these problems, we did not consider it productive for us to perform a more detailed evaluation of the system. Our work was performed in accordance with generally accepted government auditing standards, as appropriate.

We briefed NFC officials on our concerns and began to examine other systems the center operates (miscellaneous payments and program billing and collections). Since our initial briefing, NFC officials have advised us of their actions to address the concerns raised and reported these weaknesses and related corrective actions during NFC's 1984 Federal Managers' Financial Integrity Act reporting cycle.

The problems we discussed with NFC and the reported corrective actions are as follows.

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- System documentation is incomplete. Adequate documentation is necessary to (1) explain how the system executes complex sequences of automated tasks, (2) understand the system's operation, (3) interpret properly system reports, and (4) facilitate efficient operations, audits, and other system checks and modifications. NFC is reviewing the existing documentation for adequacy during its current ADP program certification review.
- Reconciling gross to net pay to ensure proper computation of payroll and deductions was difficult and time-consuming. During our review, NFC personnel had to manipulate manually several reports from different programs to determine if the payroll balanced correctly. No written instructions to document the reconciliation process existed. NFC has now prepared desk-level procedures for the reconciliation, and officials told us NFC has not experienced any particular problems in balancing recent payroll runs.
- NFC could not reconcile the government's payments for employee health benefits and group life insurance to the total amounts paid to insurers. NFC personnel were unable to trace differences to particular employees' records, and at the time of our review, substantial work by NFC was necessary to balance the accounts. NFC personnel told us they have written a computer program to identify the specific employees' records causing the imbalance, and that using this program each pay period has allowed them to identify and correct all differences.
- NFC identified over 1,000 adjustments necessary to balance the payroll system but had not made them by February 1984. The need for these adjustments resulted from processing problems encountered in the first year. NFC officials told us in February 1985 that they had made all adjustments and that the system has been continually balanced.
- Payroll programs had many abnormal processing terminations (aborts) on a continuing basis. This results in higher processing costs and indicates problems in the programming. NFC officials told us they rewrote programs where appropriate and the number of aborts has declined significantly.
- Some payroll programs were increasing in length, despite the processing problems this caused. NFC personnel said they had divided the largest program into several smaller units and had placed these programs into production in January 1985. Since placing the new programs into use, NFC no longer sees any problem in this area.
- The payroll reconciliation process to verify the accuracy of payroll accounting data did not relate all differences

to individual transactions. NFC officials told us that the reconciliation process is now complete and up-to-date, and the center promptly reconciles totals from the different reports.

While NFC has progressed and is attempting to rectify known problems in the personnel/payroll system; NFC and GAO disagree on certain areas. We believe that NFC should give prompt attention to these matters and initiate actions to strengthen further NFC's internal controls.

--During processing, any identifiable payroll record creating a processing problem was placed in a "drop file" so that the programmer could research the record and reenter corrected data. From an internal control viewpoint, we consider this a weak procedure because it allows one person to control too many aspects of the basic transaction. NFC changed the procedure to provide for the drop file to be sent to the accounting operation section, which is a separate unit away from the programmer, for research. However, to control this process properly, NFC should create a suspense listing of all files which are creating problems and are placed in the drop file. In this way, NFC can establish that the system is missing a file and can document correction of the item.

--Control over programmer access and modification to computer programs and computer and payroll files was inadequate. NFC has allowed programmers access to all parts of the system with little oversight of their activities. NFC personnel stated they have instituted procedures to eliminate unneeded access and have limited the number of programmers with complete access to five. However, we believe programmers should not have access to all parts of a system because such a procedure increases the possibility that fraud can occur. NFC has instituted a program certification function, and NFC told us that over 80 percent of the programs comprising the payroll system have now been reviewed to ensure no unauthorized program changes have been made. Although this is a positive step, it does not preclude future unauthorized changes.

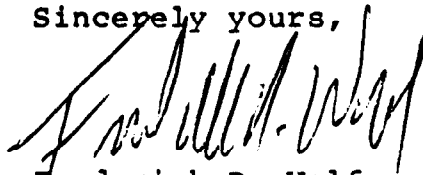
--Internal control over record counts (control data files) during computer processing is inadequate. A control data file is an internal control technique that sums the records processed and then compares the sum against the records input to be processed. If the two numbers disagree, processing should stop and the reason for the disagreement should be determined. If this is not done, it could result in processing incorrect data during payroll processing, without NFC being aware that the error had occurred. We have discussed this point several times with NFC officials but have been unable to resolve this issue. The officials said they have changed their

processing steps to halt the program if the record counts are noted to be out of balance in all parts of the process except payroll computation. We believe that NFC should have the computer halt operation every time the out-of-balance condition occurs. Otherwise, no assurance exists that the payroll computations are correct.

As stated before, the Inspector General has issued several documents relating to the NFC system. We believe that many of the problems evident during our review could have been avoided if NFC had taken more aggressive action in rectifying identified problems. The continued identification and resolution of problems is especially important to ensure that payroll services offered to non-Agriculture agencies, such as the Merit Systems Protection Board and the Departments of Commerce and Education, are up-to-date and properly controlled. Therefore, we would appreciate being notified of the department's views on our concerns and any additional improvements to be made in NFC's payroll operations.

We are sending copies of this letter to Agriculture's Inspector General, the Merit Systems Protection Board, the Department of Commerce, and the Department of Education. We appreciate the courtesies and cooperation extended to us thus far in our reviews, and look forward to continued cooperation between our staffs.

Sincerely yours,



Frederick D. Wolf  
Director