June 1987

INTERNAL CONTROLS

Improvements Needed in a USDA Receivable System

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GAO/AFMD-87-3

GAO

**Accounting and Financial
Management Division**

B-224858

June 23, 1987

The Honorable Richard E. Lyng
The Secretary of Agriculture

Dear Mr. Secretary:

As part of our review of the Department of Agriculture's central accounting system, which is operated and maintained by Agriculture's National Finance Center in New Orleans, Louisiana, we evaluated the program billings and collections system. The purpose of our evaluation was to assess the adequacy of the system's internal controls over processing as well as the general automated data processing controls. We determined that the system did not conform to certain essential control standards prescribed by law and regulation.

As a result of comments received from the Department on a draft of this report, we made a follow-up visit to the National Finance Center in February 1987. We found that Agriculture and the Center had implemented certain improvements we had proposed in our draft report. Additional improvements were either planned or in process.

The report contains recommendations to you in chapters 2, 3, and 4. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Director, Office of Finance and Management, Department of Agriculture; the Administrators of the Agricultural Marketing Service, Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and Food Safety and Inspection Service, Department of Agriculture; interested congressional committees; and other interested parties. We will also send copies to others who request them.

Sincerely yours,

Frederick D. Wolf
Director

Executive Summary

Purpose

The Department of Agriculture's inspection agencies rely on the program billings and collections system (BLCO) to produce monthly billings to recipients of their inspection services and to account for collections and accounts receivable. During fiscal year 1985, the BLCO system processed over 648,000 transactions and $127.5 million in collections. In December 1985, the system's operations were converted to a new computer.

As part of its ongoing evaluations of Agriculture's central accounting system, GAO evaluated the BLCO system to assess the adequacy of its general automated data processing (ADP) controls and internal controls over processing. These controls—referred to collectively as internal controls—are designed to assure system security, accuracy, reliability, and timeliness. As a follow-up to a July 1985 GAO report disclosing several ADP control weaknesses in the BLCO system, GAO's review also focused on assessing corrective actions taken. GAO also assessed whether the system complied with certain requirements prescribed by law and regulation in the areas of cash and debt management.

Background

The BLCO system is operated and maintained by Agriculture's National Finance Center (NFC) in New Orleans, Louisiana. It serves four inspection agencies: Agricultural Marketing Service, Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and the Food Safety and Inspection Service.

NFC and the four inspection agencies share responsibility for the BLCO system's internal controls. The inspection agencies are responsible for submitting, in a timely manner to NFC, accurate inspection service reports and information for customer billings. Except for the Animal and Plant Health Inspection Service for whom NFC performs this function, the inspection agencies make their own follow-up contacts on delinquent customer accounts. NFC is also responsible for claims processing for the inspection agencies' uncollectible accounts, BLCO system processing controls, and system program maintenance.

Results in Brief

The BLCO system operations did not comply with certain essential internal control standards and requirements. As a result,

- general ADP and processing controls did not sufficiently assure the security, accuracy, and reliability of BLCO system data files and

processing, thus making the system vulnerable to unauthorized use and to unreliable processing;

* processing control weaknesses have contributed to untimely, inaccurate system processing; and
* certain required debt and cash management controls have not been implemented in the operation of the system.

GAO previously reported several of the general ADP control weaknesses to the Department and NFC in July 1985. While some positive steps have been taken on these and other subsequently identified weaknesses, additional actions will be needed before the BLCO system operations conform to essential control standards and requirements.

Principal Findings

General ADP Control Weaknesses

GAO found that NFC began using the new version of BLCO before completing program modifications and formal testing and certification. This is contrary to Department and Office of Management and Budget (OMB) policies and guidelines in federal information processing standards. Without complete testing and certification, there was little assurance that the new version of the system met security requirements and accurately and reliably performed all processing tasks and produced results consistent with those produced by the old version. (See chapter 2.)

Further, GAO found that restrictions on NFC personnel's access to BLCO system data and programs were still not adequate to safeguard data files and programs from unauthorized changes or use. In responding to GAO's July 1985 report, the Department had said that measures were being implemented to restrict programmers' access to system data files and programs. (See chapter 2.)

The Department also said that actions were being taken to improve computer program documentation—that is, documentation which describes how the computer program performs its functions. However, GAO subsequently found that BLCO program documentation is not current nor does it conform to Department policies and guidelines and federal information standards. The lack of adequate program documentation increases the risk of unauthorized changes and use of the system and increases the difficulty in certifying, maintaining, and reviewing the system. (See chapter 2.)

BLCO Processing Control Weaknesses

BLCO processing controls are not sufficient to assure prompt and accurate processing and reporting of billing and collection data, contrary to Comptroller General accounting and internal control standards.

For the period April through September 1985, GAO found that about 33 percent of the inspection reports analyzed, valued at $18.8 million, missed one or more possible monthly billing cycles, primarily because of inspection agencies' untimely submission of service reports to NFC. GAO estimated that the billing delays on the $18.8 million resulted in about $157,000 in additional federal government borrowing costs. (See chapter 3.)

Further, GAO found that data origination and entry control improvements are needed to reduce the rate of transactions rejected by the BLCO system edits and better ensure data accuracy. During the period May through July 1985, BLCO system edits rejected 11.4 percent of the billing and 4.7 percent of the collection-related transactions because of NFC data entry errors and inaccurate or incomplete inspection forms submitted by the agencies. This creates more research and reentry work and delays system updates for these transactions. Also, data errors affecting billing, accounting, and inquiry research cannot always be detected by the system edits, thus emphasizing the need for other control measures. Eight percent of 275 sampled billing-related transactions had errors that could not be detected by the BLCO system edits. (See chapter 3.)

Debt and Cash Management Weaknesses

GAO found that NFC and the inspection agencies have not implemented certain control measures required by debt collection regulations and OMB Circular A-129 that could assist in reducing the BLCO delinquencies for nongovernment debtors which, as of September 30, 1985, totaled 3,060 accounts and about $2.5 million. (See chapter 4.)

GAO also found that the actual cost-effectiveness of NFC's and Treasury's Chicago lockbox bank—an arrangement whereby payments are sent directly to a specific bank for quicker deposit and processing—has not been determined after about 2 years of operation. NFC officials said that they were not aware of any requirements to evaluate the lockbox's cost-effectiveness. GAO believes that Treasury's October 1985 implementing regulations have since clarified the Department's responsibility for evaluating the cost-effectiveness of its collection and deposit methods. (See chapter 4.)

Recommendations

GAO recommends that the Secretary of Agriculture direct the NFC Director to (1) implement several actions that would improve the security of system data and the adequacy of system program documentation, (2) improve controls over collections received and refunds made to customers, and (3) evaluate the cost-effectiveness of the Chicago lockbox. (See chapters 2, 3, and 4.)

GAO also recommends that the Secretary direct the NFC Director and the Administrators of the inspection agencies to implement control measures that would help ensure accurate and timely processing of BLCO transaction data and reduce BLCO delinquencies. (See chapters 3 and 4.)

Agency Comments

In commenting on a draft of this report, Agriculture stated that many of the corrective actions GAO had proposed had been implemented. GAO made a follow-up visit to NFC in February 1987 and found that Agriculture and NFC had initiated improvement actions subsequent to its review. Although GAO considers actions on four proposals to be complete, other reported actions are either in process or planned. The Department's comments on the draft report and GAO's response are contained in chapters 2, 3, and 4 and in appendix I.

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Abbreviations

ADP	automated data processing
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
BLCO	program billings and collections system
CD	certificate of deposit
FGIS	Federal Grain Inspection Service
FIPS	Federal Information Processing Standards
FSIS	Food Safety and Inspection Service
GAO	General Accounting Office
NFC	National Finance Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
TSO	Time Sharing Option

Introduction

Background

The Accounting and Auditing Act of 1950 requires the head of each executive agency to establish and maintain a system of accounting and internal controls to provide effective control over and accountability for the agency's assets. In September 1982, this requirement was strengthened by the Federal Managers' Financial Integrity Act, which reaffirmed the importance of such controls. Under the 1982 act, the agency head is required to annually evaluate and report whether agency internal control systems comply with standards prescribed by the Comptroller General and provide reasonable assurance that

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded; and
- revenues and expenditures are properly recorded and accounted for.

Also, a separate annual report must state whether the agency accounting systems conform to the Comptroller General's accounting requirements.

The Department of Agriculture's program billings and collections system (BLCO) processes transactions for inspection services rendered and provides financial data to the Department's central accounting system. Both of these systems are operated and maintained by the Department's National Finance Center (NFC) in New Orleans, Louisiana. Organizationally, the NFC Director reports to the Director of the Office of Finance and Management, which is under the Assistant Secretary for Administration.

The BLCO system serves four agencies—Agricultural Marketing Service (AMS), Animal and Plant Health Inspection Service (APHIS), Federal Grain Inspection Service (FGIS), and Food Safety and Inspection Service (FSIS). However, certain units of AMS, such as the cotton classification, poultry, and fresh fruit and vegetable units, as well as the exotic bird section of APHIS, do not use the BLCO system for inspection service billings and collections. According to NFC statistics, over 648,000 transactions were processed and $127.5 million was collected through the BLCO system in fiscal year 1985.

NFC began operating the BLCO system in March 1982 on a Honeywell computer. During fiscal year 1985, NFC initiated modifications to the BLCO system to convert its operation from Honeywell to IBM computer hardware. No major system design changes were to be made. In December 1985, NFC began running BLCO operations on the IBM computer.

The BLCO system produces monthly billings to inspection service recipients. The documentation for these inspection services, performed during the month, is periodically mailed by the inspection agencies to NFC for entry into the system. At the beginning of each month, the system produces billings to service recipients, referred to as applicants, based on the inspection service documents received and processed during the preceding month.

Beginning in May 1984, NFC implemented procedures that provided for BLCO customers to send payments directly to a bank in Chicago. This step was taken in response to the Department of Treasury's encouragement to improve cash management. In addition to crediting funds collected, the Chicago bank performs data entry services on all collections for which the customer has provided information on the account to be credited. This data is electronically transmitted to NFC for subsequent processing into the BLCO system. Hardcopy documentation on collections received by the Chicago bank is forwarded to NFC.

In addition to its data processing function, NFC performs debt collection services for APHIS, contacting delinquent BLCO applicants and ultimately recommending to APHIS those accounts that should be referred to the NFC claims unit or written off.

Objectives, Scope, and Methodology

As part of our ongoing evaluations of the Department's central accounting system, we reviewed the BLCO system to assess the adequacy of NFC's general automated data processing (ADP) controls and processing controls designed to ensure system security and accurate and reliable system processing. In addition, we assessed whether corrective action had been taken on the ADP control weaknesses disclosed in our July 1985 report, Improvements Needed in General Automated Data Processing Controls at the National Finance Center (GAO/AFMD-85-38). Our assessment was based on internal control objectives developed from our audit guide, Evaluating Internal Controls in Computer-Based Systems, dated June 1981, and Federal Information Processing Standards (FIPS) publications issued by the National Bureau of Standards.

We also assessed whether system operations complied with certain requirements prescribed by law, the Comptroller General, the Department of Justice, the Department of the Treasury, and the Office of Management and Budget (OMB). Our primary emphasis was on requirements dealing with the timely billing and collection of receivables (cash management) and with the accuracy of BLCO system processing and reporting

of collections and accounts receivable. We also assessed whether the system's design adhered to federal debt collection requirements.

Where billing and collection transaction samples were drawn, we used random sampling at the 95 percent confidence level. Because of the delays NFC experienced in converting BLCO from the Honeywell to the IBM computer, we limited our transaction testing to the active Honeywell BLCO data base as of September 30, 1985. These tests were performed to assess controls over the accuracy and the timeliness of system inputs that did not change under the IBM version of the BLCO system.

From the September 30, 1985, data base, we extracted all billing and collection transactions processed by the BLCO system during the 6-month period April through September 1985 and samples were drawn. We used the 6-month transaction period because of (1) the complexities involved in converting the data records to the IBM format needed for our computer analyses and samples, (2) the difficulty in matching various records needed, and (3) the high cost for computer processing of a large data base.

We also analyzed random samples of billing and collection transactions rejected by BLCO system edits during the months of May through July 1985. Specific samples are discussed in chapter 3.

Finally, we contacted knowledgeable officials at the headquarters offices of the four inspection agencies to discuss procedures for submitting to NFC documentation of billable inspection services rendered. We performed our work in accordance with generally accepted government auditing standards during the period March 1985 through April 1986. We also performed follow-up work during February 1987.

General ADP Controls Over the BLCO System Need To Be Improved

Adequate general ADP controls are essential for ensuring the reliability of and security over data processed by computer-based systems. General controls include such areas as system security over the access to programs and data files, testing and certification of system modifications and newly developed systems, and system program documentation.

We reviewed these areas as they related to the operation of the BLCO system. We found that NFC's general controls in these areas did not reasonably assure the reliability of and security over BLCO system processing. More specifically, we found that (1) NFC began using a modified version of the BLCO system before completing program modifications and formal testing and certification of the system, (2) controls did not sufficiently restrict NFC personnel to only those programs and data files justified by individual need, and (3) BLCO program documentation was not complete and current.

We have previously reported some of these general ADP control weaknesses to the Department of Agriculture and NFC (GAO/AFMD-85-38, July 12, 1985), and corrective actions were promised. However, while some actions have been taken, the problems have not yet been resolved. Therefore, as we reported in 1985, the BLCO system programs and data files continue to be vulnerable to unauthorized changes and use and to unreliable processing.

BLCO Conversion Not Completely Tested or Certified

In December 1985, NFC began relying on a modified version of the BLCO system that had not been completely tested and certified for operational use. Further, as of May 1986, NFC had not established when formal acceptance certification of the modified version would be completed. Thus, there was little assurance that the modified version of the system accurately and reliably performs all processing tasks consistent with that produced by the previous version.

OMB Circular A-71 (superseded by A-130, Appendix III, "Security of Federal Automated Information Systems") requires that a system having a high potential for loss or harm, resulting from improper operation or misuse, be certified upon completion of the system test. The certification is to include assurances that the system meets all applicable federal policies, regulations, and standards and that test results demonstrate that the security provisions are adequate for the system. The system tests are to be conducted and approved prior to operational use of the system.

Agriculture's Departmental Information Processing Standards also require that system acceptance certifications be performed. According to FIPS Publication 31 on ADP physical security and risk management, one of the most sensitive points in the programming process is the release of the system for operation against a live data base. Approval of a system should include testing, resolving programming errors, and performing final acceptance certification.

During 1985, NFC modified the BLCO program software so that system operations could be converted from a Honeywell to an IBM computer. Since December 1985, the IBM version of the BLCO system has been the only version in operation. The decision to rely on the IBM version for BLCO production processing, however, was based on the NFC BLCO user unit's review of system outputs rather than on completion of formal acceptance certification by NFC's system certification unit. NFC's BLCO test plan provided for parallel testing of the modified system with the existing system as part of its basis for system acceptance. However, the new version was implemented without an adequate parallel test of several key processes, including the month-end reconciliation and billing routines. In fact, except for two daily cycle updates that failed, we found that no parallel testing had been performed to ensure that the IBM version of the BLCO system was comparable to the Honeywell version.

The first two attempts to process the IBM version of the BLCO system during certification testing failed because of problems in the data base structure. The first parallel test was not considered acceptable because it resulted in erroneous updates to the data base, allowed processing of duplicate transactions and authorizations, and lost data from multiple transactions. Additionally, an unplanned termination of system processing occurred before all scheduled tasks had been completed. During the second parallel test in November 1985, problems in the data base management system prevented the BLCO system from posting transactions to the data base. In both cases, all transactions had to be processed by the old Honeywell system without a full parallel run on the IBM version.

In December 1985, the IBM version of the BLCO system ran successfully during certification testing; however, a parallel run of the same input was not processed on the Honeywell version. According to the BLCO test report for September 1985, the BLCO user group at NFC specified that the monthly billing process be run in parallel with the old system before considering the test satisfactory. In addition, not all BLCO programs had been modified and tested in the IBM environment at this time, including

the monthly reconciliation report process needed to balance with the central accounting system general ledger. The net effect was that the new BLCO system had not been completely tested in parallel with the old system.

While NFC's BLCO users apparently accepted the new IBM version informally in December 1985 for operational use, formal certification had not been completed. In addition, because the Honeywell version had not been processed since December 1985, it could no longer easily be used as a fallback if the IBM version failed acceptance certification.

The ADP standards, security, and certification branch chief told us that previous conversion delays, coupled with the growing certification workload, led to the decision to rely on the BLCO system users at NFC to perform much of the review and acceptance of the new system. This decision was based on management's belief that the BLCO system users at NFC were sufficiently knowledgeable, conscientious, and capable to ensure that the results produced by the new version were accurate.

At the time of our review, NFC officials could not say when the formal acceptance testing and certification of the IBM version of BLCO would be completed. This uncertainty stemmed from the growing certification priorities on several other large systems and the lack of specifically defined acceptance criteria for the BLCO system. In the meantime, the IBM version continued to run BLCO production in the certification environment without reasonable assurance that it met all user requirements and was accurate and reliable.

During our follow-up visit to NFC in February 1987, we obtained NFC's certification report on the BLCO system, dated February 12, 1987. The report represents NFC's full certification approval of the system.

Agriculture's response indicated that it agrees, in principle, with the need to complete system testing, certification reviews, and related reports before implementing new or modified systems. Agriculture said that every effort would be made to ensure that these objectives are met, within its resource limitations. However, Agriculture did not elaborate on how these objectives would be met.

Access to Data and Programs Not Adequately Controlled

In our July 1985 report[1] concerning weaknesses identified in NFC's general ADP controls, we reported that programmers had unrestricted access to both computer data files and computer programs. We noted that by having the capability to access data files and programs, programmers could more easily obtain detailed knowledge of the overall system. With that knowledge, a programmer could more easily make changes to the programs or data that could result in fraudulent transactions.

As a result of our 1985 report, NFC instituted several security measures to restrict the programmers' access to system data files and programs. Those measures included (1) rearranging the computerized program libraries to limit the number of programs an individual programmer could access and (2) initiating plans to use the security software package to control programmers' access to production data files.

Our follow-up assessment of the NFC's general ADP controls disclosed that restrictions on personnel having access to BLCO data files and programs were still not adequate to assure that unauthorized modification of data files and programs were not made.

FIPS Publications 73 and 88 provide guidelines for assuring computer security. The guidelines provide that users of a computer system should be restricted to accessing only those elements of data for which they have a need. "Users," in this case, include data base administration, operations, and data processing systems personnel.

The FIPS guidelines further provide that when granting access to data, each individual's need for such access should be deliberated, rather than granting access according to rank or position or precedent. Additionally, group authorizations should be avoided except when adequately justified. These controls and restrictions, according to the FIPS guides, are especially important in accounts payable and receivable applications, where deliberate and accidental acts are a major concern.

Personnel Have Access to BLCO Data Files and Programs

Although not consistent with FIPS guidelines, NFC continues to grant NFC personnel blanket access authority to data without adequately determining each individual's need for the data. For instance, NFC personnel have been granted blanket authority to read system data files, including

[1] Improvements Needed in General Automated Data Processing Controls at the National Finance Center (GAO/AFMD-85-38).

the BLCO system, through 265 access accounts. We reviewed access listings and noted that some personnel had access through more than one account. The NFC personnel with data access include programmers, various system users, and higher level management officials.

Blanket access requests that we reviewed did not adequately specify the justification for granting such access. We further found that for the first 7 months of IBM operations, the BLCO programmers had been assigned additional accounts that specifically granted full access to the BLCO data base and data files. Through these accounts, BLCO programmers had the capability to not only read data files but also to alter and create them.

NFC management contends that access authorizations to data files are necessary to allow programmers to correct errors that occur during processing. For example, at users' requests, BLCO programmers corrected BLCO records with data errors that were causing imbalances during month-end processing, rather than taking the time to follow normal user error correction and reentry procedures.

In our opinion, adhering to the Department's information processing standards, including testing and formal acceptance certification of systems prior to implementation, should eliminate or at least minimize the need for programmers' access to operational system data files.

Furthermore, we found that programmers still had access to all system program documentation. NFC had taken steps based on our 1985 report to restrict programmers' access to only the computerized program libraries of the system to which they were assigned. This would still not prevent unauthorized or accidental program changes by programmers not assigned to a particular program. Further, we found that hardcopy program documentation for all NFC systems was still available and unrestricted in the NFC documentation library.

In response to our draft report, Agriculture commented that NFC had issued a directive dated May 28, 1986, concerning personnel access to documentation and production source libraries. Our follow-up visit in February 1987 confirmed that the directive had been issued. The NFC ADP standards, security, and certification branch chief told us that BLCO program documentation had been updated and stored in the on-line documentation library during the period November to December 1986. The NFC ADP security officer advised us that access to the on-line documentation and production source libraries for BLCO are being controlled by the branch chief responsible for the BLCO system programs. We believe NFC's

actions were sufficiently responsive to permit our eliminating our proposed action on this issue.

With respect to our proposal on individuals' access to operational system data, Agriculture said that both data and program access was limited to authorized persons. However, Agriculture did not respond to our point that the specific need for such authorization should be justified in writing. Accordingly, we continue to believe that data access be granted only when the need for such access has been justified and authorized in writing.

BLCO Users' Access Not Adequately Controlled

The BLCO section staff under the billings and collections branch are the BLCO system users at NFC and are responsible for the information entered into the system and the reports generated by it. Users in the BLCO section have been granted access to a powerful, general purpose, on-line IBM software package, called Time Sharing Option (TSO), through 29 access accounts. Although nothing came to our attention to suggest any unauthorized activities by the users with access to that on-line software package, they do have the capability to alter or insert records into the BLCO system, or any other system, for unauthorized purposes. They could also inadvertently destroy or corrupt data within the system.

According to FIPS Publication 73, user accesses should be tailored as specifically as possible to fulfill the users' requirements. The greatest danger occurs when users are given unnecessary access to a general purpose programming language. Users who can execute their own programs usually have the potential to bypass any security control. While most users do not have the knowledge required to break security in this way, reliance on a user's lack of ingenuity is a poor security control.

NFC has provided BLCO users access to TSO to enable them to use a general purpose report package, called FOCUS. FOCUS is a user-friendly language designed for nontechnical personnel who need to produce reports from computerized information. BLCO users perform ad-hoc inquiries of the BLCO data files and produce information reports. With TSO, one can retrieve, modify, create, or delete data files. One can also develop a computer program, submit the program to the computer system for execution, and retrieve and print the report generated by the program.

Because the users of a computer system have generally been granted authority to that system's data, granting them the additional capability

and flexibility of TSO can make it more difficult for the security administrator to assure all possible user actions are adequately controlled. In our review of NFC's TSO operations, we found that users with access to TSO could create or change operational system files, including those processed by the BLCO system. In the presence of NFC's ADP security officer, we used a computer terminal with access to TSO to read and modify a test BLCO file that we created. Although the security officer made a change in the computer access criteria that prevented us from repeating such actions, it is possible that other access criteria weaknesses could exist. Further, we found no specific procedures for monitoring the actions of BLCO and other users that have been given access to TSO in order to use FOCUS. Short of eliminating access to TSO, we believe that such monitoring procedures would help to reduce the risks in this area.

In commenting on a draft of this report, Agriculture said it did not concur with our recommendation to establish procedures to monitor the actions of users granted TSO access to allow their use of the FOCUS report software package. We agree that TSO access does not mean that users have uncontrolled access to modify, create, or delete program data files, provided security restrictions have been properly implemented. However, our ability, through TSO access, to read and modify a test BLCO file suggests that other security weaknesses could exist.

Accordingly, we continue to believe that NFC should establish procedures to monitor the activities of users who have TSO/FOCUS access. We do not intend that a time-consuming monitoring procedure be created, but rather that a procedure be implemented that would allow for periodic spot-checking of user activities. In our view, a procedure for spot-checking activity would offer a measure of assurance that the accesses were being used as intended.

BLCO Documentation Has Not Improved

We found that the BLCO system program documentation still did not comply with FIPS guidelines, nor had it been reviewed for such compliance. Further, the BLCO system documentation had not been changed to reflect the conversion from the Honeywell to the IBM computer system in December 1985. The lack of adequate program documentation increases the risk of unauthorized manipulation of the system and increases the difficulty in maintaining, reviewing, and auditing the system.

In our July 1985 report, we reported that NFC's computer program documentation for BLCO and two other large systems was not current or complete, thus hindering system maintenance. We recommended that NFC develop and implement program documentation standards and procedures consistent with FIPS guidelines. The Department responded that several steps had been taken to correct the identified problems, including (1) reviewing and correcting all program documentation packages identified in our report, which included BLCO documentation, (2) routinely reviewing programmers' compliance with documentation standards, (3) updating standards to clarify any confusing terminology, and (4) explaining the importance of documentation to all staff. While we consider these to be positive steps, they did not result in improved BLCO system documentation. We did not review the documentation of other systems identified in our 1985 report.

According to FIPS Publication 38 and Agriculture's Departmental Information Processing Standards, the purpose of program documentation is to provide the maintenance programmer with the information necessary to understand the programs, their operating environment, and their maintenance procedures. The documentation should describe the problem to be solved and the solution method used, including processing logic rules, decisions to be followed, any formulas, and all restrictions and limitations. It should document the input, including codes; units of measurement; format and range of values; and how the input is to be examined, altered, and utilized.

For documentation to be effective, it must be complete, accurate, and clear. Also, documentation must be revised when a program is changed so that it completely and accurately reflects the operation of the changed program. If it is not revised, further maintenance will be very difficult. Because documentation is a vital element in developing and running a computer project, formal documentation standards must be established and enforced.

BLCO Documentation Was Not Corrected or Revised

BLCO documentation packages did not contain descriptions in the detail necessary to explain program functions. This lack of specificity, along with documentation errors in data records, hindered NFC programmers and us in performing BLCO data retrievals for our audit.

For example, we attempted to duplicate portions of the aged accounts receivable report. We requested the detailed accounts receivable file, its record formats and descriptions, and the criteria used to develop the

aged accounts receivable report. NFC programmers were unable to provide a complete description of the records, and it took several attempts to establish the criteria used to select the records for processing. At one point, an NFC programmer attempted to duplicate our retrieval process and he, too, could not produce the desired results.

After reviewing the reports, we identified an error in the criteria provided us. An NFC programmer then reviewed the BLCO system programming code and established that the error we found was preventing us from duplicating portions of the aged accounts receivable report. Later, the NFC programmer agreed that had the selection criteria been documented, many of the problems we encountered would have been prevented. Without that documentation, several days of programming and computer runs were wasted.

Effective December 1985, the BLCO system was converted from the Honeywell to the IBM computer. The move was considered complete at the time of our review, although none of the program maintenance documentation had been revised to reflect the change to the IBM computer. The project leader responsible for the move stated that the conversion was a straightforward, one-for-one transfer of programs from the Honeywell to the IBM computer. He said that because the processing logic had not changed, only the data file names had to be revised in the documentation to reflect the names used under the IBM computer. However, we noted that because the IBM computer has a different data base management system than the Honeywell, all programs that accessed the data base had to be modified to conform to the new data base management system access methodologies. Additionally, the IBM computer imposes stricter security requirements, requires a different command language, and uses a different computer tape management software package.

In our opinion, even though converting the BLCO system from the Honeywell to the IBM computer may have been a straightforward change, documentation standards require that the computer operating environment be sufficiently described. According to FIPS Publication 38, the description should include information on the operating system, data base management system, and file handling requirements, including naming conventions and computer tape and disk file disposition and retention. This information must be described sufficiently to provide the maintenance programmer with the information necessary to understand the programs and processes of the system within the operating environment.

Departmental processing standards and FIPS guidelines provide that system documentation should be completed and reviewed as part of the system acceptance certification process. Three months after it was converted to the IBM computer system, we found that the BLCO documentation still reflected the Honeywell computer. The data file names had not been revised, nor had any references to the Honeywell data base management system. The documentation was, in fact, the same used before the move from the Honeywell to the IBM computer. Thus, weak program documentation will increase the risk of maintaining, reviewing, and auditing the system.

In responding to our draft report, Agriculture said that BLCO program documentation had been revised in accordance with FIPS guidelines and departmental standards to accurately and completely reflect the current BLCO operations and the use of the IBM hardware.

Our follow-up visit to NFC in February 1987 disclosed evidence that NFC had taken action, since the date of our initial review of documentation, to update the BLCO program documentation to reflect current operations and the use of IBM hardware. However, NFC's certification report on the BLCO system, dated February 12, 1987, noted that some documentation exceptions still existed and that resources still needed to be allocated to bring the BLCO documentation into compliance with NFC standards.

BLCO Documentation Not Adequately Reviewed

In response to our previously reported recommendation that NFC develop and implement documentation standards and procedures consistent with FIPS guidelines, the Department stated that the NFC programmers' compliance with documentation standards was being routinely reviewed. In addition, NFC was to institute a schedule to certify all of its systems, including a review of the adequacy of program documentation.

The BLCO system conversion from the Honeywell to the IBM computer was the first major system to be submitted for certification since our report on the NFC's general ADP controls. During the time formal acceptance certification was not complete, the IBM version of BLCO was being used for operations. Although the BLCO system documentation did not reflect the new IBM computer, the NFC's branch chief for ADP standards, security, and certification said that the system was accepted for review and certification because of a system implementation deadline.

The certification review of the BLCO documentation consisted of a sample of 20 to 25 percent of the program maintenance modules. However, the review did not include a measure of the adequacy and completeness of this documentation, as required by FIPS guidelines, OMB circulars, and Departmental Information System Processing Standards.

During our follow-up work, we found that NFC has not yet finalized and issued its standard on application program documentation. The draft standard, dated August 15, 1985, addresses the concerns that we had with the existing documentation standard, dated April 25, 1984, except for the security requirements documentation. On July 22, 1986, however, NFC issued a standard on security requirements documentation. The BLCO certification report states that the April 25, 1984, standard was used for the certification. We also noted that NFC's standard for performing and documenting tests of application software, dated April 3, 1985, remains in draft form.

We believe that NFC will have been fully responsive to our recommendation on implementing policies and procedures consistent with FIPS and departmental standards when BLCO documentation shortcomings are corrected and the two draft NFC standards are formally approved, issued, and implemented.

Conclusions

The testing and review of BLCO's processes and procedures were incomplete. Thus, the system's certification process was incomplete. The BLCO system's general ADP controls did not reasonably assure the reliability of and security over system processing. The weaknesses found in the controls over system modification testing and certification; access to system programs and files; and program documentation are significant, in our opinion, and have been previously brought to the attention of the Department and NFC management. NFC has taken some positive steps, but the problems still exist. Until these weaknesses are corrected, the BLCO system will continue to be vulnerable to unauthorized changes and use and to unreliable processing.

Recommendations

We recommend that the Secretary of Agriculture direct the NFC Director to

- implement and enforce policies, procedures, and practices consistent with Departmental Information Processing Standards, FIPS guidelines, and OMB Circular A-130, Appendix III;

- ensure system testing, certification reviews, and completion of all related reports before placing new or modified systems into operation;
- permit access to operational system data to only those individuals who have a specific need and for whom there is written justification and authorization; and
- establish procedures to monitor the actions of BLCO and other users that have been granted TSO access in order to use the FOCUS report software package.

Agency Comments and Our Evaluation

Agriculture cited a number of actions that had been accomplished or planned in response to our draft report. Because of their detailed nature, we included them in the appropriate sections of this chapter. (See appendix I for Agriculture's specific comments.)

Billing and Collection Controls Need To Be Improved

The BLCO system controls do not ensure prompt and accurate processing and reporting of billing and collection data as required by Comptroller General accounting and internal control standards. Inspection agencies' controls do not ensure that inspection service reports and billing information are promptly and accurately submitted to NFC for BLCO processing. Further, NFC controls do not sufficiently assure that BLCO data entry operations are accurate, collections received are safeguarded and processed promptly, and refunds to customers are safeguarded. While some steps have been taken or planned, the weaknesses have not been resolved.

Prompt Inspection Reporting and Processing Needed

Our computer analysis of over 258,000 inspection documents processed by the BLCO system during April through September 1985 disclosed that 33 percent, representing $18.8 million in billable charges, were not submitted in time for the next possible billing cycle. For the documents processed during this 6-month period, we estimate that the federal government incurred about $157,000 in additional borrowing costs because of the untimely submission of inspection documents to NFC. These delays also preclude prompt recognition of receivables in the BLCO system and the Department's central accounting system.

Treasury's cash management regulations (31 CFR 206.3), which became effective during October 1985, state that the billing process is an integral part of an effective cash management system. The BLCO system produces billings to inspection service recipients, referred to as applicants, at the beginning of each month for inspection documents received and processed at NFC during the preceding month. The system relies on the Department's inspection agencies to ensure that inspection documents are promptly submitted to NFC for inclusion in the next billing cycle.

To perform our analysis of billing cycles missed, we extracted from the BLCO data base as of September 30, 1985, 264,352 inspection service records received and processed during April through September. We further extracted those inspection records having the necessary agency codes, dates, and dollar information recorded. This resulted in a computer file of 258,252 usable inspection records valued at $62.6 million. About 6,100 inspection records could not be used primarily because the dollar amounts for individual inspection documents had been totaled and reported as a single amount for entry into the BLCO system. Thus, a number of individual inspection records had no dollar value in the data base and could not be used in our interest calculations.

By comparing the inspection service date[2] to the actual billing date, we were able to determine whether any of the monthly billing cycles were missed. For our analysis, when the services were performed after the 24th of the month, we did not count the next month's billing cycle as missed, if that occurred, because of the likelihood that any supervisory review and mail time would preclude processing in the next billing cycle. We calculated the additional borrowing cost using Treasury's published rate during this 6-month period of 9 percent per annum. Table 3.1 presents our analysis for each of the four inspection agencies.

Table 3.1: Billing Analysis of Inspection Records That Missed Billing Cycles (By Agency)

	AMS	APHIS	FGIS	FSIS	Total
Inspections	26,140	12,907	14,062	32,528	**85,637**
Percent of total	30.5	15.1	16.4	38.0	**100.0**
Dollars (in thousands)	$8,442	$1,850	$3,412	$5,145	**$18,849**
Percent of total	44.8	9.8	18.1	27.3	**100.0**
Interest cost	$72,604	$15,498	$28,204	$40,757	**$157,063**

For the 85,637 inspection records that missed billing cycles, table 3.2 shows an analysis of the number of cycles missed. Table 3.2 shows that most of these inspection records missed only one possible monthly billing cycle.

Table 3.2: Number of Missed Billing Cycles for 85,637 Inspection Records Processed During April Through September 1985

	Number of billing cycles missed				
	1	2	3-9	over 9	Total
Inspections	80,304	3,889	1,375	69	**85,637**
Percent of total	93.8	4.5	1.6	0.1	**100.0**
Dollars (in thousands)	$17,663	$797	$380	$9	**$18,849**
Percent of total	93.7	4.2	2.0	0.1	**100.0**
Interest cost	$132,478	$11,952	$11,494	$1,139	**$157,063**

We further analyzed 263,967 of 264,352 inspection documents processed in the April through September time period that had complete service and billing date information in the BLCO data base. The analysis, presented in table 3.3, shows that only about 4 percent of the inspections performed in the second half of the month were billed in the next month's billing cycle (service to billing date range of 1 to 14 days); about

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[2]All BLCO agencies, except for APHIS, report inspections on a weekly or bi-weekly basis. NFC enters the last date of the inspection report period into the BLCO system as the service date. The actual service date may be several days prior to the end of the reporting period. We used the service date that NFC entered into the BLCO system. Therefore, in many cases, the time lapse between service date and bill date may be understated from about 7 to 13 days.

37 percent of the inspections performed in the first half of the month were billed in the next month's billing cycle (service to billing date range of 15 to 30 days).

Table 3.3: Analysis of 263,967 Inspections Processed April Through September 1985

| | Service to bill date | | | | | | |
| | Days elapsed | | | | | | |
Agency	1-14	15-30	31-36	37-66	67-96	over 96	Total
AMS	2,628	21,535	11,547	26,099	2,492	533	64,834
	4.1%	33.2%	17.8%	40.3%	3.8%	0.8%	100.0%
APHIS	1,449	13,337	6,835	13,594	398	301	35,914
	4.0%	37.1%	19.0%	38%	1.1%	0.8%	100.0%
FGIS	4,973	22,430	10,426	15,820	1,035	326	55,010
	9.0%	40.8%	18.9%	28.8%	1.9%	0.6%	100.0%
FSIS	2,181	41,531	23,893	39,565	677	362	108,209
	2.0%	38.4%	22.1%	36.6%	0.6%	0.3%	100.0%
Total	**11,231**	**98,833**	**52,701**	**95,078**	**4,602**	**1,522**	**263,967**
	4.3%	**37.4%**	**20.0%**	**36.0%**	**1.7%**	**0.6%**	**100.0%**

We also analyzed 275 inspection transactions, randomly selected from our April through September 1985 universe of 264,389 records, showing the days elapsed between billing process steps. The analysis shows that an average of 16.2 days elapsed between the service date and the date NFC received the inspection document. An average of 5.4 days elapsed between the dates NFC received the inspection document and entered it into the BLCO data base. To allow more of the previous month's transactions to be received and processed in the next billing cycle, NFC changed the monthly BLCO billing run in November 1985 from the last work day of the month to the second work day of the next month. Our analysis indicated that the inspection agencies have more opportunity for improving the timeliness of the billing process.

Timely submission of billing-related documents is essential to ensure an effective cash management system. However, inspection agencies' procedures for submitting inspection documents contribute to the delays in billings. AMS, FSIS, and FGIS report inspection activity to NFC on a weekly or bi-weekly interval. An official from the AMS livestock division said that field office reviews of reports delay submissions about 2 to 3 days. We believe that reporting inspections at a 1- or 2-week interval near month end could result in billing delays. Officials of the AMS livestock division and FSIS said that more frequent submissions would result in additional paperwork and mailing costs. However, we believe that more

frequent submissions would improve the billing process and cash management and more than offset any additional paperwork and mail costs. An APHIS official said that no policy presently exists on the frequency of inspection submissions; however, as of October 1986, daily submissions will be required.

Improved Data Origination and Entry Controls Needed

Comptroller General accounting and internal control standards require controls over data origination and entry to assure the timeliness, accuracy, and efficiency of ADP system processing. We found that control improvements are needed by NFC and the inspection agencies to reduce data error rates and to reasonably assure that these control objectives are met for the BLCO system.

We found that data origination and entry control improvements, if implemented by NFC and the inspection agencies, could help reduce the rate of transactions rejected by the BLCO system edits and better ensure data accuracy. During the period May through July 1985, the BLCO system edits rejected 11.4 percent of the billing documents and 4.7 percent of the collection-related transaction documents[3] because of one or more data errors. These data errors must be researched, corrected, and reentered into the system by NFC personnel, thus creating additional work and delaying update of the system data base. Although we did not attempt to quantify delays in transaction processing caused by correction and reentry of rejected transactions, such delays could result in billing delays and, thus, increased government borrowing costs or inappropriate assessment of late charges to applicant accounts.

Further sampling of billing-related documents for the period April through September 1985 disclosed that 8 percent of the sample contained errors not detected by the system edits. These errors affected the accuracy of billing and accounting information or would create difficulty in researching applicant or agency inquiries. Conversely, sampling of collection transactions indicates that system edits consistently identify existing errors and that such errors rarely go undetected. We also found that NFC and inspection agencies were not assuring that billings returned by the post office were promptly researched for the correct applicant address and entered into the BLCO system.

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[3]In compiling the 4.7 percent transaction reject rate, we did not count NFC's Chicago lockbox collection transactions rejected because they lacked certificate of deposit numbers. A lockbox is an arrangement whereby payments are sent directly to a specific bank for quicker deposit and processing. This process is discussed more fully in chapter 4.

System Reject Analyses Show Need for Improvements

NFC does not periodically perform reviews of BLCO system edit suspense files to determine the nature, source, and extent of data errors that caused transactions to be rejected by the system edits. Such reviews, we believe, would provide NFC with data needed to advise inspection agencies and its own data entry clerks of the need to reduce errors. To show the benefits of such reviews, we obtained from NFC the edit suspense file tapes generated by the BLCO system during the period May through July 1985. We selected two random samples from these files to analyze the nature and source of errors and found that the system had rejected 15,395 billing-related documents and 1,080 collection-related documents because of data errors.

Our analysis of a random sample of 200 rejected billing-related documents disclosed that most errors occurred in applicant account numbers, accounting codes, authorization numbers, document numbers, service dates, and units and rates of service. Of the 209 errors detected on 200 documents, NFC was responsible for 114, or 55 percent, and inspection agencies were responsible for 95, or 45 percent. NFC data entry mistakes caused 103 of its errors and the remaining 11 were for miscellaneous mistakes such as incorrect coding on batch header cards. The inspection agency errors involved incorrect or incomplete data on the transaction documents submitted to NFC.

Our analysis of a random sample of 100 rejected collection-related documents disclosed that most were rejected because of erroneous or missing applicant account numbers and check identification numbers. Applicants were the source of 37 percent of the rejected transactions; NFC, 30 percent; the Chicago lockbox bank, 22 percent; and inspection agencies, 10 percent. Causes for 1 percent of the errors could not be determined. The applicants caused transactions to reject because they failed to provide either the bill or the applicant account number with their remittances. The majority of rejections caused by NFC and the lockbox bank occurred because of data entry errors. The agency errors were primarily the result of untimely submission of new account data or incorrect information on collection-related documents.

In reviewing data entry procedures, we identified several weaknesses that contribute to NFC data entry errors, as discussed in the following paragraphs.

NFC does not key verify any of the data it enters into the BLCO system, except for batch header data. FIPS guidelines and our audit guide for evaluating internal controls in computer-based systems cite data entry

rekeying as a control technique for verifying data entered. Performing such key verification on selected data elements that are critical to billing and collection processing, in our opinion, would increase the accuracy of billings and collections input and reduce the time spent rehandling and controlling rejected transactions, determining necessary corrections through research and contacts with user agencies, and rekeying the rejected transactions for reentry into the system.

NFC data entry is made more difficult by the agencies' use of different inspection service forms. In our random sample of 275 billing documents, we found that inspection agencies used 14 different forms to report billable services, which display billing data in varying positions. In its BLCO external procedures manual dated January 1982, NFC requested agencies to standardize the placement of certain key billing data on its inspection service report forms. APHIS and FSIS modified their inspection report forms to comply with the BLCO manual. However, FGIS and the various AMS divisions continue to use forms displaying the billing data in varying positions. Further, NFC's data entry terminals are not programmed to key data in the same sequence as presented on the forms.

The NFC data entry supervisor told us that using the standard billing format and modifying the sequence of data entry to conform with each of the inspection report forms would reduce entry errors and improve data entry efficiency.

Data Errors Can Go Undetected

Data errors on billing-related transactions cannot always be detected by systems edits; consequently, adequate quality control must be exercised over the data origination and entry processes. Our analysis of a random sample of 275 billing-related documents showed that 8 percent (22) contained a total of 23 data elements that had been entered but were not consistent with the source documents. Twenty data elements were entered incorrectly and could not be detected by the BLCO system edits. Three were entered correctly, but the source document was blank for these fields. The sample was selected from a universe of 264,389 inspection service transactions processed during the period April through September 1985.

The 20 incorrect elements involved accounting data (7), billing reference (7), date of service (5), or the rate charged for inspection service (1). The seven accounting data errors were caused by data entry mistakes and resulted in charging the wrong accounting codes. One rate error,

which resulted in an overcharge, was caused by a data entry error. The other 12 errors did not affect billing or accounting information but could hamper research on inquiries from applicants or the agencies. These errors occurred during data entry.

Conversely, our review of two random samples of collections transactions processed during the April through September 1985 period disclosed that errors rarely go undetected by the BLCO system edits. We randomly sampled 150 of 43,803 collection transactions received through the Chicago lockbox bank and 100 of 2,278 collection transactions received directly at NFC. Only one undetected lockbox error was found in a check identification number, but the payment had been properly applied.

Incorrect Addresses Delay Billings

Although the number of bills returned by the post office is small in relation to the total number and dollar value of bills mailed, we found that greater inspection agency and NFC attention is needed in assuring that correct addresses have been promptly entered in the BLCO system. Delays result in accounts being categorized as delinquent, possibly through no fault of the service recipients, and in increased government borrowing costs.

During fiscal year 1985, 544 bills were returned to NFC. When a bill is returned, the BLCO branch secretary sends a letter to the appropriate field office requesting the correct address. The agencies submit the applicant's address to NFC on an account maintenance form. If the address changes, the agency should submit another account maintenance form showing the address change.

During fiscal year 1985, the returned bills totaled about $205,900 for accounts with debit balances and $12,750 with credit balances. The total number of returned bills for each agency is shown in table 3.4.

Table 3.4: Number of Bills Returned

Agency	Number	Percent
APHIS	295	54.2
FSIS	116	21.3
AMS	98	18.0
FGIS	35	6.5
Total	**544**	**100.0**

We reviewed a random sample of 50 of the 544 bills to determine the cause for the return, how long it took NFC to notify the inspection agency of the returned bill, and how many times bills for the same account had been returned. We found that 19, or 38 percent, of the bills were returned because a change of address had not been processed. Another 5, or 10 percent, of the bills were apparently mistakenly returned by the post office, because subsequent bills sent to the same address were not returned. We could not determine why 19, or 38 percent, of the returned bills were not delivered, because NFC had received no response from the inspection agencies' field offices.

We found that NFC did not always promptly notify the inspection agencies that bills had been returned. In 16 instances, over 60 days elapsed after the bill date before NFC prepared a notification letter to the agency. In another 25 instances, between 30 to 60 days elapsed before the notification letter was prepared. And, in 5 other instances, at least 30 days had elapsed and the notification letter had not been prepared. Incorrect addresses resulted in 27 of the bills in our sample being returned at least three times.

Improved Control Over NFC Collections Needed

Comptroller General fiscal procedures for collections state that agencies are to place collections under appropriate accounting control promptly upon receipt. We found that control over BLCO collections received at NFC are not established until they are handled by at least three different individuals. Further, NFC procedures provide little assurance that all BLCO collections received in the NFC mailroom are promptly received by the BLCO section for processing and deposit.

Since NFC implemented a lockbox bank operation in May 1984, the BLCO collections received at NFC have been declining. During the first 5 months of fiscal year 1986, these collections were about 4 percent of total BLCO collections. This represents $1.8 million in collections still received at NFC during this time period.

According to the mail and messenger unit supervisor, a mailroom runner picks up the collections and billing documents three times a day at a post office box that is shared by the BLCO section, the administrative billings and collections section, and the claims section. The unopened envelopes, which are not date stamped, are taken by another mailroom employee to input baskets in the respective sections. When the mailroom personnel cannot determine from the address which unit should receive an envelope, any of the three sections may receive the mail. In the BLCO

section, the mail is opened and sorted by categories. After the collections have been sorted into the various collection categories, they are given to the appropriate clerk for processing. This clerk will then establish control totals for the number of checks and dollar amounts received.

To be consistent with the intent of Comptroller General fiscal procedures, BLCO collection envelopes should be (1) date stamped upon receipt in the mailroom and (2) opened and controls, in the form of logging and control totals, promptly established. This should provide a safeguard against checks being misplaced or lost and enable bank deposits to be monitored for promptness.

Reconciliation of BLCO and General Ledger Needed

Although NFC control procedures provide for monthly automated reconciliations and appropriate adjustments to assure agreement between the subsidiary BLCO system data and the central accounting system general ledger, this important control has not always been performed. Unadjusted discrepancies can make the general ledger unreliable for reporting of receivables.

The Agriculture Office of Inspector General (OIG) found in its review of the central accounting system (50099-32-FM, dated February 12, 1986) that reconciliation differences in the general ledger and BLCO system existed. It also noted that prompt adjustments had not been made to correct out-of-balance conditions, some of which had existed for over 2 years. NFC has reported that corrective action is being taken on the OIG findings.

We found that the automated reconciliation of BLCO and the general ledger was not run for the months of August through December 1985 because NFC was in the process of converting the BLCO system from one computer system to another. Further, although the operational BLCO system was converted to the IBM computer in December 1985, the automated reconciliation program on the IBM system version was not operational until February 1986.

Position reassignments and transfer of the reconciliation and adjustment responsibilities between branches also contributed to the lack of action on known differences. The responsibility for the monthly automated reconciliation of BLCO with the general ledger has been returned to the BLCO section. The BLCO section head stated that all out-of-balance conditions identified will be researched to identify the cause. Once the cause

is determined, corrective action will be initiated to resolve the out-of-balance condition.

The March 1986 automated report showed the general ledger balance of accounts receivable was about $13.4 million compared to about $19.7 million shown by the BLCO data base. The difference was attributed in part to NFC not simultaneously converting AMS data into the BLCO data base at the time AMS converted to the Department's central accounting system in October 1985. This $6.3 million difference is significant and should be promptly researched and corrected.

Improved Control Over Refunds Needed

Controls over BLCO accounts receivable with credit balances do not ensure that (1) unauthorized or fraudulent refunds are not made and (2) the BLCO system complies with Treasury's requirements for timely disposition of unclaimed money that may be refundable. Credit balances can result from customer overpayments, application of payments to the wrong customer accounts, and payments applied to accounts for which the charges for service were not recorded.

As of January 5, 1986, at least 623 accounts had credit balances totaling about $259,000. The 623 individual credit balances range from $.01 to about $32,000. Dollar ranges are shown in table 3.5.

Table 3.5: Dollar Ranges of Credit Balances

Credit balance dollar range	Percent of accounts
$25 and under	40
$25.01 to $500	51
Over $500	9

About 25 percent of the credit balances existed prior to 1985 and represent about 5 percent of the credit balance total. About 40 percent, representing 79 percent of the total dollars, have existed since October 1985. Some of the credit balances have existed since 1982.

The weak controls over credit balances and refund processing, coupled with the weak system security controls discussed in chapter 2, reinforce the need for management attention in this high-risk area. NFC has made a change to improve its procedures, but we believe additional steps are needed. We are also concerned about a planned automated refund procedure that could allow refunds to be made without research to assure the validity of the credit balance.

NFC has not assigned any staff to routinely monitor BLCO credit balances and clear them from the system data base, as appropriate. The account is researched to ensure that the credit balance is valid before making a refund only if a customer requests a refund. Both written and telephone requests have been received and accepted by NFC. In the past, the refund could be sent, based on a telephone call, to an address other than that shown by the BLCO data base.

We brought this to the attention of the BLCO branch chief and now a refund request involving an address change must be in writing. Also, the BLCO program reconciliation unit head said that he reviews the research on refunds before a check request is processed.

In March 1985, the head of the BLCO program reconciliation unit informed us that he had attempted to obtain an accounting technician, GS-4, for the purposes of reviewing and reconciling credit balances as well as responding to inquiries. However, he was not successful because of personnel budget constraints.

We judgmentally selected and reviewed four credit balance refunds made in January 1986 and found that in all but one case the head of the BLCO program reconciliation unit had reviewed the refund packages before payment. However, for the one case not reviewed, we found that the credit balance and refund were proper.

We judgmentally selected 6 of the 623 credit balances to determine the validity of the balance. We found two cases where the credit balance was not valid. In one case, the credit balance was created when the charges for services were not recorded in the account. In the other case, a credit adjustment was made in 1982 to the account, but the initial charge had never been made, thus creating the credit balance. Our limited transaction review, we believe, shows the need for researching credit balances and making refunds or adjustments to appropriately clear the accounts.

In late 1984, during its review of the central accounting system, Agriculture's OIG questioned NFC's credit balance procedures. The OIG pointed out that Treasury's Fiscal Requirements Manual, Part 6, Chapter 3000, requires agencies to analyze their trust and deposit fund accounts each quarter for the purpose of determining whether they are holding unclaimed moneys which may be refunded to the depositor.

The Treasury manual states that amounts of $5 or more should be returned promptly without the presentation of a claim and that any monies which have been held for more than 1 year are to be transferred to special Treasury accounts. In response to the OIG report, the accounting operations division chief requested a program change in January 1985 to automate the refund of credit balances of $1 or more that are at least 90 days old. As of March 1986, this program change had not been made. The delay in implementing this request was caused by the priority on converting the BLCO system from one computer to another.

We believe that the automatic refund of credit balances could create some control problems. The BLCO section head stated that he will receive a computer listing of all credit balances each month. This listing will be reviewed during the month to determine if any of the credit balances should not be refunded. If a hold is not placed on a credit balance, it will be automatically refunded, even though its validity may not have been determined. The BLCO section head stated that the number of credit balances and workload factors could preclude a review and research of the credit balances. He also stated that he is hopeful that even with his limited staff he is able to prevent inappropriate refunds from being made. We believe the backlog of credit balances should be promptly refunded or adjustments made, but only after positive evidence has been obtained that an account has been researched to determine the validity of the credit balance.

In commenting on our draft report, Agriculture said that procedures consistent with Treasury regulations had subsequently been written and initiated to review credit balances and clear them through refunds or adjustments. Our follow-up visit to NFC in February 1987 disclosed that a procedure had been written. Although we did not perform detailed testing of compliance with the procedure, we believe, based on our discussions and observations, that sufficient actions had been taken to allow us to eliminate our proposed recommendation on this issue from our final report.

Conclusions

The BLCO system operations do not comply with certain essential Comptroller General accounting and internal control standards and Treasury requirements. While some actions have been taken or are planned, additional actions by NFC and the inspection agencies are needed to improve the timeliness and accuracy of BLCO transaction processing and to resolve other identified control weaknesses.

Recommendations

We recommend that the Secretary of Agriculture direct the NFC Director to:

- periodically review edit reject suspense listings to determine whether errors are consistently made by certain data entry clerks or inspection agency offices, so that appropriate actions can be taken to improve accuracy;
- require key verification of data elements that are critical to the accuracy of billing and recording inspection services;
- modify data entry terminal programs so that BLCO data can be entered in the same sequence as shown on transaction source documents to facilitate accuracy and production;
- make prompt contacts with inspection agencies about bills returned by the post office to assure that correct addresses are obtained and entered into the system;
- date stamp collection envelopes received in the NFC mailroom and control collections received at the point at which collection envelopes are opened; and
- ensure that monthly reconciliations are performed and needed adjustments are made promptly to bring the general ledger and BLCO subsidiary accounts into agreement.

Further, we recommend that the Secretary of Agriculture direct the Administrators of the four inspection agencies to:

- implement procedures for submitting inspection documents to NFC that will ensure prompt billing for inspection services rendered and
- emphasize to its personnel the importance of accurately completing BLCO transaction documents and submitting current account maintenance information, such as applicant addresses.

We also recommend that the Secretary direct the Administrators of AMS and FGIS to redesign their inspection forms to conform with the BLCO external procedures manual requesting the standardized placement of key billing data.

Agency Comments and Our Evaluation

Agriculture's comments on a draft of this report indicated overall agreement with our findings and recommendations for strengthening controls over billings and collections. Agriculture cited actions that have been initiated or planned, which, when implemented, should address our concerns. (Agriculture's specific comments and our response are included in appendix I.)

Improvements Needed in Debt and Cash Management

The Debt Collection Act of 1982 prescribes actions federal agencies can take to collect delinquent accounts. Implementing regulations are contained in the Federal Claims Collection Standards (4 CFR 101-105), issued jointly by the Department of Justice and the General Accounting Office. Further, Office of Management and Budget Circular A-129, dated May 9, 1985, prescribes policies and procedures for managing federal credit programs and for collecting loans and other receivables. In addition, the Deficit Reduction Act of 1984 contains provisions for promoting effective cash management by requiring agency heads to assure collection and timely deposit of sums owed the agency.

NFC and the inspection agencies had not implemented certain measures required by these laws and regulations that could reduce BLCO delinquencies and that would ensure the most cost-effective means for receiving, processing, and depositing collections to Treasury.

Additional Controls Could Reduce Delinquencies

We found that the BLCO system did not (1) produce sufficiently stronger delinquency notices and (2) provide for assessing an additional penalty not to exceed 6 percent on accounts more than 90 days delinquent. Also, NFC and the inspection agencies lacked joint guidelines that would ensure timely referral of delinquent accounts to the NFC claims unit and to private collection agencies. We also noted that APHIS was the only agency that did not have regulations for terminating inspection services to delinquent customers.

Responsibility for controlling BLCO delinquent accounts is shared between the four inspection agencies and NFC. The agencies are responsible for determining which inspection service recipients, referred to as applicants, will be billed for services rendered or be required to pay cash on delivery. All agencies, except APHIS, perform the follow-up contacts on delinquent accounts. Since 1983, NFC has made the follow-up contacts for APHIS. All four agencies are responsible for denying services to applicants and determining which accounts should be referred to claims.

NFC has designed the BLCO system to produce a periodic delinquency report to the agencies and to assess interest charges on overdue accounts. NFC was instrumental in getting the Department to increase the late charge rate from 9 percent to 15 percent effective January 1986. This increase was sought to further encourage payment of overdue accounts. In addition to performing follow-up contacts on APHIS'

delinquent accounts, NFC also operates the claims unit to which the four BLCO agencies refer uncollectible delinquent accounts.

Our review focused on whether the design of the BLCO system meets debt collection standards and related requirements and agency procedures for controlling delinquent accounts. Specifically, we focused on the nongovernmental accounts, that is, those applicants that are not federal government agencies. We found that additional control measures, if implemented, could assist in reducing the nongovernmental BLCO delinquencies which, as of September 30, 1985, totaled 3,060 accounts and about $2.5 million for the four BLCO agencies.

Table 4.1: BLCO Nongovernmental Delinquent and Nondelinquent Accounts Receivable as of September 30, 1985[a]

Dollars in millions

Agency	Delinquent 60 days or less		Delinquent more than 60 days		Total delinquent		Total not delinquent	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
AMS	461 25.4%	$0.7 17.5%	247 13.6%	$0.1 2.5%	708 39.0%	$0.8 20.0%	1,109 61.0%	$3.2 80.0%
APHIS	685 37.9%	$0.4 36.4%	449 24.8%	$0.1 9.1%	1,134 62.7%	$0.5 45.5%	674 37.3%	$0.6 54.5%
FGIS	188 19.7%	$0.2 8.3%	99 10.3%	$0.1 4.2%	287 30.0%	$0.3 12.5%	669 70.0%	$2.1 87.5%
FSIS	723 21.9%	$0.5 11.6%	208 6.3%	$0.4[b] 9.3%	931 28.2%	$0.9 20.9%	2,374 71.8%	$3.4 79.1%
Total	**2,057 26.1%**	**$1.8 15.3%**	**1,003 12.7%**	**$0.7 5.9%**	**3,060 38.8%**	**$2.5 21.2%**	**4,826 61.2%**	**$9.3 78.8%**

[a]The percentages in this table relate to total receivables (both deliquent and not delinquent).

[b]This includes one delinquent account of $265,825 for a state agency that, in our confirmation of delinquent receivables, questioned the propriety of the balance. Without this account, the delinquency of more than 60 days on a rounded basis would be 2.5 percent of the total FSIS dollar amount.

Stronger Delinquency Notices Needed

Regulations implementing the Debt Collection Act of 1982 provide that three progressively stronger notices will normally be sent to debtors whose accounts continue to be delinquent. The BLCO system generates four delinquency notices. Although technically the notices are progressively stronger, we believe that they could be more effective if the 60- and 90-day delinquency notices were more strongly worded.

NFC issues monthly bills for inspection services rendered by the BLCO inspection agencies. If the account is not paid within 30 days of the bill date, the BLCO system places a delinquency notice on the bill and assesses a late payment charge. If the account is not paid within 45

days, the system generates another delinquent notice called "Second Reminder" that is mailed to the applicant. Separate delinquent notices are also generated when accounts are 60 and 90 days past due. The messages for the 60-day and 90-day delinquency notices are clearly stronger than the first two notices. Both 60- and 90-day notices inform the applicant that the account is being referred to the servicing agency for consideration of terminating services and are essentially the same, except that the 90-day delinquency notice is marked as the "Final Notice."

To make delinquency notices stronger, we believe that the 60-day notice could state that the debtor is being placed on a cash-only basis for future services and that consideration is being given to terminating inspection services. The 90-day notice could provide an effective date when services will be terminated and the account referred to a collection agency, if not paid within the prescribed timeframe. NFC should coordinate such wording changes with the inspection agencies.

Additional Penalty Should Be Charged

The Debt Collection Act of 1982 and implementing regulations, issued jointly by the Department of Justice and GAO, require agencies to assess an additional penalty not to exceed 6 percent per annum on account balances that are more than 90 days delinquent. According to the regulations, the penalty is to accrue from the date the debt becomes delinquent.

We found that this required control measure, which is intended to encourage payment of delinquent debts, had not been implemented in the BLCO system. As of September 30, 1985, about $549,000 was delinquent for more than 90 days. Assuming that this amount was the same each month and assuming a 6-percent penalty, the annual penalty assessments would have totaled about $33,000.

The BLCO branch chief advised us in March 1985 that this requirement had not been implemented by NFC because the Department had not issued final regulations implementing the debt collection regulations in 4 CFR 101-105. At that time, we advised him that the Department's interim rules issued February 26, 1985, provided for immediate agency implementation of the debt collection requirements.

Although final departmental regulations have not yet been issued, an NFC official advised us in March 1986 that the necessary changes to implement the 6-percent penalty were in process.

In commenting on our draft report, Agriculture said that it had implemented the assessment of a penalty, not to exceed 6 percent, on BLCO accounts that are delinquent more than 90 days. This action was effective October 1986, with the first penalties assessed on the November 1986 bills. Our follow-up visit to NFC in February 1987 confirmed that a penalty is now being assessed. We therefore eliminated the proposal on this issue from our final report.

Guidelines on BLCO Delinquency Referrals Needed

OMB Circular A-129, dated May 9, 1985, instructs agencies to consider as "non-performing" those accounts that are delinquent 6 months or more and for which normal account servicing and debt collection efforts have failed. Further, the circular instructs agencies to refer to private collection agencies all accounts that are non-performing unless referred to the Department of Justice for litigation or unless arrangements are worked out with the debtor.

We found that NFC and the inspection agencies did not develop guidelines providing uniform criteria and time frames for (1) referring to the NFC claims unit those delinquent accounts where normal follow-up efforts had failed and (2) subsequently referring delinquent accounts to private collection agencies.

As of September 30, 1985, and January 31, 1986, $340,887 and $376,968, respectively, in BLCO accounts receivable were delinquent 6 months or more. Also, as of September 30, 1985, $1.8 million in BLCO accounts had been referred to the NFC claims unit as uncollectible. These accounts were not assigned to the Department of Justice for litigation nor were any arrangements worked out with the debtor. None of these accounts had been referred to private collection agencies because NFC and the inspection agencies had not yet implemented OMB Circular A-129 requirements.

APHIS Inspection Service Termination Regulations Needed

In 1983, NFC accepted the follow-up responsibility for APHIS delinquent accounts. As of August 1, 1983, the APHIS nongovernment delinquent accounts totaled about $622,791, for a delinquency rate of 62 percent. As of August 1, 1985, the delinquency total was $506,158, for a delinquency rate of 42.9 percent. As of September 30, 1985, about 45.5 percent of APHIS accounts receivable were delinquent.

According to the BLCO section head at NFC, the large number of old delinquent accounts that NFC inherited in 1983, requiring much work to

research and attempt to collect, has contributed to APHIS' high delinquency rate. He stated that another contributing factor is that APHIS, unlike the other three inspection agencies, does not have regulations that permit the termination of services for delinquent applicants.

APHIS issued a debt management study in August 1985 that outlined many suggested improvements in its billing and collection procedures. In January 1986, APHIS and NFC officials discussed changes to present debt management procedures which could improve the delinquency rate. However, agreements still have to be reached on what changes will be made. One of the changes is that the APHIS field offices will become more involved in debt collection efforts than in the past, but details still have to be resolved. APHIS has informed NFC officials that debt management regulations are being developed that will permit the termination of services for delinquent applicants.

Cost-Effectiveness of Lockbox Operations Unknown

For several years, the Department of the Treasury has encouraged agencies to consider using lockbox banks as a means to accelerate Treasury's receipt of agency collections by identifying a bank location with optimum mail time and by eliminating the need to send payments to the agency before receipt by the bank.

A lockbox is a postal rental box serviced by a commercial bank where agency debtors are instructed to mail their payments. After the payments are picked up, they are to be quickly processed and the funds transferred to Treasury's Federal Reserve account the same day the payments are delivered to the post office box. After processing the payments, the bank will transmit accounting information to the agency. Treasury places noninterest bearing deposits—compensating balances—with the commercial bank, and the earnings generated compensate the bank for the services provided.

Based on communications with Treasury in 1983, NFC began studying the use of a lockbox bank for the BLCO system and the administrative billings and collections system. Treasury correspondence stated that the decision to implement the lockbox operation had to be based on a cost-benefit study. The study was to include a mail/collection study and an analysis of administrative costs and savings. In May 1984, NFC implemented lockbox operations with the First National Bank of Chicago. We found that NFC and Treasury based the lockbox implementation decision on an incomplete cost-benefit study and on assumptions used to calculate interest savings that were apparently not valid. Further, NFC has

not assessed the actual cost-effectiveness of lockbox operations because it has not been aware of any specific Treasury requirements to do so.

Thus, after about 2 years of operation, the cost-effectiveness of the Chicago lockbox is unknown. Information we obtained about actual lockbox operations raises questions about its cost-effectiveness. Although Treasury had not initially provided specific guidelines requiring lockbox evaluations, we believe that Treasury's regulations implementing the Deficit Reduction Act of 1984 now clarify Agriculture and NFC responsibility for assessing and reporting on the actual cost-effectiveness of the Chicago lockbox arrangement. Treasury's implementing regulations, effective October 1985, require that agencies constantly seek methods to bring about cash management savings and periodically perform cash management reviews, as prescribed by the Treasury Financial Manual, to identify areas needing improvements.

Evidence Used in Cost-Benefit Study Not Valid or Documented

Prior to lockbox implementation, NFC contracted for a mail/collection study to identify the city with the optimal mail time. From the study, Treasury estimated, for both the BLCO and administrative billings and collections systems combined, that $150,000 in annual interest savings (reduced government borrowing costs) could be realized from the faster mail time to Chicago. However, neither NFC nor Treasury officials could provide evidence that the total savings, including any reductions in NFC administrative costs, would more than offset the costs of the lockbox bank's services. Also, the assumptions on which the annual interest savings were estimated apparently were not valid. The annual interest savings figure contained in the mail/collection study was based in part on the time lapse between receipt of collections and transmission to the Federal Reserve. The calculation showed same-day transmission for the lockbox bank versus a 1-1/2 day time lapse for the existing New Orleans bank operation, then used by NFC for depositing its collections.

Our conversation with a Chicago lockbox bank service consultant indicated that collections are not transmitted to the New York Federal Reserve until 10:00 a.m. on the work day following the day they are processed. Thus, a processing time greater than zero should have been used for the Chicago bank in computing the interest savings. The former BLCO section head told us that the 1-1/2-day figure for the New Orleans bank operation was not based on any documented analysis. Therefore, its validity was unknown. In April 1985, NFC provided the Department's Office of Finance and Management with a projected interest savings for fiscal year 1985. Using Treasury's cash management interest formula

and actual BLCO and administrative systems collection data for 10 months, NFC projected a $74,700 annual interest savings for fiscal year 1985. The initial cost-benefit study estimated annual interest savings of $150,000.

In discussing the decision to implement the lockbox, the NFC Director and the former BLCO section head told us that it was a foregone conclusion that the lockbox operation would be implemented because of the urging received from Treasury. According to the former BLCO section head, NFC was not aware of the rates to be charged by the lockbox bank for its services until it received for signature a memo of understanding from Treasury.

Actual Lockbox Cost-Effectiveness Not Assessed

The NFC BLCO branch chief and BLCO section head told us that, except for daily oversight of transaction processing by the bank and responses to several Treasury questionnaires regarding satisfaction with the lockbox operation, they were not aware of any requirement to assess the performance of the lockbox bank or its actual cost-effectiveness. These officials further advised that Treasury has not provided lockbox evaluation guidelines or the actual costs for the lockbox operation. Further, no data is available to NFC as to when the bank actually receives the collections.

In our April 3, 1985, report, Improvements Needed in Controlling and Accounting for Treasury Banking Arrangements (GAO/AFMD-85-22), we recommended to Treasury that it establish control standards for monitoring lockbox collections that must be implemented by all agencies using those systems. We also recommended that the bank charges and compensation be consistently monitored to ensure that the overall costs to the government are minimized.

Treasury responded to the report by advising that guidelines requiring agency monitoring of lockboxes would be issued in fiscal year 1985. Treasury also advised that an automated system was being developed to monitor bank charges in relation to the compensating balances. Responding to our inquiries in early 1986, however, a Treasury representative advised that the agency monitoring guidelines had not yet been issued and that no specific cost-effectiveness evaluation of the Chicago lockbox was available. However, we believe that Treasury's regulations now clarify Agriculture's and NFC's evaluation responsibility.

Actual Cost/Benefits of Lockbox Questionable

The BLCO section head advised us that the lockbox implementation did not result in any staff reductions and resulted in some operational problems, most of which have now been resolved. Also, the three BLCO collections clerks who are responsible for lockbox operations have been upgraded because they have been given added responsibilities since the lockbox was implemented. One is assigned to interact with the bank to resolve discrepancies. The other two clerks are now required to do more research on collection transactions.

The lockbox operation also has resulted in a 2-day delay in the BLCO system's acceptance of collection transactions. Treasury does not initially provide lockbox banks blocks of certificate of deposit (CD) numbers as it does federal agencies. Therefore, all collections from the bank are initially rejected by BLCO because of the absence of a CD number. Treasury provides the CD number about 2 days after transactions are initially rejected by the BLCO system. Until NFC began delaying its monthly billing cycle in November 1985, some customers were being inappropriately charged late fees where payments were received late in the previous month. The absence of the CD number, however, continues to require the rerunning of collection transactions processed by the lockbox bank. We estimated that the lockbox bank processed and entered about 48,000 BLCO collection transactions in fiscal year 1985.

During the first 5 months of fiscal year 1986, about 92 percent of the BLCO collection transactions were handled through the Chicago lockbox. Information that we obtained from Treasury showed that the Chicago bank billed Treasury $137,800 during calendar year 1985 for processing BLCO system and administrative system collections. The bank's billings did not break out the charges by system. The rates upon which this total was based primarily included $60 monthly for lockbox maintenance, $17.50 monthly for demand deposit maintenance, 35 cents per photocopy, 8 cents per set for attaching documents, 8 cents per check deposit, and any charges for courier delivery. Neither NFC nor Treasury has evaluated the reasonableness of these costs nor have they compared them to actual interest savings.

To determine whether the lockbox was producing quicker deposit of BLCO collections, we analyzed a random sample of lockbox BLCO collection transactions against a random sample of BLCO collections sent to NFC. The samples were selected from universes of such BLCO transactions processed during the 6-month period April through September 1985. Because of the absence of data on when collections received by NFC were postmarked, we measured the time lapse for both samples using the

applicant's check date and the deposit date. The results are shown in table 4.2.

Table 4.2: Comparison of Lockbox and NFC Collections

	Universe size	Sample size	Average days— check date to deposit date
Lockbox	43,803	150	6.7
NFC	2,278	98	10.6

Our analysis showed that the lockbox collections sampled were deposited 3.9 days quicker than those received by NFC. In our analysis we assumed that any delays between the check dates and the applicants mailing their checks would be about the same for either sample.

From our analysis, we believe that the lockbox operation has resulted in quicker deposits of collections. However, we were unable, because of the absence of data at NFC, to determine whether any unnecessary delays were occurring between the bank's receipt of BLCO collections and the deposit to Treasury's account. Although not readily quantifiable, NFC is also incurring costs not initially anticipated with the lockbox operation. These costs resulted from the absence of staff reductions, the upgrading of clerks, and the added cost of reentering all lockbox collections that are initially rejected by the BLCO system.

Conclusions

NFC and the inspection agencies had not implemented certain required measures that could reduce BLCO delinquencies and ensure the most cost-effective means for receiving, processing, and depositing collections to Treasury. Actions that are planned or in process must be completed to bring BLCO system operations into compliance with essential debt and cash management requirements.

Recommendations

We recommend that the Secretary of Agriculture direct

- the NFC Director and the Administrators of the inspection agencies to coordinate revision of the wording on BLCO notifications to delinquent applicants so that each notice becomes stronger;
- the NFC Director and the Administrators of the inspection agencies to coordinate in developing joint referral criteria, including time frames,

for delinquent BLCO account referrals to the NFC claims units and to private collection agencies; and

- the Administrator of APHIS to develop and implement regulations that will allow the termination of inspection services to delinquent customers.

We also recommend that the Secretary direct the NFC Director to work with Treasury in monitoring lockbox bank performance and periodically assessing the actual cost-effectiveness of lockbox operations until Treasury guidelines are published.

Agency Comments and Our Evaluation

Agriculture concurred with our recommendations in the areas of debt and cash management. Agriculture cited actions that have been initiated or planned, which, when implemented, should address our concerns. Agriculture said that NFC will coordinate with the inspection agencies in developing stronger delinquency notices and joint referral criteria, including time frames, for delinquent BLCO account referrals to the NFC claims unit. Agriculture also commented that APHIS is awaiting Office of General Counsel review of proposed regulations concerning termination of inspection services. In addition, Agriculture said that it has suggested to Treasury that a joint review of post implementation lockbox bank performance be conducted. (Agriculture's comments are included in appendix I.)

Comments From the Department of Agriculture

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JAN 2 8 1987

Mr. J. Dexter Peach
Director, Resources, Community,
   and Economic Development Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to review and comment on the draft report entitled Internal Controls: Improvements Needed in a USDA Receivable System (GAO/AFMD-87-3).

See comment 1.

Many of the corrective actions recommended in the draft report have already been implemented. The final report should properly reflect these actions.

Specific comments concerning the recommendations contained in the draft report are enclosed. The comments are presented by cross-referencing the major chapters.

Sincerely,

JOHN J. FRANKE, JR.
Assistant Secretary for
      Administration

Enclosures

U.S. Department of Agriculture
Comments Concerning Draft Audit Report Internal
Controls: Improvements Needed
in a USDA Receivable System (GAO/AFMD-87-3)

CHAPTER 2: General ADP Controls over the Program Billings
and Collections Systems (BLCO) need to be improved.

Recommendation 1: Implement and enforce policies,
procedures, and practices consistent with Departmental
Information Processing Standards, FIPS guidelines, and OMB
Circular A-130, appendix III.

See comment 2.

The BLCO program documentation has been revised in accordance
with FIPS Publications 38 and DIPS to accurately and
completely reflect the operations of the current BLCO
operations and the use of the IBM hardware. Narratives were
changed when entered into the on-line documentation system.

Recommendation 2: Complete BLCO certification and testing by
the earliest possible date.

See comment 3.

The BLCO certification process began prior to the conversion
but because of missing required items it could not be
completed. Full certification of this system will be
completed in February 1987.

We disagree with GAO's assertion made in Chapter 2, page 5,
that the National Finance Center's (NFC) testing and
certification did not reasonably assure the reliability of
and security over BLCO processing. Reasonable assurance was
provided. It was NFC's testing and certification process
that rejected the initial attempts to implement BLCO. The

See comment 4.

testing was completed to the point of satisfaction that the
controls and processing were adequate for production. Test
plans were developed and followed for the conversion of BLCO
from the Honeywell System to the IBM. All NFC units had
input to the decisions to go live with the BLCO System. This
system has now been operational on the IBM equipment for 13
months and has provided accurate and complete processing
during this period of time.

Recommendation 3: Ensure system testing, certification
reviews, and completion of all related reports before placing
new modified systems into operation.

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NFC's objective is to have all system documention complete
and up-to-date prior to system implementation. Utilizing the
resources which are available, NFC will make every effort to
ensure that all phases of system development are completed
before any new modified systems are released into the
operational environment.

Recommendation 4: Allow personnel access to either
computerized or hardcopy program documentation libraries only
when required and specifically authorized in writing.

NFC's current guidelines allow personnel access to
computerized or hardcopy program documentation libraries only
when required and specifically authorized in writing. NFC
programmers, various system users, and higher management
officials no longer have blanket access authority to BLCO
data without authorization. The blanket access referred to
in the report was removed after the system conversion and
testing was completed in March 1986. The read access to the
BLCO is controlled at the branch level and granted to only
those programmers with a need to access the library.

NFC Management and Administrative Directives, Chapter 11,
Management Directive No. 22, Access Authority to Production
Source Libraries, published May 28, 1986, addresses personnel
access to documentation and source library.

NFC began a pilot project in December 1985 to reduce access
to program documentation and to determine the impact on the
system programmer's ability to perform program maintenance,
if hard copy programs were not available. After project
evaluation, the decision was made to eliminate program
compile data and program listings (hardcopy) and to enter
program narratives on-line. On-line program narratives were
being done when GAO conducted the review in 1986. Full
implementation of the new procedures was started in June
1986.

Recommendation 5: Permit access to operational system data
to only those individuals who have a specific need and for
whom there is written justification and authorization.

The access to programs and data was limited to persons
authorized. NFC continues to access and adjust access to
data and programs to conform to prudent practices. Only
personnel in ADP Standards, Security and Certification Branch
(ASSCB), can make changes to a production program. Personnel
in ASSCB will only make changes to programs when there is a
signed and authorized NFC-251, Program Modification
Notification.

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Recommendation 6: Establish procedures to monitor the
actions of BLCO and other users that have been granted TSO
access in order to use the FOCUS report software package.

See comment 8.

Access to TSO does not mean that the user has uncontrolled
access to modify, create, or delete program data files.
FOCUS was designed for users to perform ad hoc inquiries on
the BLCO data and to develop and print ad hoc reports
generated by the program. The user must be granted
permission to any resource (e.g., a program, a file or
dataset, a terminal, etc.) that is owned or the attempted
actions will fail. The condition in BLCO file where GAO
could read and modify a test BLCO file was an aberration that
has been corrected.

CHAPTER 3: Billings and Collections Controls Need to be
Improved.

Recommendation 7: Periodically review edit reject suspense
listings to determine whether errors are consistently made by
certain data entry clerks or inspection agency offices, so
that appropriate actions can be taken to improve accuracy.

See comment 9.

The Office of Finance and Management (OFM) believes that
statistics should be developed on the edit rejects monthly to
determine the cause and source of the error and the
appropriate corrective action needed. NFC is developing the
requirements for a statistical sampling program. After the
software program has been developed, management reviews of
edit reject suspense listings will begin. Estimated
completion date is March 31, 1987.

Recommendation 8: Require key verification of data elements
that are critical to the accuracy of billing and recording
inspection services.

See comment 10.

We concur that key verification of selected data elements
would increase the accuracy of billings and collections input
and reduce rejected transactions. NFC will soon review the
BLCO edit suspense files to identify the nature, source, and
extent of data errors. Rekeying, as a control technique for
verifying data entered, will be examined.

Recommendation 9: Modify data entry terminal programs so
that BLCO data can be entered in the same sequence as shown
on transaction source documents to facilitate accuracy and
production.

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The transaction source documents are being used to satisfy a
variety of program and administrative needs. In order to
avoid separate program modifications, NFC will correct the
data entry programs when the programs are being converted to
a new KEYFAST data entry system.

See comment 11.

Recommendation 10: Make prompt contacts with inspection
agencies about bills returned by the post office to assure
that correct addresses are obtained and entered into the
system.

Procedures were written and implemented as of September 30,
1986, to emphasize timely contacts with the inspection
agencies about bills returned by the post office to obtain
the correct address.

See comment 12.

Recommendation 11: Date stamp collection envelopes received
in the NFC mailroom and control collections received at the
point at which collection envelopes are opened.

We agree that all collections received at the NFC should be
date stamped, opened, and logged-in with control totals. The
implementation procedures are being developed and will be
implemented by April 1, 1987.

See comment 13.

Recommendation 12: Ensure that monthly reconciliations are
performed and needed adjustments are made promptly to bring
the general ledger and BLCO subsidiary accounts into
agreement.

The NFC program problems have been resolved; therefore,
current reconciliations can be reviewed and corrections made
timely. Corrections to all previous errors will be processed
by September 30, 1987.

See comment 14.

Please change sentence 2, paragraph 4, on page 35 of the
draft report to read: "The difference was attributed in part
to NFC not simulataneously converting AMS data into the
general ledger and into the BLCO data base at the time AMS
converted into the Central Accounting System." This will more
clearly identify where the problems existed.

See comment 15.

Recommendation 13: Ensure that credit balances are promptly
researched and cleared either through refunds or adjustments,
as appropriate, and that refunds are made only after
determining the validity of credit balances.

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See comment 16.

A procedure has been initiated to review credit balances and clear them through refunds or adjustments. Written procedures for the review of credit balances have been developed to conform to Treasury regulations.

Recommendation 14: We recommend that the Secretary of Agriculture direct the Administrators of the four inspection agencies to: implement procedures for submitting inspection documents to NFC that will ensure prompt billing for inspection services rendered.

See comment 17.

The Federal Grain Inspection Service (FGIS) has procedures in place for submitting inspection documents to NFC that will ensure prompt billing for inspection services rendered. The Billings and Collections Handbook, chapter 2, pages 2-4, states in part, "... documents must be submitted to NFC immediately upon completion."

The Food Safety and Inspection Service (FSIS) submits approximately 8,000 billing documents to NFC on a biweekly basis. To increase the frequency of submission to a 1-week or more frequent interval, as suggested in the draft audit report, would create a severe workload impact on program and administrative resources as well as those of the NFC. Currently, FSIS billing documents are completed on a bi-weekly basis to coincide with time worked and reported on the Time and Attendance Report. The continuity in reporting frequency gives FSIS the automated capability to match time reported on the two documents to ensure that industry is properly billed for the reimbursable services provided by meat and poultry inspectors. This is an important internal control tool and provides important reconciliation capability. Finally, FSIS is concerned about the increased workload requirements on support personnel if a more frequent billing process was implemented.

The Animal and Plant Health Inspection Service's (APHIS) Budget and Accounting Manual addresses the timely submission of the APHIS Form 89, Report of Reimbursable Inspection and Quarantine Service. It states, "transmit the forms as soon as they are completed. You do not need to wait until the end of a pay period. It is beneficial to APHIS to transmit as many forms as possible to NFC before the 25th of the month. This is the cutoff day, and all APHIS' 89's received at NFC by that date should appear on the next billing statement."

See comment 18.

Enclosed is a copy of the APHIS Debt Management Study. It identified the timely submission of documents as a potential

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problem area. The review of the ports of New Orleans and
Miami identified two items which must be considered to
determine if a document is late based on the date of service.
The first was multiple inspections. In larger ports, APHIS
performs daily inspections for some applicants. From a
workload standpoint, it is advantageous to report multiple
inspections on one form rather than preparing multiple forms
requiring the repetition of many data elements on the
inspection form. The second was documents in dispute.
Inspection documents billed by NFC and disputed by applicants
are removed from the NFC system. These documents are
returned to the originating office for resolution. When
these documents are corrected and returned to NFC, the
original date of service must be shown. When rebilled, these
documents automatically are classified as late submissions.

AMS receives a special monthly report from the NFC which is
used to analyze document submission to the BLCO. The AMS
program divisions are informed of the late document
submissions. Also, internal control reviews are conducted to
ensure that documents are submitted timely and that billings
and collections procedures are in place.

The USDA Reform 1: Financial Mangement Systems Team's
Billings and Collections Task Force recommended electronic
input capability which would allow agencies to phase in
electronic submission of bills. Equipment to be considered
for this type of environment would be personal computers,
minis, micros, and electronic hand held data recorders. All
of the inspection agencies have expressed an interest in
electronically transmitting billing data to the NFC. USDA is
in the process of developing a schedule for electronic
submission of billing information.

Recommendation 15: We recommend that the Secretary of
Agriculture direct the Administrators of the four inspection
agencies to: emphasize to its personnel the importance of
accurately completing Billings and Collections (BLCO)
transaction documents and submitting current account
maintenance information, such as applicant addresses.

FGIS will issue a notice to all field offices stressing the
importance of accurately completing BLCO transaction
documents and submitting current account maintenance
information.

FSIS has approximately 6,000 in-plant inspectors plus several
patrol inspectors who complete billing documents. FSIS

See comment 19.

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appreciates the importance of accurate completion of these
documents. For this reason, all billing documents are routed
through the regional office for a cursory administrative
review before forwarding to NFC for billing. FSIS has built-
in controls such as stored accounting for each applicant,
preprinted document numbers and rate codes on the billing
documents, etc., to minimize coding errors.

AMS conducts periodic field management reviews of its
billings and collections programs. Timely, productive
follow-up on debtor files is emphasized.

APHIS will issue a notice to all field offices emphasizing
the importance of accurately completing billing documents.
APHIS will centralize the review and establishment of account
maintenance information.

Inspection agencies are requesting information from NFC on
the types and volume of errors, by region or office, so that
prompt, specific corrective actions can be taken.

Recommendation 16: We also recommend that the Secretary
direct the Administrators of AMS and FGIS to redesign their
inspection forms to conform with BLCO external procedures
manual requesting the standardized placement of key billing
data.

See comment 20.

The electronic submission of billing information by
inspection agencies as recommended by the USDA Reform 1:
Financial Management Systems Team's Billings and Collections
Task Force report represents a more economical, efficient,
and effective solution than redesign of standardized input
forms. FGIS and AMS are working with NFC and other USDA
agencies to resolve this issue.

CHAPTER 4: Improvements needed in Debt and Cash Management

Recommendation 17: We recommend that the Secretary of
Agriculture direct: the NFC Director and Administrators of
the inspection agencies to coordinate revision of the wording
on BLCO notifications to delinquent applicants so that each
notice becomes progressively stronger.

See comment 21.

The USDA inspection agencies will assist NFC in the revision
of the wording on BLCO notifications to delinquent applicants
so that each notice becomes progressively stronger. Also,
FGIS delinquent account procedures require follow-up letters
by field office managers that are progressively stronger.
Examples of the follow-up letters are provided in the FGIS
Billings and Collections Handbook, Chapter 4, Exhibits A and
B.

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NFC has requested and received the inspection agencies'
preliminary input concerning revisions to the delinquency
notices. This input will be reviewed and coordinated with
the Office of General Counsel (OGC). Estimated completion
date is September 30, 1987.

Recommendation 18: Assess additional penalties not to exceed
6 percent on BLCO accounts that are delinquent more than 90
days.

See comment 22.

This recommendation was given special priority during Fiscal
Year 1986. It was implemented effective October 1986, with
the first penalties assessed on the November bills.

Recommendation 19: The NFC Director and the Administrators
of the inspection agencies to coordinate in developing joint
referral criteria, including timeframes, for delinquent BLCO
account referrals to the NFC claims unit and to private
collection agencies.

See comment 23.

The NFC began referring delinquent accounts to a collection
agency in April 1986. The NFC will coordinate with the
inspection agencies in establishing a timeframe for referrals
of delinquent accounts to the Claims Section.

The FGIS Debt Management Improvement Program requires
delinquent accounts to be referred to NFC's claims unit, if
payment is not received within 150 days of the initial
billing. If the claims unit is unsuccessful in their
attempts to collect the delinquent account in claims status,
they are responsible for forwarding the account to private
collection agencies.

The FSIS internal agency directive on the collection of debts
incorporates NFC's "Title III, Billings and Collections
Manual" procedures.

APHIS recognizes the need for prompt referral of delinquent
debts to the NFC claims unit and to private collection
agencies. Several related issues involving collection
follow-up activities are being worked on.

AMS is issuing a directive requiring that 90-day delinquent
accounts be referred to NFC claims, based on the Federal
Claims Collections Standards. NFC has referred about $13,000
in AMS delinquencies to the commercial collection agency that
GSA contracted with during October 1985.

Recommendation 20: The Administrator of APHIS to develop and
implement regulations that will allow the termination of
inspection services to delinquent customers.

9

APHIS received an OGC opinion, as part of the Agency Debt
Management Study, regarding termination of inspection
services. OGC advised that APHIS could refuse to provide
reimbursable services, if prior reimbursable services
provided have not been paid by the due date. OGC further
advised that "whatever course of action your agency decides
to follow must be set forth in appropriate regulations which
clearly advise what will happen if bills for reimbursable
services become delinquent."

See comment 24.

APHIS has developed proposed regulations. These were
submitted to OGC for review and comment prior to publishing.
APHIS is currently awaiting OGC review.

Recommendation 21: The NFC Director work with Treasury in
monitoring lockbox bank performance and periodically
assessing the actual cost effectiveness of lockbox operations
until Treasury guidelines are published.

See comment 25.

OFM has suggested to Treasury that a joint review of post
implementation lockbox bank performance be conducted. The
specifics and scope of the review are still in the discussion
stage. GAO may wish to go back to higher level officials
within Treasury to confirm the impressions they received
regarding the direction that Treasury may be heading on post
implementation reviews.

The following are GAO's comments on the Department of Agriculture's letter dated January 28, 1987.

GAO Comments

1. We have given recognition to Agriculture's corrective actions in the agency comments section of chapter 4 and where appropriate, in the findings sections of chapters 2, 3, and 4. However, a number of the actions are not yet completed.

2. Discussed in the report text of chapter 2.

3. Discussed in the agency comments section of chapter 2. We eliminated our proposal on this issue in as much as NFC had issued its BLCO certification report on February 12, 1987.

4. We believe that our conclusion was valid, considering that (1) parallel testing of the new system against the old was never completed as prescribed by the BLCO test plan, (2) certification of the system had not been completed as of the time of the decision to implement the new system, and (3) the modification of the monthly reconciliation reporting portion of the system had not been completed at the time of implementation.

5. Discussed in the report text of chapter 2.

6. Discussed in the report text of chapter 2. We eliminated our proposal on this issue based on information provided by NFC in February 1987, as to corrective actions taken since our review.

7. Discussed in the report text of chapter 2. Agriculture's response did not address the point of our recommendation.

8. Discussed in the report text of chapter 2.

9. This is a corrective action that has not yet been completed; however, when implemented, it should address our concerns.

10. This is a corrective action that is planned; however, when completed, it should address our concerns.

11. This is a corrective action that is planned; however, when completed, it should address our concerns.

12. Our follow-up visit to NFC in February 1987 confirmed that a procedure had been written. However, the BLCO section head stated that the procedure has not yet been fully implemented because of other workload priorities in the BLCO unit.

13. This is a corrective action that is planned; however, when implemented, we believe that it should respond to our concerns.

14. This is a corrective action that is planned; however, when implemented, it should respond to our concern.

15. Report reworded as suggested. See page 33.

16. Recognition was given in the report that corrective action was completed subsequent to our review. Accordingly, the proposed recommendation was eliminated. See page 35.

17. These are corrective actions that have not yet been completed; however, when implemented, they should be responsive to our concerns.

18. The Debt Management Study is not included here but was considered in finalizing this report.

19. We believe that these actions, when implemented, should be responsive to our concerns.

20. These are corrective actions that have not yet been completed; however, when implemented, they should be responsive to our concerns.

21. Discussed in the agency comments section of chapter 4.

22. Recognition was given in the report that the corrective action was implemented subsequent to our review. Accordingly, the proposed recommendation was eliminated. See page 41.

23. Discussed in the agency comments section of chapter 4.

24. Discussed in the agency comments section of chapter 4.

25. Discussed in the agency comments section of chapter 4.

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