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BY THE U.S. GENERAL ACCOUNTING OFFICE

# Report To The Administrator Of General Services

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## Improvements Needed In Financial Management Of GSA's Teleprocessing Services Program

Federal agencies spend millions of dollars annually for commercial teleprocessing services, but only a few verify that the services they are paying for have actually been received.

GSA established the Teleprocessing Services Program to provide Government users with numerous sources of such services, and this has occurred. But the program is impeded by financial management problems.

GSA also implemented the single billing concept to strengthen program controls and safeguards required to monitor the Government's liability for teleprocessing services. These controls and safeguards have been only partially realized, and the economics of the single billing concept have not been demonstrated.



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DECEMBER 9, 1982

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

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

B-205329

The Honorable Gerald P. Carmen  
Administrator of General Services

Dear Mr. Carmen:

Enclosed are 12 copies of our report to you on the financial management of GSA's Teleprocessing Services Program. This report discusses some of the administrative shortcomings that affect the economic advantages expected from this program.

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

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

Sincerely yours,

  
W. D. Campbell  
Acting Director

Enclosures - 12



GENERAL ACCOUNTING OFFICE  
REPORT TO THE ADMINISTRATOR  
OF GENERAL SERVICES

IMPROVEMENTS NEEDED IN  
FINANCIAL MANAGEMENT OF  
GSA'S TELEPROCESSING  
SERVICES PROGRAM

D I G E S T

Teleprocessing is a means of computerized data processing which involves the input, manipulation, and output of information through remote terminals that are connected by telecommunications facilities to a central computer site. For the past 10 years, teleprocessing technology has grown rapidly, as have the commercial contractors who market teleprocessing services. In the Federal Government, teleprocessing is used extensively, but the program is beset with financial management problems.

The General Services Administration (GSA) established the Teleprocessing Services Program (TSP) to attract competition and provide Government users with numerous sources of supply within the teleprocessing services environment. The program is mandatory for Federal agencies which require teleprocessing services when such services cannot be satisfied by existing Government automatic data processing (ADP) resources. TSP provides for two methods of acquiring teleprocessing services from commercial sources--multiple award schedule contracts and basic agreements. All Federal agencies which place a purchase order under the schedule contracts must, as of October 1979, use the single billing method.

Under the single billing method, each schedule contractor submits a monthly invoice of all teleprocessing services for Federal agencies, together with voluminous supporting documents, directly to GSA. GSA pays the invoices from the ADP Revolving Fund to obtain contractor-offered discounts. Each user agency is then individually rebilled by GSA and is required to promptly reimburse the Fund.

In fiscal 1981, the Federal Government spent over \$150 million for commercial teleprocessing services, of which over \$75 million is attributable to the multiple award schedule contracts single billing method. This report addresses (1) how well GSA administers the single billing method (see ch. 2), (2) what impact the single billing method has on the ADP Revolving Fund (see ch. 3), and (3) how well user agencies

conduct financial accounting, verification, and certification of invoices for teleprocessing services (see ch. 4).

OBJECTIVES OF SINGLE BILLING NOT ACHIEVED

GSA implemented the mandatory single billing method to (1) strengthen program safeguards in monitoring the Government's liability for teleprocessing services and (2) enhance program controls by subjecting all monthly Government-wide invoices to GSA prepayment reviews. GAO found that GSA has not achieved all of its objectives of single billing because it does not have enough staff to review the voluminous monthly invoices it receives for teleprocessing services. As a result, many invoice discrepancies are missed in prepayment reviews and contractors often have interest free use of Federal funds until the discrepancies are detected in post audit and credits for the erroneous payments are received. (See p. 16.)

USE OF THE ADP FUND TO SUPPORT SINGLE BILLING NOT ECONOMICALLY ADVANTAGEOUS TO THE GOVERNMENT

The ADP Revolving Fund, with its presently appropriated capital of \$30 million, is used to finance various ADP and equipment lease programs on a cost reimbursable basis. For teleprocessing services, each multiple award schedule contractor submits a monthly single Government-wide invoice to GSA. In turn, GSA pays the invoices through the Fund to obtain preestablished discounts and then rebills each user agency.

GAO found that (1) the lag time between GSA's paying the contractor's invoices and rebilling the user agencies puts the Fund in a reduced cash position for an extended time, which adversely affects other programs supported by the Fund (see p. 21), and (2) user agencies frequently are late in reimbursing the Fund, further straining its cash balances. For example, over \$12 million owed the Fund for teleprocessing services was over 45 days delinquent as of September 30, 1981. GAO found that GSA's followup on delinquent accounts (see p. 20) is not adequate and some TSP accounts totaling over \$384,000 had been delinquent for over 2 years.

GAO looked into this matter and helped GSA collect over \$4.5 million in delinquent accounts.

INVOICE VERIFICATION  
PROCEDURES NOT APPLIED

A basic tenet of Government procurement is that before payment is made, the purchasing agency must verify that the goods or services have been received, are in accord with contractual requirements, and the price charged is proper and correct. This does not apply to commercial teleprocessing services obtained under multiple award schedule contracts for which payment is made before verification. (See p. 27). However, required postpayment verification has been less than adequate.

GAO found that many TSP users have not established internal control procedures for verifying TSP invoices as required by GAO and GSA regulations, Office of Management and Budget Circular A-123 of October 28, 1981, and the Federal Managers' Financial Integrity Act of 1982. (See p. 29.) GSA is aware of the difficulties agencies have in reviewing TSP invoices, but has done very little to address the problem.

CONCLUSIONS

GSA has not achieved all of its expected control advantages from single billing because it has not provided enough staff to conduct prepayment reviews of all monthly Government-wide invoices and to monitor the Government's liability for teleprocessing services. If the TSP single billing method is to continue as currently programmed, additional staff are needed. Alternatively, an automated system may be developed, if determined to be cost effective, to assist in effectively handling the workload.

GAO believes that the TSP single billing method, as currently administered, is not economically advantageous to the Government because the lag time between GSA's paying the contractors' invoices and rebilling the user agencies puts the ADP Fund in a reduced cash position for an extended time. This, in turn, adversely affects other programs supported by the Fund. Also, user agencies frequently are late in reimbursing the Fund, further straining its cash position. GSA needs to reduce the single billing lag time and assess the user agencies a penalty for not reimbursing the Fund as required.

GSA can do more to help user agencies verify their invoices by issuing detailed instructions on the most effective verification method.

On August 17, 1982, GSA reorganized and consolidated its Government-wide information resources management and internal ADP activities. It abolished the Automated Data and Telecommunications Service and transferred the ADP activities to the newly established Office of Information Resources Management. This reorganization is in accord with the Paperwork Reduction Act of 1980 (Public Law 96-511) and should improve the management of such ADP programs as TSP.

#### RECOMMENDATIONS

GAO recommends that the Administrator of General Services:

- Develop an alternative, cost effective method, such as an automated system, that would support the single billing workload, and provide the advantages originally expected from TSP single billing. (See p. 16.)
- Initiate action to lessen the lag time in rebilling agencies for teleprocessing services and impose penalties for noncompliance with TSP multiple award schedule contract terms. (See p. 25.)
- Issue detailed instructions on the most effective means of verifying TSP invoices. (See p. 31.)

#### AGENCY COMMENTS

In commenting on the draft of this report GSA stated that the audit was extremely beneficial and had a major impact on ADP Fund operations in many respects. Although generally satisfied with the audit, GSA stated that it had some specific problems with the report itself. GSA thought that many of the conclusions drawn in the report were based on a misinterpretation of the facts of GSA's Teleprocessing Services Program.

Based on a careful review of GSA's comments, GAO concluded that the agency is not responsive to the issues raised in this report.

Comments were provided by letters dated August 20, 1982, and September 14, 1982. (See apps. I and IV.) An extensive set of very detailed comments was



attached which was too voluminous to be dealt with in the body of this report. GAO has carefully assessed the merit of the comments relevant to the issues raised and has dealt with them appropriately in this report. (See app. II.)

**Tear Sheet**



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ABBREVIATIONS

ADP	Automatic data processing
ADTS	Automated Data and Telecommunications Service
GAO	General Accounting Office
GSA	General Services Administration
MASC	Multiple award schedule contract
TSP	Teleprocessing Services Program

## GLOSSARY

Batch processing	A data processing technique in which data and programs are collected and grouped before processing.
Data base	A repository for an organization's pertinent data. It can be correlated, cross-referenced, and processed by one or more application programs.
Interactive system	A system which performs processing or problem-solving tasks through dialog with the user.
Remote batch	Computer programs or processing data being entered into a remote terminal for transmission to the central processor.
Remote terminal	A device for communicating with computers from sites which are physically separated from the computer but connected by communications facilities.
Single billing and prompt payment discounts	Reduction applied by the teleprocessing services contractor to the net total realized after applying the volume discount. These two combined discounts must be equal to or greater than 2-1/2 percent.
Teleprocessing system	A system consisting of data processing equipment in combination with communication facilities.
Volume discount	Reduction based on monthly cumulative charges subject to discount. All Federal agencies using TSP are treated as a single entity for volume discount purposes.



## CHAPTER 1

### INTRODUCTION

Teleprocessing is a means of computerized data processing which involves the input, manipulation, and output of information through remote terminals that are connected by telecommunications facilities to a central computer site. For the past 10 years, teleprocessing technology has grown rapidly, as have the commercial contractors who market teleprocessing services. Such services include interactive processing, remote batch processing, full networking (both interactive and remote batch processing), specialized data processing services, and access to specialized data bases. The basic objective of teleprocessing is to provide multiple users with computing services without the users having to own, lease, operate, or maintain computers. Many users of teleprocessing systems have only minimal hardware, usually in the form of terminals to access the contractor's large-scale computers for processing purposes. Users of teleprocessing systems, for example, include economists, scientists, accountants, managers, and clerks. In fiscal 1981, the Federal Government spent over \$150 million for teleprocessing services, of which over \$75 million was attributed to the Teleprocessing Services Program (TSP) multiple award schedule contracts (MASCs).

### HISTORY OF TELEPROCESSING IN THE FEDERAL GOVERNMENT

In 1972, the General Services Administration (GSA), which is responsible under Public Law 89-306 (Brooks Act) for providing an effective and efficient means of acquiring commercial ADP services, awarded a teleprocessing services contract to Computer Sciences Corporation, with an estimated annual cost of \$25 million. This contract, known as the National Teleprocessing Services contract, was the mandatory source for all Government users of teleprocessing services.

Four years later, GSA established the Teleprocessing Services Program to attract competition and provide Government users with a variety of sources of teleprocessing services. The program became mandatory for Federal agencies in August 1977. Federal agencies which previously had been obtaining teleprocessing services under the National Teleprocessing Services contract were required to terminate these services after arranging for teleprocessing services competitively under TSP. 1/

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1/In addition to teleprocessing services, TSP also covers training, documentation, software packages, and analyst or programmer support incidental to the acquisition and use of teleprocessing services.

## TSP MANAGEMENT RESPONSIBILITIES

Three major GSA organizations have functional and operational responsibility for managing the teleprocessing services program. They are the (1) Automated Data and Telecommunications Service (ADTS)<sup>1/</sup>; (2) Office of Plans, Programs, and Financial Management; and (3) National Capital Region. (See diagram on p. 5.)

### Automated Data and Telecommunications Service

The Commissioner, ADTS, has overall responsibility for administering TSP and managing the ADP Revolving Fund. Within ADTS, the ADP Fund Branch is responsible for managing the Fund and for financial management of the TSP MASC single billing method. This responsibility includes (1) prepayment review of all commercial contractor invoices <sup>2/</sup> for teleprocessing services that are financed by the Fund, (2) recovering GSA's costs <sup>3/</sup> incurred in managing TSP MASC, (3) input of invoice data into the Telephone Inventory Accounting System--one of two automated systems that support TSP MASC, and (4) authorizing the Office of Finance to pay the invoices and then forwarding the detailed invoices to the National Capital Region for rebilling of user agencies.

### Office of Plans, Programs, and Financial Management

The Assistant Administrator for Plans, Programs, and Financial Management is responsible for GSA's financial management policy and procedures as well as financial accountability of the ADP Fund. The Office of Finance pays the TSP single billing invoices.

### National Capital Region

National Capital Region's Accounts Receivable Branch is responsible for recording, collecting, and controlling all accounts receivable generated by ADP programs financed by the ADP Fund. This includes rebilling agencies using TSP MASC.

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<sup>1/</sup>ADTS's functions are now done by the Office of Information Resources Management. (See p. 6.)

<sup>2/</sup>Currently, each month, 36 multiple award schedule contractors submit Government-wide invoices on behalf of over 2,100 users to GSA.

<sup>3/</sup>GSA's costs of administering the single billing method are recovered from combined single billing and prompt payment discounts, which by contract must be equal to or greater than 2.5 percent of the contractor's total charges. (See invoice on p. 24.)



METHODS OF ACQUIRING COMMERCIAL  
TELEPROCESSING SERVICES

TSP provides two methods of acquiring teleprocessing services from commercial sources--multiple award schedule contracts and basic agreement.

The MASCs are indefinite quantity type contracts, negotiated and awarded each fiscal year, with fixed unit prices and Government-wide volume discounts. Federal agencies, with approval from GSA, competitively place a delivery or purchase order for teleprocessing services in accord with the terms and conditions established in the MASC. The MASC terms and conditions can be modified only by GSA.

The basic agreement is a written instrument of understanding between GSA and a number of teleprocessing services contractors. It contains standard provisions but does not constitute a contract; nor does it imply any agreement to place orders with the contractors. (The contract for teleprocessing services under the basic agreement is between the user agency and the contractor.) This method is generally used when the agency's teleprocessing requirements cannot be met by the MASC or there is reasonable expectation of obtaining a better price for teleprocessing services through competitive procurement. This report deals only with MASC.

BILLING PROCEDURES FOR COMMERCIAL  
TELEPROCESSING SERVICES UNDER MASC

The teleprocessing services program mandates a single billing to GSA by each contractor for all MASC services to all Federal users. 1/ GSA believed single billing would provide it with (1) program controls and safeguards required to monitor the Government's liability for teleprocessing services, (2) complete management information for its review of all schedule contracts utilization, and (3) all purchase orders under the schedule contracts subject to prepayment review.

Under the single billing method, each contractor submits a monthly invoice to GSA covering all services to all Federal agencies together with voluminous supporting documents. ADTS is responsible for administrative and general financial review functions of the invoices--such as verifying correctness of contractor-offered discounts. The invoices are paid from the ADP (automatic data processing) Revolving Fund. Each agency is individually rebilled by the Accounts Receivable Branch, and is required to promptly reimburse the Fund without preaudit or receipt verification. 2/ (See illustration of single billing method on p. 19.) Agencies

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1/Single billing procedures were also used by GSA under the National Teleprocessing Services contract.

2/Authorized by 31 U.S.C. 686 ("Appropriations") and Title 41 - Federal Property Management Regulations, chapter 101, subchapter A, part 101-2.101 through 101-2.107. Also, the General Accounting Office Manual for Guidance of Federal Agencies, Title 7, "Fiscal Procedures," is being revised to include the above authority.

are still responsible, however, for verification and postcertification of the invoices to determine the validity of the charges.

Under single billing, ADTS is able to (1) verify volume discounts for the users (volume discounts are based on total service provided to all users) and (2) obtain single billing and prompt payment discounts to offset its costs in administering the program.

#### PURPOSE OF THE ADP FUND

The ADP Revolving Fund was established under authority of Public Law 89-306 and now has appropriated capital of \$30 million. ADTS uses the Fund to administer various ADP and Equipment Lease Programs, on a cost reimbursable basis such as:

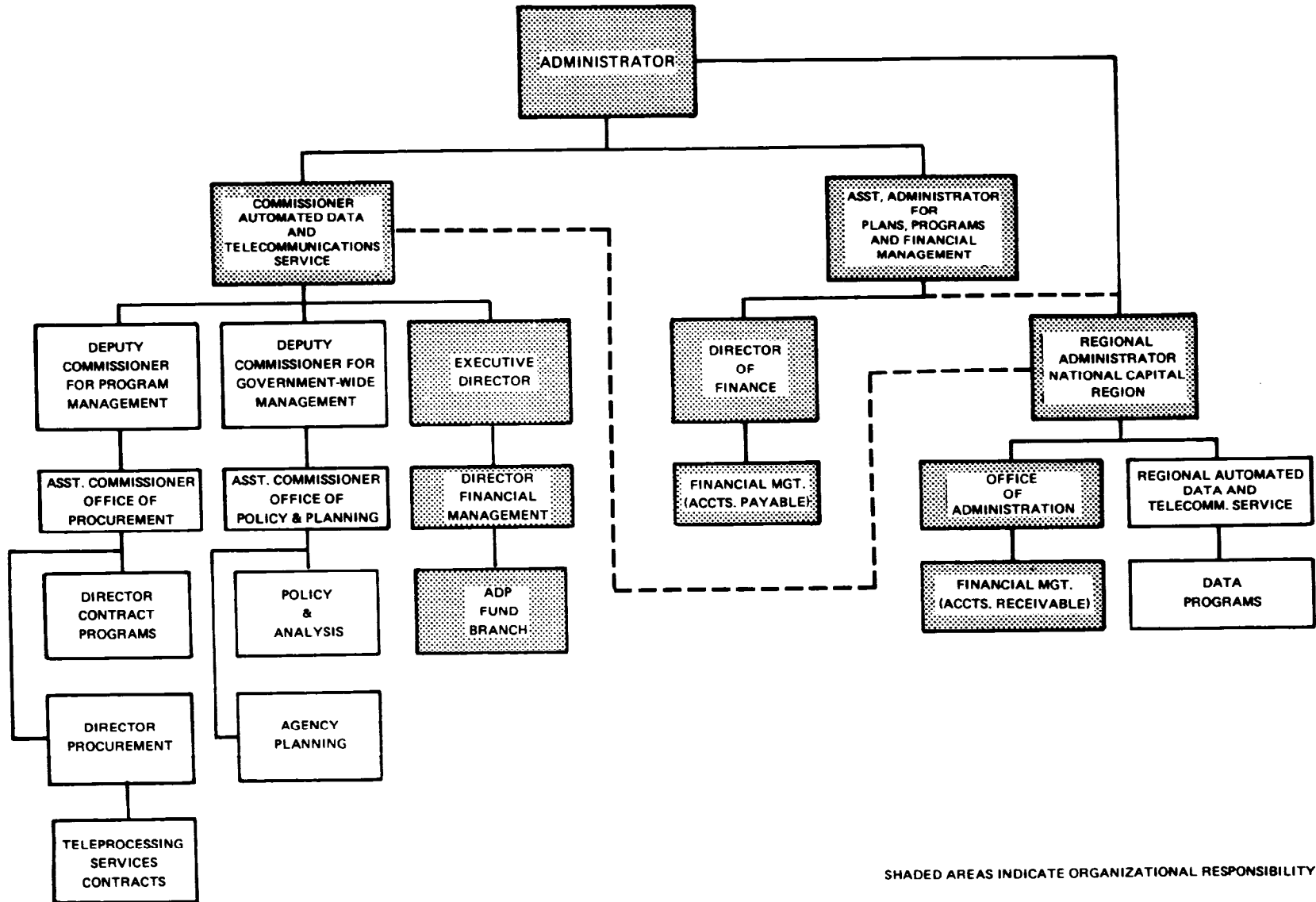
<u>ADP programs</u>	<u>FY 1981 ADP Fund collections</u> (millions)
TSP Single Billing	\$75.0
Manpower Services Program	1.7
Data Processing Contract Services Program	44.3
Federal Data Processing Centers	11.3
Equipment Lease Program (note a) Capital Outlay Opportunity Buy Program Multiyear Leasing Excess Equipment Program Minimum Quantity Gurantee	13.5

a/An ADTS official stated that there is no individual program breakdown in the Equipment Lease Program. All categories are budgeted under one project code.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our review in accordance with generally accepted government audit standards. We focused our review on the administrative and financial management of the TSP MASC single billing method. Our objectives were to determine (1) how GSA administered the single billing method, (2) what impact the single billing method had on the ADP Fund, and (3) how well GSA and user agencies conducted financial accounting, verification, and certification of invoices for teleprocessing services.

**GSA ACTIVITIES WITH  
FINANCIAL MANAGEMENT RESPONSIBILITY  
FOR THE TELEPROCESSING  
SERVICE PROGRAM**



SHADED AREAS INDICATE ORGANIZATIONAL RESPONSIBILITY

We visited 51 activities in the Washington, D.C., area, within the Departments of Agriculture, the Air Force, Commerce, Defense, the Interior, Labor, Navy, and Transportation. We also visited activities within the General Accounting Office, the General Services Administration, and the Veterans Administration.

At the 51 Federal activities visited, we interviewed top management officials responsible for (1) establishing ADP services acquisition policies and procedures, (2) verification and certification procedures and practices for invoices, and (3) disbursement and accountability of Federal funds.

During our detailed work at each of these agencies we also examined policies and procedures for acquiring and administering teleprocessing services and for verification and certification of services invoiced.

We discussed our work with GSA's internal auditors and reviewed relevant internal audit reports on teleprocessing services. We also met with representatives of the computer industry who market teleprocessing services. We met with the House Government Operations Committee staff, at their request, to discuss the nature of our work in TSP. We researched Federal laws and regulations, computer industry trade journals, and technical documents.

We asked GSA to comment on our draft report, and included its official comments as appendix I. Our response is discussed in detail in appendix II.

On August 17, 1982, GSA reorganized and consolidated its Government-wide information resources management and internal ADP activities. It abolished ADTS and transferred the ADP activities to the newly established Office of Information Resources Management. This reorganization is in accord with the Paperwork Reduction Act of 1980 (Public Law 96-511).

## CHAPTER 2

### GSA HAS NOT ACHIEVED ITS EXPECTED

#### CONTROL ADVANTAGES FROM TSP SINGLE BILLING

Initially under TSP schedule contracts, there were two alternative methods for contractors to invoice Government users: the single billing or direct billing methods. In direct billing, each TSP contractor billed and received payment directly from each user. However, under single billing, in order for each contractor to provide one Government-wide invoice and receive payment from one centralized point--the ADP Fund--each contract would be required to provide a discount equal to or greater than two and one-half percent. 1/ In fiscal 1979, 39 MASCs were awarded but only 16 contractors opted to submit a single Government-wide invoice.

Based on a review by GSA's Inspector General regarding monitoring procedures for TSP contracts, and in concert with officials in ADTS, it was believed that single billing would strengthen the Teleprocessing Services Program controls by having complete review of contractor invoices and monitoring of the Government's liability for teleprocessing services. This could occur if all multiple award schedule contractors submitted monthly Government-wide invoices directly to GSA for payment. In October 1979, despite objections from some GSA activities which had functional responsibility for TSP single billing, ADTS implemented the mandatory single billing method. We do not believe ADTS has achieved all of its expected control advantages from single billing because it does not have adequate staff to conduct effective reviews of the voluminous monthly Government-wide single billing workload it receives. The photos on pages 9-13 illustrate the monthly workload volume and available staff to administer it.

#### EXPECTED CONTROL ADVANTAGES OF TSP SINGLE BILLING

Based on the Inspector General's review, ADTS officials believed that program controls could be enhanced through single billing by subjecting all monthly Government-wide invoices to prepayment reviews. Such reviews would include

- verifying contract unit pricing,
- monitoring to ensure that all services billed were within contractual dollar limit,

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1/Used to recover costs of administering single billing.

- ensuring that the teleprocessing services rendered were within the scope of the contract,
- assisting users of teleprocessing services in resolving credit problems,
- validating receipt of preestablished discounts,
- ensuring that only authorized users use the TSP schedule contracts, and
- reviewing all purchase orders placed by user agencies to ensure that (1) the teleprocessing services ordered were within the limits of the contract and (2) budgetary limitations were not exceeded.

Although implementing the single billing method increased GSA's workload significantly, there was no increase in TSP staff to administer this workload, nor did all GSA activities which had functional responsibility for TSP agree to expanding the single billing method.

#### TSP MASC SINGLE BILLING OBJECTIVES NOT MET

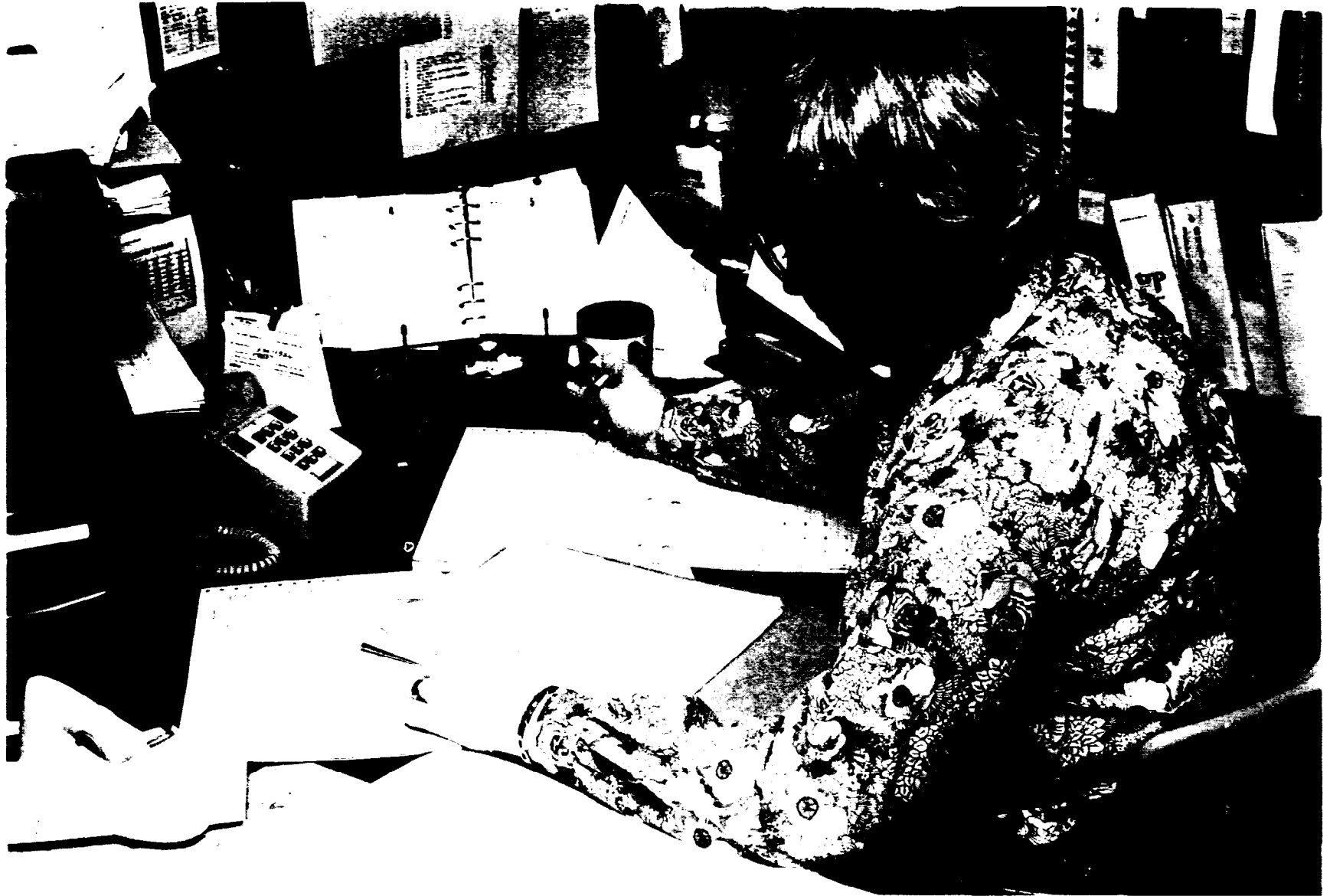
Within the Automated Data and Telecommunications Service, the ADP Fund Branch is responsible for managing the ADP Fund including the TSP single billing method. Prior to implementation of mandatory single billing, there were five TSP staff in the Branch to administer single billing for the 16 schedule contractors who had opted to submit a single monthly Government-wide invoice to GSA for Federal teleprocessing services.

ADTS conducted a personnel study which indicated that the ADP Fund Branch would require six additional staff members to administer the expected increase in workload resulting from making single billing mandatory for all multiple award schedule contracts.

The Office of Finance also analyzed the ADTS proposal for single billing through the ADP Fund. It concluded that in order to efficiently handle the increase in workload, the National Capital Region's Accounts Receivable Branch--responsible for recording, re-billing, collecting, and controlling ADP Fund accounts receivable--would require an increase of three staff. (See photo on p. 15.) However, the Office of Finance and the Accounts Receivable Branch were operating at ceiling and could not increase their respective staffs. Therefore, the Office of Finance advised ADTS that it could not support the expansion of TSP single billing through the ADP Fund. The Office of Finance also cautioned ADTS that with single billing the time differential between payment of invoices and the billing of customer agencies would ultimately lead to a cash shortage in the ADP Fund. This billing lag still exists and the Fund has experienced a cash shortage since TSP single billing was implemented.



**ADP FUND BRANCH ANALYSTS PREPARE MONTHLY GOVERNMENT-WIDE INVOICES FOR PREPAYMENT REVIEW.**



ADP FUND BRANCH ANALYST PERFORMS PREPAYMENT REVIEW OF GOVERNMENT-WIDE TSP INVOICES.





ADP FUND BRANCH ANALYST PERFORMS PREPAYMENT REVIEW OF GOVERNMENT-WIDE TSP INVOICE.



ADP FUND BRANCH ANALYST PERFORMS PREPAYMENT REVIEW OF GOVERNMENT-WIDE TSP INVOICE.



MONTHLY GOVERNMENT-WIDE INVOICES SUBMITTED TO GSA.

As a result of the analysis conducted by the Office of Finance, the Assistant Administrator for Management, Policy, and Budget placed a moratorium on the expansion of TSP single billing through the ADP Fund until the Office of Finance was satisfied that the Fund would be able to meet its monthly financial obligations. We could not find any record of the moratorium being lifted. However, despite the lack of staff support in the Office of Finance and the moratorium placed on the expansion of single billing, ADTS-- which has overall responsibility for administering the TSP--implemented the method anyway. Since then the TSP workload has further increased from 16 contractors in fiscal 1979 to 36 in 1982 as shown below:

<u>Fiscal</u>	<u>Single billing multiple award schedule contractors submitting invoices to GSA</u>
1980	31
1981	31
1982	36 (as of May 15, 1982)

The 36 schedule contractors in fiscal 1982 are submitting monthly Government-wide invoices for teleprocessing services provided to about 2,100 Federal users. 1/

During our review, we found many invoice discrepancies that had been missed in ADTS's monthly prepayment reviews. We believe the discrepancies occurred because the ADP Fund Branch had limited staff. For example, a user agency terminated its purchase order for teleprocessing services on December 31, 1980. However, the contractor submitted invoices to GSA, totaling over \$7,000, for services provided to the agency from January through April 1981 without a valid purchase order. Although the TSP MASC states that an approved purchase order must accompany all invoices before payment can be made, GSA paid for these unauthorized services without the approved purchase order. The monthly unauthorized charges were missed in ADTS's prepayment reviews but were noted later by the user agency. Subsequently, ADTS requested a credit for the unauthorized charges, but the credit was not received until August 1981.

Through the single billing method ADTS expected to ensure that teleprocessing services invoiced were within contractual limits. Although the MASC states that the Government will not be billed in excess of the user's purchase authority, the Government was billed

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1/This number may increase because GSA awarded 50 schedule contracts in fiscal 1982. The additional 14 contractors currently are not providing teleprocessing services to Federal users.



NATIONAL CAPITAL REGION ACCOUNTS RECEIVABLE BRANCH ANALYST PREPARES GOVERNMENT-WIDE TSP INVOICES FOR REBILLING TO USER AGENCIES.

for over \$273,000 for services provided in excess of the purchase authority from January through August 1981. GSA paid for these services and later acted to obtain credits for the unauthorized billings. When asked why these discrepancies were not noted by TSP staff during prepayment review, a ADTS official stated that due to the magnitude of the single billing workload (2,100 purchase orders in fiscal 1982), and the tight time frame for earning the single billing and prompt payment discounts, only cursory prepayment reviews are generally conducted by the limited TSP staff. Thus, many invoice discrepancies are missed.

### CONCLUSIONS

In our opinion, limited staff can achieve only limited results and the benefits anticipated will not be achieved. When incorrect invoices are paid because discrepancies are missed, the contractor has interest free use of Federal funds until the discrepancies may be detected during the postaudit and the funds recovered.

### RECOMMENDATION

To attain the advantages expected from the TSP single billing method, we recommend that the Administrator of General Services develop an alternative, cost effective method, such as an automated system, that would support the single billing workload.

### AGENCY COMMENTS

In a draft of this report we had recommended that the Administrator of General Services determine if the personnel study conducted by ADTS prior to implementing the single billing method is still valid. If it is, he should assign the required staff to the activities responsible for effectively administering the single billing method. If it is not, and if it is still determined that single billing will be the mandatory method when user agencies acquire teleprocessing services under the multiple award schedule contract, he should (1) direct the Inspector General to conduct a staff resources study of all responsible for TSP to assess the number of staff required to administer the single billing method effectively or (2) find an alternative cost effective method, such as developing an automated system, that would support the single billing workload, as currently administered.

In commenting on the draft of our report GSA, by letter dated August 20, 1982, expressed appreciation for the efforts of the GAO audit team in its review of the administrative and financial management of the TSP MASC single billing method. (See app. I.)

GSA stated that the audit itself was extremely beneficial and had a major impact on ADP Fund operations in that it:

- Changed procedures and management direction both at GSA and other major agencies.

--Detected major deficiencies in processing that still need to be addressed and resolved.

--Substantially benefitted the cash position of the ADP Fund and ensured its continued increased financial viability.

GSA stated that although it was generally satisfied with the audit work, it has some specific problems with the report itself. An extensive set of very detailed comments was attached which was too voluminous to be dealt with in the body of the report. We have carefully assessed the merits of those comments, and those relevant to the issues raised are addressed where appropriate. (See app. II.)

Concerning our recommendation regarding the validity of the personnel study, GSA officials said the question is moot because the study was based on a manual verification and reconciliation system. They have since concluded that a large manual effort is not appropriate both because of increased overhead and continuing errors.

GSA officials did, however, agree with our recommendation for an alternative cost effective solution, and plan to develop an automated system that can be easily expanded or modified to operate for TSP or other similar invoice verification needs. We concur with such action.

## CHAPTER 3

### FINANCIAL MANAGEMENT PRACTICES IN TSP

#### ADVERSELY AFFECT ADP FUND OPERATIONS

Financial management advantages of the TSP single billing method have not been achieved due to numerous administrative practices--some by GSA, and some by agencies using TSP. First, as described in chapter 2, ADTS has not been able to achieve all of the expected control advantages of single billing because it lacks adequate staff to effectively administer the workload. Secondly, in order to use the ADP Fund to finance the TSP single billing method, ADTS should have demonstrated that use of the Fund for this purpose would result in an economic advantage for the Government. This has not been done and there has been an adverse financial impact on the Fund. The claimed economic advantages of TSP single billing appear questionable because, under ADTS's administration, (1) the lag time between paying the contractors' invoices and rebilling the user agencies puts the ADP Fund in a reduced cash position for an extended time (which affects other programs supported by the Fund) and (2) agencies frequently are late in reimbursing the Fund, further straining cash balances. Collection and accounts receivable followup procedures are not, in our opinion, effective financial management practices.

#### TSP SINGLE BILLING PROCESSING CYCLE

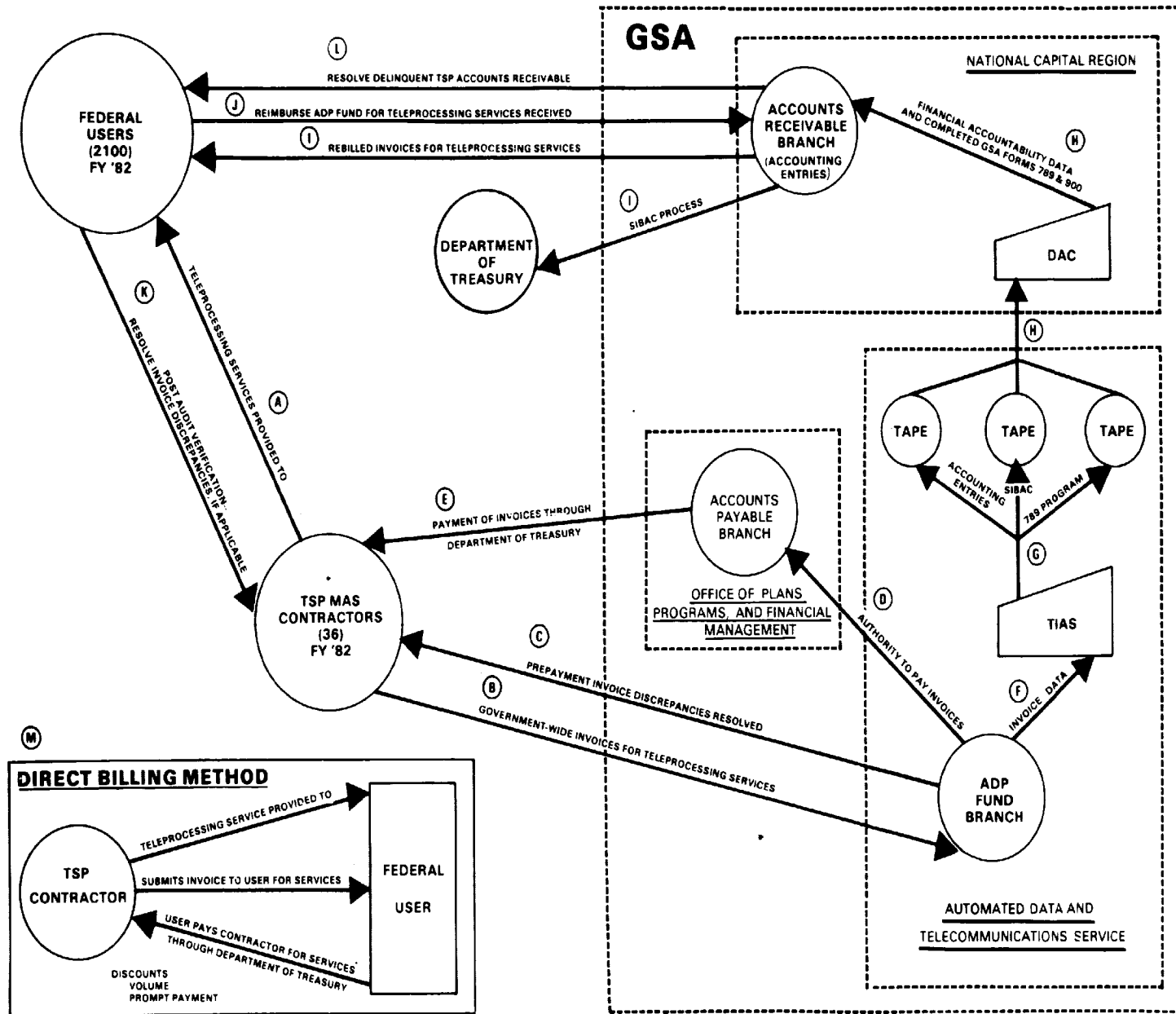
Each multiple award schedule contractor is required to submit a single Government-wide invoice to ADTS on or before the 15th of each month, covering teleprocessing services rendered during the previous month. (See illustration on p. 19). In turn, the invoices must be paid within 20 days after receipt in order to obtain the single billing and prompt payment discounts. Each user agency is then rebilled for teleprocessing services rendered.

We found that, on occasion, schedule contractors did not submit their invoices within the period required by contract. For example, one contractor submitted a series of monthly invoices, covering a full year, in one mailing. ADTS has not enforced contractor compliance with contract billing provisions. If it had, this late billing by contractors would not have occurred. However, late billings do not preclude taking advantage of discounts.

Procedures for rebilling the user agencies are not timely. Under internal processing procedures (see illustration on p. 19), agencies are not rebilled until at least 2 months after the end of the period covered by the contractor's invoice. As a result of both late contractor billing and the slowness in agency rebilling, one user agency official stated that frequently it is at least



# TSP MASC SINGLE BILLING METHOD



- (A) Teleprocessing services provided to 2100 Federal agencies using TSP/MASC.
- (B) Each TSP/MASC contractor submits a single invoice to the ADP Fund Branch for all Federal users provided teleprocessing services. Invoices must be submitted no later than the 15th calendar day of the month following the close of the billing period.
- (C) ADP Fund Branch reviews the invoices for completeness and conducts prepayment reviews. Resolves invoice discrepancies, if noted.
- (D) ADP Fund Branch authorizes payment of invoices--must be made within 20 days after the Branch receives the invoice in order to receive the single billing and prompt payment discounts.
- (E) Accounts Payable Branch initiates procedures for payment of invoices to contractors through Department of Treasury.
- (F) ADP Fund Branch submits invoice data into the Telephone Inventory Accounting System (TIAS) for processing. The output of this data is on the last day of the month following the billing period.
- (G) TIAS produces three tapes--(1) for accounting entries, (2) for GSA's 789 program rebilling, and (3) for the Simplified Intragovernmental Billing and Collections (SIBAC) system.
- (H) The tapes are inserted into the Daily Accounting Cycle (DAC) system which produces financial accountability documents, such as monthly trial balance sheets, for financial management activities of TSP. DAC also produces completed GSA Form 789 (billing statement) monthly, and GSA Form 900 (Delinquent Statement) quarterly. The DAC output is produced by the 22nd of the month, following the TIAS output. The Branch uses the financial accountability data to administer the accounts receivable.
- (I) The Accounts Receivable Branch sends either the Form 789 (rebilling document) to the user agencies or rebills the users through SIBAC.
- (J) Upon receipt of the billing documents from GSA the user agency reimburses the ADP Fund.
- (K) The user agency then conducts verification and certification of the contractor invoices. Discrepancies in invoices are resolved with the contractor.
- (L) Agency accounts which are not reimbursed to the ADP Fund within 45 days are considered delinquent. The Accounts Receivable Branch has responsibility for resolving this collection problem.
- (M) The direct billing method is shown for comparison purposes.

5 months after the billing period before he receives TSP invoices from GSA. 1/ This strains financial management at the agencies, which could violate 31 U.S.C. 665 (the Anti-Deficiency Act), if billings exceed the amounts obligated (on an estimated basis), and no additional funds are available. Also, these delays strain the resources of the ADP Fund for an extended period and have other undesirable effects, as discussed below.

DELINQUENT TSP ACCOUNTS RECEIVABLE  
AFFECT OTHER PROGRAMS SUPPORTED  
BY THE ADP FUND

Under the TSP single billing method, the ADP Fund is used to pay contractors for teleprocessing services provided to Federal agencies. In turn, each agency is rebilled for the services received. Under statutory authority, 2/ since reimbursement for services is between Government agencies, invoices are to be paid as rendered and without preaudit or receipt verification. (Subsequent verification is to be performed.) However, we found that many user agencies do not reimburse the Fund as required primarily because (1) many fiscal officials were not familiar with this requirement and (2) agencies hesitate to approve for payment invoices which they believe contain errors. If the user agency does not reimburse the ADP Fund within 45 days after the date listed on the rebilling documents, the account is considered delinquent, but followup on delinquent accounts is not adequate. We found some TSP accounts totaling over \$384,000 that were delinquent for over 2 years. For example, as of May 1982, one user agency was still carried as delinquent in reimbursing the Fund for teleprocessing services rendered in June 1979. 3/

Below is a schedule of delinquent Fund receivables and the amounts attributable to TSP single billing.

<u>Period ending</u>	<u>Total delinquent TSP single billing accounts</u>	<u>Total ADP Fund delinquent accounts</u>
April 30, 1981	\$ 4,354,987	Records unavailable
June 30, 1981	11,001,863	Records unavailable
September 30, 1981	12,041,718	\$19,217,000
October 31, 1981	10,223,106	18,039,000
December 31, 1981	7,793,610	15,531,000
March 31, 1982	6,483,072	13,831,000

1/This has been an unresolved issue at GSA for several years.

2/Title 41 - Federal Property Management Regulations, chapter 101, subchapter A, part 101-2.105.

3/GAO report FGMSD-77-29 (July 27, 1977) described the need for better followup of delinquent accounts by GSA.

As discussed in chapter 1, the ADP Fund finances several activities, including TSP MASC. With a capital of only \$30 million, delinquent receivables of this magnitude affect ADTS's ability to take advantage of other ADP programs financed by the Fund, for example, "Opportunity Buys" for the Equipment Lease Program. <sup>1/</sup> During April 1982 an agency requested \$1.2 million from the Fund to acquire computer resources and a ADTS official said the agency was turned down due to a shortage of cash in the Fund. We found other examples where agencies could not take advantage of "Opportunity Buys" due to a shortage of cash in the Fund.

To reduce the ADP Fund delinquent accounts problem, the Office of Finance has implemented the Simplified Intragovernmental Billing and Collection system within the TSP single billing method. This system is an electronic accounting function through which an immediate transfer of funds is accomplished by GSA crediting its own account and simultaneously charging a customer's station account. However, not all Federal agencies using teleprocessing services are on this system. The lag in payment of accounts receivable may continue to cause a cash flow problem in the ADP Fund unless corrective actions are taken.

#### COLLECTION PROCEDURES FOR TSP ACCOUNTS RECEIVABLE NEED IMPROVEMENT

Within the National Capital Region, the Accounts Receivable Branch is responsible for recording, rebilling, collecting, and controlling accounts receivable generated by TSP single billing.

When an account becomes delinquent, a statement is mailed to the delinquent user agency quarterly, followed by monthly phone calls. Branch officials told us that since their staff is limited, they concentrate on major accounts. Thus, smaller accounts, though amounting to thousands of dollars, get very little attention.

The Accounts Receivable Branch also depends on the Daily Accounting Cycle system to provide it with financial data needed for collecting accounts receivable. However, financial reports produced by the system have been very late and the data is incomplete, which adds to the Branch's problems. For example, the monthly trial balance which is used in collecting accounts receivable should be produced by the 8th work day of the month, recording financial accountability for the previous month. This report often is not produced until the 24th of the month, and some user agency accounts are not identified sufficiently to permit followup. In order to identify the accounts, the Accounts Receivable Branch must get the agency identity from the purchase order on file in the ADP

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<sup>1/</sup>"Opportunity Buys" refer to equipment bought from vendors who offer for a limited time significant discounts and other advantages to the Government, at a 30 percent rate of return investment criterion over the system life.

Fund Branch, located across town. Unreliable financial reports produced by the Daily Accounting Cycle have been a problem for over 9 months. Although the regional Director of Finance has requested the problem be corrected, no action has been taken by the cycle's programming officials.

When a user agency's account becomes delinquent or the agency continues to pay invoices slowly, ADTS has the authority to

--request that the user agency make quarterly advance payments to the ADP Fund or

--terminate the user agency's TSP MASC purchase order for services.

ADTS officials told us that advance payments have never been requested because (1) ADTS does not know how much teleprocessing service an agency will use so it is difficult to determine how much advance payment would be required and (2) usage and advance payment estimates would only cause additional financial accounting problems. ADTS officials also said that the authority to terminate service has not been exercised because such action might put them in a precarious position if, for example, they terminated an agency's services and this affected the agency's ability to meet its mission responsibilities.

We recognize ADTS's dilemma, but feel that because of the magnitude of the problem, it demands action. Failure to implement effective collection procedures is indicative of poor cash management and jeopardizes the financial integrity of the ADP Fund. ADTS should use its program authority and consider imposing a penalty for noncompliance with contract terms.

#### GAO ASSISTANCE IN COLLECTING DELINQUENT ACCOUNTS

The Assistant Administrator for Plans, Programs and Financial Management has occasionally sent letters about delinquent TSP accounts to agency senior financial management officials. We found very little response to such letters and almost no followup by the Accounts Receivable Branch. Therefore, to assist the Branch in collecting delinquent TSP accounts receivable, we visited 11 agencies which had been sent such a letter. We discussed the problems with senior officials and some improvements have been made. For example, the Department of the Navy published a February 19, 1982, notice "Payment of GSA Billings For Teleprocessing Services" to solve its delinquent TSP accounts problem. The Departments of the Army and the Air Force acted to solve similar problems. We estimate \$4.5 million in delinquent accounts has been cleared, to date, as a result of our agency visits.

EXPECTED ECONOMIC ADVANTAGES OF TSP  
SINGLE BILLING APPEAR QUESTIONABLE

GSA Order DTS 2100.1, December 3, 1976, "Justification for Use of the ADP Fund to Make Reimbursable Payments to Commercial Contractors" requires that awards for contracts which will flow through the ADP Fund be made only when there is documented evidence that use of the Fund for this purpose will result in an economic advantage to the Government. However, no cost benefit study of the matter was conducted by ADTS before making single billing mandatory. As things stand:

- ADTS has not been able to demonstrate that all of its expected control advantages--strengthening TSP by having complete review of contractor invoices and monitoring of the Government's liability for teleprocessing services--of single billing have been achieved, or that the delinquent ADP Fund accounts receivable can be collected without additional staff.
- ADTS plans to recover its costs for administering the TSP single billing method from the combined single billing and prompt payment discounts it receives. (See illustration on p. 24.) However, in fiscal 1981, ADTS reported its administrative costs were \$55,367 greater than the combined discounts received.
- Not all costs incurred in administering the TSP single billing method are reflected in this figure. For example, excluded are (1) personnel costs from the Office of Finance and from the National Capital Region's Accounts Receivable Branch, (2) costs to package and mail invoices to user agencies, and (3) that portion of the cost of the Daily Accounting Cycle system providing automated support to the single billing method. (These total costs are currently estimated at \$78,000 annually.) If similar cost estimates were included in the computation, ADTS may not have recovered its costs for the previous fiscal years, either.

A cost-benefit study, properly done, would have given ADTS top management sufficient data to determine whether the TSP single billing method could be administered economically. No such study has been made.

The cause for not being able to resolve the financial management problems previously discussed may also stem from GSA's decentralized functional and operational responsibilities for administering TSP. For example, administration of TSP and the ADP Fund is the responsibility of ADTS; financial accountability of the Fund is the responsibility of the Office of Programs, Plans, and Financial Management; and TSP accounts receivable is the responsibility of the Regional Administrator, National Capital Region. (See organizational chart on p. 5.) This type of fragmented management structure frequently promotes a lack of cooperation and communication between the internal activities responsible for program

YOUR ORDER NUMBER	CUSTOMER NO.	S/MAN NO.	TYPE	INVOICE NUMBER	INVOICE DATE
6S-00C-51951	22471		N99	02282299	FEB 28, 82

WHEN PAYING BILL TO THIS NUMBER

SHIP TO

SOLD TO  
 GENERAL SERVICES ADMINISTRATION  
 FINANCE DIVISION  
 AGENCY STATION SYMROL 47-08-0002  
 WASHINGTON, DC 20407

ADP FIND BRANCH, CVMA

MAR 29 1982

ITEM	DESCRIPTION	QUANTITY	RATE	AMOUNT
6	TECHNICAL-ASSISTANCE/ ANALYST SERVICES			
20004	TECH/ANALYST * SERVICE	4.500	56.2500	253.13
7	NETWORK DOCUMENTATION*			
20003	COURIER DEL. CHG. *	1.000	6.2500	6.25
8	PREMIUM SOFTWARE			
	FOCUS - PRIME	1316.050	.0000	4421.33
	FOCUS - BATCH	1238.980	.0000	161.07
	FOCUS4 - PRIME	94829.350	.0000	59858.66
	FOCUS4 - BATCH	794.840	.0000	103.33
	S1022 - PRIME	90027.000	.0000	11821.86
	F1022 - PRIME	37910.000	.0000	5861.13
	S22CT - PRIME	645.000	.0000	103.20
	F22CT - PRIME	69507.000	.0000	11099.42
	LESS CURRENT MONTH CREDITS			.00
	TOTAL DISCOUNTED ITEMS			549550.72
	GOV'T VOLUME DISCOUNT		25.050X	(137662.44)
	TOTAL AFTER VOLUME DISCOUNT			411888.28
	TOTAL NON-DISCOUNTED ITEMS			4308.89
	LESS PRIOR MONTH CREDITS			(20847.12)
	ADJUSTMENT FOR DISCOUNT ROUNDING:			
	SUBTOTAL ON GOV'T-WIDE INVOICE =	395350.05		
	TOTAL OF AGENCY INVOICES =	395350.00		
	SUBTOTAL			395350.00
	LESS SINGLE PAYMENT DISCOUNT		.500X	(1976.60)
	NET AMOUNT PAYABLE UPON RECEIPT			393373.40
	PROMPT PAYMENT DISCOUNT		2.000X	(7866.87)
167916				393373.40

TERMS:  
DUE AND PAYABLE  
UPON RECEIPT

PLEASE PAY  
THIS AMOUNT

EXTRACT OF TSP SINGLE BILLING GOVERNMENT-WIDE INVOICE

administration. For example, the Director of Finance objected to the expansion of TSP single billing because of a lack of personnel to support the increased workload, and the probability of single billing leading to a cash shortage in the ADP Fund. To emphasize the Director's objections, the Assistant Administrator for Management, Policy, and Budget placed a moratorium on the expansion of single billing through the ADP Fund until the Finance officials were sure the Fund could meet its monthly financial obligations. Nevertheless, ADTS implemented single billing amid the objections and the moratorium.

CONCLUSIONS

The TSP single billing method, as currently administered, has not been economically advantageous to the Government because it has put the ADP Fund in a continuous reduced cash position due to (1) the lag time between paying the single billing invoices and rebilling the users for repayment to the Fund, (2) many users frequently being late in reimbursing the Fund, and (3) the collection and accounts receivable followup procedures not being effective. In addition, ADTS has not always recovered its costs of administering the TSP single billing method at current discount rates. Unless these matters are corrected by developing effective collection procedures or by using program authority more effectively to impose penalties for noncompliance with TSP MASC terms, the TSP single billing method may never be economically advantageous to the Government.

RECOMMENDATION

We recommend that the Administrator of General Services initiate action to lessen the lag time in rebilling agencies for teleprocessing services and impose penalties for noncompliance with TSP MASC terms.

AGENCY COMMENTS

GSA officials did not agree with our conclusions that the TSP single billing method, as currently administered, is not economically advantageous to the Government. They stated that

- TSP single billing through the ADP Fund is economically advantageous to the Government,
- reduced cash in the ADP Fund has not adversely affected other programs supported by the Fund,
- GSA's decentralized management of TSP is sound management and fiscal practice, and
- the advantages of single billing greatly outweighed the requirement to do a cost-benefit study.

We believe that it is unreasonable for GSA to reach such a conclusion without performing the cost-benefit study as required. Such a study postulates alternative means of satisfying objectives and investigates the costs and benefits of each alternative by surfacing all appropriate assumptions, making clear their implications, and providing the effective tool for managers in making decisions. By implementing the single billing method, as currently administered, ADTS achieved what other officials in GSA implied-- the ADP Fund being subjected to a continuous reduced cash position. (See p. 14.)

We do not believe the advantages of single billing, as depicted by GSA, outweigh the requirement to do a cost-benefit study. All the evidence developed during our audit and discussed in the body of this report indicates that TSP single billing, as currently administered, is not economically advantageous to the Government. (Further detailed response to GSA's position is in app. II).

Concerning our recommendation to initiate procedures to lessen the lag time in rebilling agencies, GSA officials stated that this situation will be resolved with the implementation of a new financial system scheduled for April 1, 1983.

In regard to our recommendation that penalties be imposed for noncompliance with TSP MASC terms, GSA officials said such penalties were disapproved by GSA's General Counsel.

We disagree. Penalties for noncompliance with contract terms can be implemented through a properly drawn liquidated damage clause. Liquidated damages clauses are common in this type of contract and they are not illegal. We believe that penalties for noncompliance with contract terms should be implemented. We also believe that top managers in user agencies whose TSP accounts become delinquent should be notified to direct prompt and timely reimbursement to the ADP Fund for teleprocessing services received.



## CHAPTER 4

### POOR INTERNAL CONTROLS OVER AGENCY PAYMENTS

#### FOR TELEPROCESSING SERVICES

A basic tenet of Government procurement is that before payment is made, the purchasing agency must verify that the goods or services have been received, are in accord with contractual requirements, and the price charged is correct. This does not apply to charges for teleprocessing services which are rebilled to user agencies by GSA, because Federal statutes <sup>1/</sup> allow reimbursement between Government agencies without preaudit or receipt verification. However, agencies are responsible for establishing internal controls, including postaudit of TSP invoices, to ensure that the teleprocessing services paid for have been received. Unfortunately, most of the agencies we visited who use teleprocessing services have less than adequate internal controls established to verify their TSP invoices. As a result, verification is not being properly done by the user agencies.

#### SINGLE BILLING METHOD INVOICE PROCEDURES

As discussed earlier, under the single billing method, TSP multiple award schedule contractors submit a monthly Government-wide invoice, including voluminous supporting documents, directly to GSA. (See photo on p. 28.) In turn, GSA pays the invoices and individually rebills each user agency. Upon receipt of bills, the user agencies are required to reimburse GSA promptly. Since reimbursement is between GSA and Federal agencies, the invoices are to be paid as rendered without preaudit. After payment, all invoices should be postaudited.

#### TSP INVOICES

Invoices for teleprocessing services are generally composed of charges for each session the user was in contact with the computer and for other services provided. Since each user may have many sessions each working day, the invoices become very detailed and voluminous. The usage during each session varies, and the charge for each session is billed based on usage by applying a pricing formula or algorithm. Charges for each session range from under one dollar to many dollars.

Invoices are prepared by the contractor. Data included on the invoice shows the billing period, charges each time a user accesses the contractor's computer, the number of computer resource units used, the user's identification number, and the log on and

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<sup>1/</sup>31 U.S.C. 686 and Title 41 - Federal Property Management Regulations, chapter 101, subchapter A, part 101-2.101 through 101-2.107.



ONE TSP CONTRACTOR SUBMITTED THIS STACK OF INVOICES FOR 1 MONTH'S SERVICES.

log off times. (See illustration on p. 30.) The information included in the invoice should be used by the TSP user to verify invoices for certification.

AVAILABLE TECHNIQUES NOT USED EFFECTIVELY  
TO VERIFY TSP INVOICES

Federal agencies spend over \$75 million annually for commercial teleprocessing services under the MASC. Because invoices for such services are contractor produced, and the charges are compiled through the use of a complex pricing algorithm, certifying officials must rely on internal controls established within the TSP user agency to ensure that the procedures used for verification of the invoices reasonably meet fiscal requirements. These controls should follow the procedures outlined in the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Procedures, section 24.2) currently under revision, and GSA Handbook FPR 1-4.12, October 1979, Teleprocessing Services Program. Office of Management and Budget Circular A-123, October 28, 1981, Internal Control Systems, requires departments and agencies to establish and maintain internal controls in their program and administrative activities. The Federal Managers' Financial Integrity Act of 1982 requires certification of the adequacy of these internal control systems by heads of the departments and agencies.

However, we found that most user agencies that acquire commercial teleprocessing services have not established procedures to verify the billing. For example, of the 51 agencies visited, 45 said they primarily checked for apparent out-of-the-ordinary costs and 5 performed no verification at all. Only one agency used all available techniques to verify the accuracy of its invoices.

At the majority of the agencies visited, top management officials stated that

- no policies, procedures, or internal controls were established to verify TSP invoices for certification;
- any procedure for verification, other than scanning the invoices for out-of-the-ordinary charges, was, in their opinion, not cost effective;
- they did not have the time or the staff to verify the invoices to ensure reasonable accuracy; and
- invoices received from GSA under the single billing method are not timely (received at least 60 days after the period of service), which makes the invoiced data more difficult to verify.

Since our review, however, the Defense Logistics Agency and the Naval Facilities Command established teleprocessing services verification policy, procedures, and internal controls.



We recognize that, without access to the pricing algorithm, agencies are limited in the degree of invoice verification they can perform. But agencies should establish policy, procedures, and internal controls for reasonable invoice verification to satisfy certification requirements. For example, verification of each session entry could be the responsibility of the user, who would be required to maintain control documents such as log on-off registers. For each bill, a sample of users could be asked to verify session activities. At a central agency location, a designated official who is cognizant of teleprocessing services could verify prices, credits, and schedule benchmark 1/ tests. Procedures such as these are necessary, in our view, to satisfy fiscal requirements for disbursement of Federal funds for goods and services.

As administrator of the mandatory teleprocessing services program, ADTS has done little to educate the user community in verification of teleprocessing invoices. While some verification information is published in the TSP handbook, not all users have access to this publication.

### CONCLUSIONS

The Federal Government spends over \$75 million annually for teleprocessing services under the MASC and is not certain that the charges for these services are reasonably correct.

Federal users have not established adequate internal controls in accord with Federal policy, to ensure that available techniques to verify the accuracy of the invoices for such services are being used.

ADTS is aware of the difficulties user agencies are having in reviewing TSP invoices and, in our opinion, ADTS can do more to help, such as issuing detailed instructions on the most effective verification of TSP invoices.

Each user agency of the TSP should establish effective internal controls in accord with Office of Management and Budget Circular A-123, October 28, 1981, and the Federal Managers' Financial Integrity Act of 1982, to ensure adequate verification of invoices.

### RECOMMENDATION

We recommend that the Administrator of General Services issue detailed instructions on the most effective means of verifying TSP invoices.

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1/Computer programs and associated data that are representative of an agency's processing requirements, used to verify whether the consumption of billing units is within the constraints specified in the agency's contract.

## AGENCY COMMENTS

In a draft of this report we recommended that the head of each user agency of the TSP establish effective internal controls in accord with Office of Management and Budget Circular A-123, October 28, 1981, to ensure adequate verification of invoices.

GSA officials agree with our conclusions that many agencies are doing an inadequate job in verifying their TSP invoices.

GSA officials agreed to the recommendation in our draft report to emphasize to the user agencies the requirements of OMB Circular A-123 and the Federal Managers' Financial Integrity Act of 1982.

We revised our recommendation so that the Administrator of General Services can issue detailed instructions that will be standard practice in all agencies.



General  
Services  
Administration

Washington, DC 20405

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AUG 20 1982

Honorable Charles A. Bowsher  
Comptroller General of the United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the draft Audit Report entitled, "Financial Management Problems Permeate GSA's Teleprocessing Services Program" (Code 913677).

GSA greatly appreciates the efforts of the GAO auditors in their review of the administrative and financial management of the TSP MASC single billing method. The audit itself was extremely beneficial and had a major impact on ADP Fund operations in several respects. It:

1. Changed procedures and management direction both at GSA and other major agencies.
2. Detected major deficiencies in processing that still remain to be addressed and resolved.
3. Substantially benefitted the cash position of the ADP Fund and assured its continued increased financial viability.

While we were generally satisfied with the work of the audit, we have some specific problems with the report itself. As pointed out in our detailed comments on the following pages, we feel that many of the conclusions drawn by the audit report were based on a misinterpretation of the facts concerning GSA's Teleprocessing Services Program (TSP). For example, the title of the audit report alleges that "Financial Management Problems Permeate (underscore added) GSA's Teleprocessing Services Program." Neither the official financial records nor the findings of the audit report substantiate this allegation.

We also found the audit report to be contradictory in that it states, on the one hand, that additional staffing is needed, but alleges on the other hand, that use of the ADP Fund to support single billing is not economically advantageous to the Government. If single billing is not cost effective (a contention GSA does not agree with), additional staffing would only result in TSP being less cost effective.

The remainder of our comments are sequenced to follow the Audit Report point by point.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ray Klane', is written over a typed name and title.

Ray Klane  
Deputy Administrator

Enclosure

**GAO FINDING: GSA HAS NOT ACHIEVED ITS EXPECTED CONTROL ADVANTAGES FROM TSP SINGLE BILLING.** (Chapter 2 of Audit Report)

GAO contends that GSA has not achieved its objectives of single billing because it has not assigned enough staff to administer the workload and review the monthly Government-Wide invoices. To support this contention, GAO found various problems in the handling of TSP invoices, such as:

1. GSA paid \$7,000 on a purchase order overrun (later corrected).
2. The Government was billed \$273,000 for services in excess of purchase order authority from Jan. - Aug. 1981. GSA paid for these services and later acted to obtain credits for these unauthorized billings.
3. When incorrect invoices are paid because discrepancies are missed, vendors have interest-free use of Government money for a period of time.
4. There is no assurance that all discrepancies will be detected during post audits.

**GSA RESPONSE: GSA STRONGLY DISAGREES THAT GSA HAS NOT ACHIEVED ITS EXPECTED CONTROL ADVANTAGES FROM TSP SINGLE BILLING.**

Quite the contrary, the objectives of single billing have been fully achieved, although we acknowledge that there is still room for improvement.

Effective October 1, 1979, GSA implemented mandatory single billing under the TSP MASC as a prototype method to strengthen program safeguards and to enhance program controls. Under the single billing concept, all contractors' invoices are subject to prepayment and post audit reviews.

Prior to single billing GSA discovered, during its random audits of direct billing contractors during the period 1977-1979, a staggering range of problems with direct billing. (see attachment 1)

The types of problems discovered by GSA have virtually been eliminated with the advent of the single billing concept.

1. A \$7,000 purchase order overrun was cited as an example of many invoice discrepancies missed. What the audit failed to cite were the invoice discrepancies that were detected and actions taken against the vendors. To date, a total of \$21,388,763 in errors was detected and corrective action taken. (see attachment 2)



2. It was noted that errors of \$273,000 were not detected until after payment had been rendered during the period January through August 1981. What is not noted in the GAO Audit Report is that GSA processed a total of \$39,080,897 in payments during this period, and that the undetected error of \$273,000 represented only .7% of the total paid. More importantly, the audit failed to note that during this same period a total of \$3,815,048 in errors was detected prior to payment. (see attachment 3)
3. During this same period January through August 1981, the vendors had interest-free use of the \$273,000, but the audit failed to note that GSA had interest-free use of \$10,371,534 for the 112 days that invoices were withheld from payment. (weighted average) (see attachment 3)
4. Even though the amount not detected and corrected until post-audit is negligible, we have taken positive actions to prevent such occurrences in the future, but this was not solely through increased staffing. The computerized billing system was revised effective 12/1/81 to reject any entry for usage beyond the purchase order expiration date. Any such item is immediately deducted from the vendor payment. Effective 10/1/82, the vendors will be required to track and display on the user invoice (or supplement) usage against each purchase order. These actions will assure that no further erroneous charges will be overlooked initially.

Another strong argument favoring single billing through the ADP Fund is the fact that single billing has resulted in vendors "policing" themselves with regard to their billing the Government. The fact that all contractors know that their invoices will be reviewed by GSA, and that the entirety of their invoices may not be paid (which frequently represents a substantial amount of working capital), or worse, returned to the contractor, has proven to be a very strong incentive for contractors to clean up their act by instituting safeguards to ensure accurate and proper charges to the Government. That is to say, when the single billing concept was first instituted, there were many problems, across-the-board, with contractors invoices. But as contractors continued to bill through GSA's ADP Fund, and as the billing problems were brought to the contractors attention by GSA's financial analysts, the problems were soon resolved. The longer contractors bill through the ADP Fund, the fewer problems that tend to exist. To suggest that the objectives of single billing have not been achieved is to be unaware of the progress that has been made, both on the part of the vendor community and by GSA, in processing TSP invoices.

It does not logically follow that you must have all the desired additional staffing increases in order to do one's job. We take sharp issue with GAO's opinion that "limited staff can achieve only limited results and the benefits anticipated will not be achieved". We equally disagree with GAO's statement that "GSA did not increase its TSP staff to administer this workload. Thus, GSA is not meeting its program objectives in this area."

The single billing workload was assumed without increased staffing. We feel the accomplishments previously noted fully verify that all program objectives have been met and without an increase in overhead costs.

GAO FINDING: SHORTCOMINGS IN TSP FINANCIAL MANAGEMENT ADVERSELY AFFECT ADP FUND OPERATIONS. (Chapter 3 of GAO audit)

GAO contends that:

1. The lag time between GSA's paying the contractor's invoices and rebilling the user agencies puts the Fund in a reduced cash position for an extended time which adversely affects other programs supported by the Fund.
2. User agencies frequently are late in reimbursing the Fund, further straining its cash balances.
3. GSA's followup on delinquent accounts is not adequate.
4. Contractors do not always submit invoices within the time period required under the contract.
5. GAO assistance resulted in \$4.5M in delinquent accounts being cleared up.
6. GSA does not always recover its cost of administering the TSP single billing method and not all costs incurred in administering the TSP Program are reflected in overhead.
7. No economic cost benefit study was conducted by GSA to determine if single billing through the fund was economically advantageous.
8. GSA's decentralized functional and operational responsibilities for managing TSP may be partly responsible for the financial management problems.

GSA RESPONSE: GSA STRONGLY DISAGREES THAT SHORTCOMINGS IN THE FINANCIAL MANAGEMENT OF TSP ADVERSELY AFFECT ADP FUND OPERATIONS.

As noted in our comments to Chapter 2, a total of \$21,388,763 in erroneous charges has been withheld from payment since the inception of this program. It is doubtful, from our experience with direct billing (see attachment 1) and the audit comments in Chapter 4, if much of this amount would have been detected without single billing reviews. While we acknowledge the lag time between paying contractors' invoices and rebilling users, and the fact that some activities are slow in reimbursing GSA, we do not agree that it logically follows that single billing through the ADP Fund is not economically advantageous to the Government.

1. Reduced cash has not adversely affected any other programs. However, we agree that the present lag time is unacceptable. We will continue to experience these lag times between paying contractors' invoices and rebilling our customers until at least 4/1/83.

GSA made the decision to implement single billing on October 1, 1979. It was also planned that on that date the ADP Fund would be converted from its current, obsolete accounting system to NEAR, thereby providing the ADP Fund with modern automated billing capabilities not available under the old system. The NEAR conversion was delayed to 10/1/80, but we continued the conversion to single billing under the assumption we could maintain manual records during the first year. Unfortunately, the financial resources of the agency were diverted to other priorities. The NEAR conversion is now scheduled for 10/1/82, and the automated billing system (COLT) for 4/1/83. Faced with this delay, ADTS converted TSP billings to the existing TIAS system under its control on 10/1/80, and to TIAS/SIBAC on 10/1/81. While the TIAS/SIBAC system was not designed for TSP, and has serious limitations on the TSP program, it has enabled us to survive until the conversion is finally completed.

2. We concur that user agencies are frequently slow in reimbursing the ADP Revolving Fund. However, our conversion to SIBAC on 10/1/81 has alleviated this problem with civilian agencies. In addition, GSA is working closely with Army and Navy to expedite reimbursements to the Fund.
3. The problem with GSA's follow-up on delinquent accounts is not due to its collection procedures or inadequate staffing as stated in the GAO Audit Report, but rather it is due to computer systems problems. The Office of Finance recently reviewed its collection procedures and staffing of the ADP receivables area and found it to be adequate. However, they do recognize deficiencies in the current computer system which produces untimely receivable reports used to follow-up delinquencies. This problem will be resolved when conversion to the new automated billing system (COLT) is accomplished in April 1983. The Office of Finance is also exploring the possibility of converting DOD to SIBAC for TSP which will greatly reduce the delinquencies.

From 10/1/79 through 3/31/82, a total of \$202,724,376 was billed to TSP user accounts. As noted in the audit, a total of \$6,483,072 remained delinquent and uncollected as of 3/31/82. What was not noted was that this amount represented only 3.2% of total billings.

4. ADTS also acknowledges that contractors do not always submit their invoices to GSA within the required time period. Vendors' procrastination in submitting monthly invoices is a condition which would exist in direct billing as well as single billing. When contractors are late in submitting their invoices to GSA, GSA normally notifies the contractor, in writing, of this problem. More importantly, when vendors do not submit their invoices to GSA within the period required by the contract, it is usually because of some serious billing problems that the vendor knows will be detected by GSA if he does invoice the Government.

In GSA's view, it is preferable for the contractor to submit correct and complete invoices, rather than to submit faulty invoices (which would be rejected by GSA) in order to satisfy the time period required under the contract for submitting invoices. We also hasten to add that when invoices are not submitted for several months, or for an entire year as GAO noted in their audit report, the Government has interest-free use of these funds for a period of time. It is also important to point out that when contractors do not invoice GSA for extended periods of time, GSA is aware of the vendor's problems from the outset and typically schedules several meetings with the vendor(s) to resolve the billing problems. Also, in the FY 1983 TSP RFP, a clause has been added whereby the prompt payment discount period will be extended if more than one set of invoices is submitted at the same time. In GSA's view, this clause, plus the free use of vendors' funds, is the maximum penalty that should be imposed on contractors for submitting late invoices to GSA.

5. GSA wishes to thank Mr. Clem Cuilik and Ms. Fran Pereira of the General Accounting Office for their invaluable assistance in not only resolving many of our delinquent accounts, but for instituting a mechanism for resolving Army and Navy delinquencies.
6. This finding is in error. The majority of the regional TSP functions were reduced on May 1, 1980. However, the financial records were not adjusted to reflect the change in actual ADP Fund program assignments. In FY 1981 a total of \$357,807 was recorded as TSP regional costs, the majority of which were actually charges to other programs. While the items should have been corrected, all charges were within the same funding area, and it made no difference to the overall ADP Fund operating results. Had TSP regional costs been properly recorded, administrative costs in TSP would have been considerably less than discounts received, and would have been more than sufficient to offset the estimated \$78,000 incurred by the Office of Finance in support of the TSP Program. Beyond FY 1981, the additional discounts earned continue to more than offset the costs to administer the program. The allocation of regional support to the TSP Program will be fully adjusted in FY 1983.
7. No cost benefit study was conducted by GSA before making single billing mandatory. A cost benefit study was not appropriate for a number of reasons:
  - a. When the TSP-MASC Program began in 1976, vendors had the option of offering single billing and prompt payment discounts. If the discounts offered equalled or exceeded the estimated 2.5% cost of administering the billing, the contract was allowed to flow through the ADP Fund. Where the discounts offered were less than 2.5%, the vendors billed the agencies directly. The many problems discovered during GSA's internal audit of these direct billing contractors' invoices provided overwhelming evidence of the need to convert direct billing contractors to single billing through the ADP Fund where invoices would be more carefully reviewed.

- b. In response to ADTS' request, the Inspector General performed a review of the TSP single billing monitoring procedures. In their response to ADTS (see attachment 4), the Inspector General recommended that the TSP Program would be strengthened if all TSP schedule contracts were converted to single billing through the ADP Fund.
  - c. The advantages of single billing so greatly outweighed the minimal advantages of continuing with direct billing that ADTS did not consider the financial aspects of converting direct billing contractors to the single billing method. Accordingly, the requirement to do a cost benefit study in accordance with DTS 2100.1 was waived by Commissioner Puckorius.
  - d. Contractors were required to give GSA a single billing discount to offset GSA's costs of administering the single billing mechanism.
8. Also in their audit report, GAO attributes some of the financial management problems of single billing to GSA's decentralized functional and operational management of the TSP Program. We strongly disagree with this view. Quite the contrary, we believe that this separation of responsibility is a sound management and fiscal practice.

GAO FINDING: POOR INTERNAL CONTROLS OVER AGENCY PAYMENTS FOR TELEPROCESSING SERVICES. (Chapter 4 of GAO audit)

GAO found that of the 51 agencies they visited, most had less than adequate internal controls to verify their TSP invoices. As a result, verification is not being properly done by using activities. GAO also recommended that GSA needs to do more to educate the user community in the verification of TSP invoices.

GSA RESPONSE: GSA AGREES WITH THIS FINDING.

ADTS agrees that many agencies are doing an inadequate job in verifying their TSP invoices. However, the problems with invoice verification would exist under direct or single billing.

To help educate users in how to verify their invoices, GSA continually provides guidance to using activities in such issuances as:

1. The TSP Handbook.
2. TSP Reports (monthly).
3. User Group Meetings (quarterly).
4. Special flyers attached to monthly billings to agencies (monthly).
5. Assisting users with billing problems, questions, etc (daily).
6. Handling credit requests, disputes, etc (daily).

7. Developing and disseminating the "TSP Semi-annual Report of Invoice Audit Verification" form to all users (semi-annually). Completed audit report forms are returned to the ADP Fund Branch where they are reviewed to determine if agencies are having any problems with their TSP invoices. These forms also provide GSA with feedback on how well or how poorly agencies are verifying their invoices, so that GSA can step up its efforts in issuing additional instructions to agencies for verifying their invoices.

As evidenced by these many publications, GSA issues instructions to users on a continuing basis to advise them of their responsibility to verify their TSP invoices. In the final analysis, however, it is the agency's responsibility to verify all charges on their monthly TSP invoices, in accordance with OMB Circular A-123.

The fact that some agencies are doing an inadequate job of verifying their TSP invoices, in GSA's view, further supports the single billing concept, for it ensures that at least at GSA, TSP invoices are being reviewed in some detail. And, as previously noted, when the new TSP automated billing system is finally implemented, TSP invoices will be subject to a much more timely and accurate review.

#### RECOMMENDATIONS AND GSA RESPONSE:

GAO recommended that the Administrator of General Services:

1. Determine if the personnel study conducted by GSA prior to implementing the single billing method is still valid. If so, assign the required staff to the activities responsible for effectively administering the single billing method. If not, and if it is still determined that single billing will be the mandatory method when user agencies acquire teleprocessing services under the multiple award schedule contract, (1) direct the Inspector General to conduct a staff resources study of all responsibility for TSP to assess the number of staff required to administer the single billing method effectively or (2) find an alternative cost-effective method, such as developing an automated system, that would support the single billing workload, as currently administered.

#### Response:

The personnel study mentioned was based on a manual verification & reconciliation system. We have since concluded that a large manual effort would not be appropriate both because of increased overhead and continuing small errors. Therefore, the question of the validity of the personnel study is moot.

We do, however, concur with item (2) of the recommendation to develop an automated system for invoice verification and reconciliation ADTS will proceed to develop a prototype automated reconciliation system. The system will be developed in a manner that can be easily expanded or modified to operate for TSP or other similar invoice verification needs.

2. Initiate procedures to lessen the lag time in rebilling agencies for teleprocessing services and impose penalties for noncompliance with TSP multiple award schedule contract terms.

Response:

As noted in our detailed comments, this situation will be resolved with the implementation of the new COLT/NEAR system scheduled for April 1, 1983. Further penalties for vendor delays in invoice submission were disapproved by GSA's General Counsel.

3. GAO also recommends that the head of each user agency of TSP establish effective internal controls in accordance with Office of Management and Budget Circular A-123, October 28, 1981, for verification of invoices.

Response:

GSA will continue to emphasize to the user agencies the requirements of OMB Circular A-123.

Primary Types of Problems Found During Detailed Invoice Review of Direct  
Billing Contractors

The following problems were typical of most reviews accomplished by CDR prior to single billing.

Services provided by contractors which were not negotiated or amended during the contract year.

In many reviews we typically found several services being provided that were not contained in the GSA Contract. The contractors would offer replacement packages for Government users services which were not approved by the GSA Contracting Officer. The most obvious types of problems which existed would be associated with the purchasing of modems, terminals, etc., which were not Software dependent.

Invoice formats were not in compliance with contract obligations.

This problem in one way or another was evident on all reviews. Specifically, contractors did not provide the level of detail necessary for users to interpret their invoice charges. No individual breakout of services was being provided, i.e., full service, interactive, specialized data base, Technical Assistance/Analyst Services, etc. In other cases, the invoice level requested by users was not being provided by contractors, although the contractors specifically responded positively when queried if they could provide invoices from subscriber through project level.

Contractor reports did not coincide with the usage and charges on invoices.

Without the benefit of user invoices, we could not verify the accuracy of contractor reports. In most cases, the reports were wrong when compared to actual invoice data.

Credit procedures were not formalized

Several audits revealed that credit procedures were non-existent. Verbal commitments for credits, with no support documentation, were the norm for most direct billing users.

Services provided without proper authority

In all reviews it was found that services were being provided to at least one or more users without the proper documentation. After May 1, 1980, agencies were required to include a statement on their purchase order whether the requirement was approved by GSA or by the agency under the provisions of FPR Temporary Regulation 64 and whether the selection was competitive or sole source. If the requirement was approved by GSA, agencies are required to cite the GSA control number.



### Nomenclature Discrepancies

In several reviews it was difficult to determine whether the services provided by contractors were valid (approved by GSA contracting officer) or simply a problem with the naming convention.

### Rate Charges

Some reviews found errors in rates. One review determined that the rates utilized in calculating charges were the "commercial" rates rather than the negotiated Government rates. On other occasions, we found rate errors associated with not applying proper "volume usage" rates within rate tiers. In still other reviews, the rates reflected on the invoice were machine usable (i.e. wallclock seconds six positions to the right of the decimal point) whereas the pricelist would reflect the more easily readable "Hourly Rate." In those occasions, it was determined that a slightly higher rate was being charged by utilizing the machine readable rate during calculation of charges.

### Technical Assistance/Analyst service (TA/AS) abuse.

Many contractors were providing much more than what was intended for TA/AS. When reviewing the direct billing invoices, all users with abnormal amounts of TA/AS were contacted. We found that in almost all cases the high amount of usage was directly associated with programming which is not a valid service within the scope of TA/AS. These cases prompted GSA to revise its limits on TA/AS services. Whereas a flat \$25,000 limit on the use of TA/AS was previously used, the new method to calculate the limitation is 10% of the total services or \$100,000 whichever is less. Therefore, TA/AS services were brought in line with direct usage of teleprocessing services.

### Volume Discounts

In some reviews it was determined that the Volume discount provided users was not correct. All users are subject to the discount rate based on total Government usage. In many instances the direct billing users were unaware of the appropriate discount percentage.

Attachment 2

TSP Invoice Errors Detected By ADP Fund Branch  
October 1, 1979 to Present

<u>COMPANY</u>	<u>DISCREPANCIES FOUND</u>
ADP	\$ 778,175.20
AMS	382,456.95
BCS	2,884,120.76
BOW	153,311.90
CDC	3,185,948.10
CMT	89,638.53
CSC	1,948,044.27
CSG	8,451.47
CSP	18,288.82
CSS	59,415.97
DLC	12,989.85
DRI	321,043.97
DTC	35,743.78
GEC	409,311.27
IAD	283,093.17
ICS	104,392.16
INF	33,025.41
IPS	11,585.85
KIT	1,442.83
LIT	3,626.83
MCD	171,379.14
MMC	40,651.59
NAT	3,137,993.13
NDC	68,993.24
PCS	73,527.05
RPD	86,306.78
STS	230,628.59
SVB	279,098.34
TYM	6,450,354.92
UIS	61,180.67
USS	64,542.19
TOTAL	<u>\$21,388,762.73</u>

Attachment 3

TSP Invoice Errors Detected By ADP Fund Branch  
January thru August 1981

<u>COMPANY</u>	<u>NET DISBURSEMENTS</u>	<u>DISCREPANCY FOUND</u>	<u>DAYS HELD</u>
ADP	\$ 907,735.79	\$ 3,066.67	0
BCS	5,720,251.62	1,037,509.19	3
CDC	10,034,515.03	1,045,530.69	0
CSC	16,638,548.25	103,593.15	60
DTC	786,574.61	20,658.81	0
IAD	191,752.66	10,995.45	0
IPS	15,663.68	85.00	0
NDC	252,861.88	52,842.25	6
PCS	149,724.82	3,688.45	0
RPD	12,714.13	521.14	0
STS	698,436.22	127,519.36	0
TYM	3,610,938.01	1,379,303.29	40
UIS	61,180.67	29,734.63	3
TOTAL	<u>\$39,080,897.37</u>	<u>\$3,815,048.08</u>	



General Services Administration Washington, DC 20405

Attachment 4  
Page 1

Date **MAY 22 1979**

Reply to  
Attn of **Inspector General (AW)**

Subject **Review of ADTS Procedures to Monitor TSP Contracts (87-9360-113)**

To **Commissioner, Automated Data and Telecommunications Service (C)**

MAY 23 10 24 AM '79

In accordance with the April 25, 1979, request of the Executive Director and the Assistant Commissioner, Office of Agency Services and Procurement (AS&P), Automated Data and Telecommunications Service (ADTS), we performed a limited review of ADTS' procedures to monitor teleprocessing services program (TSP) contracts.

Single Billing vs Direct Billing Contracts

There are 40 contracts in the TSP, 16 of which are referred to as "single billing" or "flow-through" contracts and 24 referred to as "direct billing" contracts. Single billing contracts provide the Government with about \$40 million in services per year whereas direct billing contracts provide about \$16 million in services per year.

Single billing means that the contractor sends one bill for all services provided to the Government to ADTS each month. ADTS pays the contractor from the ADP Fund and bills the various user agencies. Single billing contracts are monitored in ADTS by a staff of four in the Financial Management Division, Office of the Executive Director.

Direct billing contractors bill the user agencies directly each month, without going through the ADP Fund. These contracts are monitored by one person in the Contract Services Programs Division, AS&P.

About five single billing contracts and five direct billing contracts account for over 75 percent of the total business transacted under either type of contract.

ADTS is considering a change in the TSP which will require all contractors to be paid by single billings through the ADP Fund. If this change occurs, some AS&P officials believe that the Government may lose as much as \$700 thousand per year in discounts now being obtained as single billing discounts under the 16 applicable contracts.

ADP FUND BRANCH. CXMA

MAY 25 1979

We understand that, if changed, the new TSP contract will require all contractors to offer a single billing discount. We believe the discount requirement and competition among contractors will minimize or offset any estimated lost discounts due to the requirement for single billing. Further, by requiring all contracts to follow single billing, it is likely that the contractors will adjust their prices (and the components of their prices) to remain competitive. While the single billing discount is highly visible it is only one part of the contractor's overall price structure. The final "bottom-line" price is the key factor in selecting a TSP contractor.

#### ADTS Monitoring of TSP

ADTS is now doing much more to monitor TSP contracts than was done at the time of earlier audits by the Office of Audits. These efforts have uncovered problems in both the single billing and direct billing contracts, and serious problems in certain direct billing contracts. For example, we were advised that about \$150 thousand in services was received by the Department of Agriculture under a verbal agreement with a TSP contractor. The Government's liability for these services is open to question. In the same instance, services billed by the parent company of the TSP contractor are being reviewed for propriety.

#### Observations and Conclusions

In view of the problems in the direct billing program, we believe the TSP would be strengthened if all contractors' bills went through the ADP Fund. While factors other than the billing technique in use may account for the problems, we believe that the single billing concept is, by its nature, more amenable to ADTS direction and control.

If the TSP is changed to require that all bills flow through the ADP Fund, we believe that AS&P should continue to be involved in monitoring TSP contracts because that office has program and contracting responsibility. The monitoring process should go beyond purely financial matters into such areas as overall compliance with the intent of the program, customer usage practices, and the relationship of the billing algorithm to Government usage. AS&P should constantly develop strategies to minimize the costs of TSP services.

ADP FUND BRANCH .CNVA

MAY 25 1979

The "audits" of TSP contractor billings are analogous to the Federal Supply Service quality control and field contract administration activities in supply procurements. These audits do not infringe on the work done by the Office of Audits. ADTS should, however, prepare written guidance for the TSP review program. In so doing, the guidance in Handbook FSS P 2900.5, Quality Control, should be considered.

The reports prepared on "audits" in AS&P should include a summary section which highlights and quantifies overcharges or problems noted. The results of successive audits should be tracked to determine whether problems are being minimized.

ADTS management emphasis should be placed on the 10 or so contractors which provide over 75 percent of the Government's requirements. The remaining contractors should be given correspondingly less attention when deciding on such matters as staffing and budget needed to monitor the program.

TSP contractors are required to prepare and make available to the Government magnetic tapes of the data on their monthly billing documents. Little, if any, use is being made of these tapes in reconciling the billing documents. We still believe that ADTS should make greater use of this magnetic tape data. This matter was discussed more fully in our July 1977 report on Teleprocessing Administration.

\* \* \* \*

While a formal reply to this report is not necessary, any ADTS comments will be carefully considered in future audits. Should ADTS wish to discuss the matters herein, we will be pleased to do so.

KURT W. MUELLENBERG  
Inspector General

ADP FUND BRANCH . CNMA

MAY 25 1979

GAO EVALUATION OF GSA'S COMMENTS

GSA's letters regarding our draft report are in appendixes I and IV. The following are our responses to GSA's detailed comments, which were attached to its August 20 letter (app. I). We have included in appendix III GSA's letter of May 24, 1982, concerning our audit work (then in process) on delinquent account receivables.

GSA Comment

While we were generally satisfied with the work of the audit, we have some specific problems with the report itself. We feel that many of the conclusions drawn by the audit report were based on a misinterpretation of the facts concerning GSA's Teleprocessing Services Program (TSP). For example, the title of the audit report alleges that "Financial Management Problems Permeate (underscore added) GSA's Teleprocessing Services Program." Neither the official financial records nor the findings of the audit report substantiate this allegation.

GAO Response

During our review, we found many financial management problems throughout the entire TSP. The basic issues underlying these problems are discussed in detail in the body of the report and are not a misinterpretation of the facts.

We recognized that GSA has made efforts since our audit, through recent reorganization, to solve some of the financial management problems in TSP and, accordingly, revised our report title.

GSA Comment

We found the audit report to be contradictory in that it states, on one hand, that additional staffing is needed, but alleges on the other hand, that use of the ADP Fund to support single billing is not economically advantageous to the Government. If single billing is not cost effective (a contention GSA does not agree with), additional staffing would only result in TSP being less cost effective.

GAO Response

We do not concur. We did not say single billing cannot be cost effective; we said that as presently administered it is not, and that the study which should have been made to determine cost effectiveness was not made. We also stated that staffing for present manual reviews of invoices is inadequate. Annually, over \$75 million for commercial teleprocessing services is administered under the TSP MASC single billing method. We believe that an amount of this magnitude requires more than cursory review of the invoiced services.

We recognize that a more cost effective method of TSP invoice review, perhaps automated, is necessary if the job is to be done right. However, although the TSP workload is increasing, such a method is currently only in the early planning stages. The cost of additional staffing to reduce the current problems created by invoice discrepancies that were missed may be overshadowed by gaining expected program controls--and these may make the additional staffing cost beneficial.

Use of the ADP Fund to support single billing, as currently administered, is not economically advantageous to the Government because it has put the Fund in a cash shortage situation. The cash shortage was primarily created by GSA's financial management practices, which result in agencies not reimbursing the Fund promptly. The Fund is a revolving fund supporting several programs. Each program is supposed to be financially self-sufficient. The drain on cash balances resulting from TSP single billing, as presently administered, adversely affects other programs supported by the Fund and this situation is disadvantageous to the Government. We believe improvements are needed.

#### GSA Comment

GSA strongly disagrees that GSA has not achieved its expected control advantages from TSP single billing. Quite the contrary, the objectives of single billing have been fully achieved, although we acknowledge that there is still room for improvement.

#### GAO Response

We do not concur. Due to the cursory reviews currently conducted by ADTS with limited staff, many of the single billing objectives have not been fully achieved. For example, in the body of our report (p. 14) we illustrate that ADTS, in its prepayment review, does not effectively review all purchase orders placed by user agencies to ensure that (a) the teleprocessing services ordered and billed were authorized and were within the limits of the contract and (b) budgetary limitations were not exceeded. In our view, program safeguards and controls have not been fully strengthened or enhanced under TSP single billing, as currently administered.

#### GSA Comment

Prior to single billing GSA discovered, during its random audits of direct billing contractors from 1977 through 1979, a staggering range of problems with direct billing. For example, Technical Assistance/Analyst service (TS/AS) abuse. Many contractors were providing much more than what was intended for TA/AS. When reviewing the direct billing invoices, all users with abnormal amounts of TA/AS were contacted. We found that in almost all cases the high amount of usage was directly associated with programming which is not a valid service within the scope of TA/AS.



These cases prompted GSA to revise its limits on TA/AS services. Whereas a flat \$25,000 limit on the user of TS/AS <sup>1/</sup> was previously used, the new method to calculate the limitation is 10 percent of the total services or \$100,000 whichever is less. Therefore, TA/AS services were brought in line with direct usage of teleprocessing services. The types of problems discovered by GSA have virtually been eliminated with the advent of the single billing concept.

### GAO Response

Our draft report does not criticize the merits of single billing versus direct billing. But, many of the problems "discovered" under direct billing have not been eliminated under single billing. Technical Assistance/Analyst service abuse continued to be a problem under single billing. For example, in May 1981, GSA paid over \$7,000 in excess of the then \$25,000 threshold established by GSA. In an April 15, 1981, GSA memo, the TSP program director noted "I am particularly concerned with our oversight role in acquiring technical assistance/analyst services (TA/AS) and premium software packages for which we have dollar limitations. I conclude that more timely and aggressive contract administration is required. We must correct the problems that had been associated with TA/AS under the National Teleprocessing Services Contract."

The TA/AS problem was criticized by GSA's internal auditors in their review of the National Teleprocessing Services contract. We recognize that GSA revised the threshold for TA/AS; however, the new limits were not effective until October 1, 1981. TSP became mandatory August 1, 1977, as a replacement for the National Teleprocessing Services contract, which was initiated by GSA in 1972. In our opinion, this problem should have been corrected prior to mandatory single billing in October 1979.

### GSA Comment

Another strong argument favoring single billing through the ADP Fund is the fact that single billing has resulted in vendors "policing" themselves with regard to their billing the Government. The fact that all contractors know that their invoices will be reviewed by GSA, and that the entirety of their invoices may not be paid (which frequently represents a substantial amount of working capital), or worse, returned to the contractor, has proven to be a very strong incentive for contractors to clean up their act by instituting safeguards to ensure accurate and proper charges to the Government. That is to say, when the single billing concept was first instituted, there were many problems, across-the-board, with contractors invoices. But as contractors continued to bill through GSA's ADP Fund, and as the billing problems were brought to the contractors attention by GSA's financial analysts, the problems were soon resolved. The longer contractors bill through the ADP Fund, the fewer problems that tend to exist. To suggest that

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<sup>1/</sup>May not exceed \$25,000 per requirement per year without an approval waiver from the GSA contracting officer.

the objectives of single billing have not been achieved is to be unaware of the progress that has been made, both on the part of the vendor community and by GSA, in processing TSP invoices.

### GAO Response

In our meetings with commercial contractors who provide teleprocessing services, the contractors indicated strong opposition to any "policing" on their part. The contractors said such action puts them in a "Catch 22" position. If the contractors provide services in violation of the TSP MASC, GSA withholds payment for the services. If the contractors do not provide the services to the agencies when the agency is in violation of the TSP MASC, then the contractors, in all probability, believe they will lose a customer. It is their opinion that the agency will look for teleprocessing services elsewhere, probably in-house.

At least one contractor has single billed the Government for teleprocessing services since 1972. Although progress has been made in resolving some of the TSP invoice problems, many other invoice problems that existed under the National Teleprocessing Services contract, continue under the TSP MASC. In our opinion, these problems should have been resolved in 10 years of single billing experience.

### GSA Comment

It does not logically follow that you must have all the desired additional staffing increases in order to do one's job. We take sharp issue with GAO's opinion that "limited staff can achieve only limited results and the benefits anticipated will not be achieved." We equally disagree with GAO's statement that "GSA did not increase its TSP staff to administer this workload. Thus GSA is not meeting its program objectives in this area."

The single billing workload was assumed without increased staffing. We feel the accomplishments previously noted fully verify that all program objectives have been met and without an increase in overhead costs.

### GAO Response

We do not concur. In the body of this report we explained why GSA has not met all of its expected TSP single billing objectives. In addition, GSA has not met all program objectives without an increase in overhead costs. GSA's financial records for TSP indicate a progressive increase in overhead costs as follows:

<u>Fiscal</u>	<u>GSA overhead (thousands)</u>
1977	\$ 27
1978	700
1979	1,081
1980	1,680
1981	(cost not properly recorded by GSA)

GSA Comment

GSA strongly disagrees that shortcomings in the financial management of TSP adversely affect ADP Fund operations. While we acknowledge the lag time between paying contractors' invoices and rebilling users, and the fact that some activities are slow in reimbursing GSA, we do not agree that it logically follows that single billing through the ADP Fund is not economically advantageous to the Government.

GAO Response

GSA has had over 10 years experience with Teleprocessing Services' single billing method through the ADP Fund--initially under the National Teleprocessing Services contract and currently under TSP--and agencies receiving such services have been slow in repaying the Fund. GSA's internal auditors reviewed the National Teleprocessing Services contract in 1977 and noted many of the same problems that we have currently reported. Direct billing under TSP MASC was only available from August 1, 1977, through October 1, 1979, for those contractors who chose not to offer the 2.5 percent discount required by GSA to recover cost of administering single billing. We question whether all of the problems in TSP MASC were limited to the two year period when direct billing was available.

GSA Comment

From 10/1/79 through 3/31/82, a total of \$202,724,376 was billed to TSP user accounts. As noted in the audit, a total of \$6,483,072 remained delinquent and uncollected as of 3/31/82. What was not noted was that this amount represented only 3.2 percent of total billings.

GAO Response

We disagree. Uncollected receivables represent reduced cash balances in the ADP Fund. The \$6,483,072 delinquent and uncollected TSP total is over 38 percent of the total accounts receivable balance (\$16,931,731) for the ADP Fund as of March 31, 1982. The magnitude of this cash reduction is significant and has affected other programs supported by the Fund.

GSA Comment

The majority of the regional TSP functions were reduced on May 1, 1980. However, the financial records were not adjusted to reflect the change in actual ADP Fund program assignments. In FY 1981, a total of \$357,807 was recorded as TSP regional costs, the majority of which were actually charges to other programs. While the items should have been corrected, all charges were within the same funding area, and it made no difference to the overall ADP Fund operating results. Had TSP regional costs been properly recorded, administrative costs in TSP would have been considerably

less than discounts received, and would have been more than sufficient to offset the estimated \$78,000 incurred by the Office of Finance in support of the TSP Program. Beyond FY 1981, the additional discounts earned continue to more than offset the costs to administer the program. The allocation of regional support to the TSP Program will be fully adjusted in FY 1983.

#### GAO Response

GSA's error in not properly recording TSP costs for fiscal 1981 is an example of the financial management problems we believe plague the TSP, and indicates a lack of proper accounting controls. The fiscal 1980 ADP Fund financial report also showed a loss for TSP.

#### GSA Comment

No cost benefit study was conducted by GSA before making single billing mandatory. A cost benefit study was not appropriate for a number of reasons:

- a. When the TSP-MASC Program began in 1976, vendors had the option of offering single billing and prompt payment discounts. If the discounts offered equalled or exceeded the estimated 2.5 percent cost of administering the billing, the contract was allowed to flow through the ADP Fund. Where the discounts offered were less than 2.5 percent, the vendors billed the agencies directly. The many problems discovered during GSA's internal audit of these direct billing contractors' invoices provided overwhelming evidence of the need to convert direct billing contractors to single billing through the ADP Fund where invoices would be more carefully reviewed.
- b. In response to ADTS' request, the Inspector General performed a review of the TSP single billing monitoring procedures. In their response to ADTS the Inspector General recommended that the TSP Program would be strengthened if all TSP schedule contracts were converted to single billing through the ADP Fund.
- c. The advantages of single billing so greatly outweighed the minimal advantages of continuing with direct billing that ADTS did not consider the financial aspects of converting direct billing contractors to the single billing method. Accordingly, the requirement to do a cost benefit study in accordance with DTS 2100.1 was waived by Commissioner Puckorius.
- d. Contractors were required to give GSA a single billing discount to offset GSA's costs of administering the single billing mechanism.

GAO Response

We found no record of a waiver by the Commissioner. Official GSA records indicate that Commissioner Puckorius was replaced by the present Commissioner on July 5, 1977. (See app. IV.) TSP single billing through the ADP Fund was not implemented until October 1, 1979. Not only did GSA fail to adhere to its own regulation, in our opinion, it also failed to provide top managers with sufficient data to determine if the financial aspects of TSP single billing through the ADP Fund would be economically advantageous to the Government.

Although contractors are required to give GSA a single billing discount to offset GSA's costs of administering the TSP MASC, GSA's financial records for fiscal 1980 and 1981 reported a loss for TSP.

The ADP Fund is a revolving fund supporting several programs, and the ADP Revolving Fund Financial Management Handbook, DTS P 4210.2, dated April 28, 1981, states that each program funded by the Fund must be self-sufficient. The TSP single billing method, as currently administered, has not been self-sufficient for the past 2 fiscal years.

GSA Comment

Also in their audit report, GAO attributes some of the financial management problems of single billing to GSA's decentralized functional and operational management of the TSP Program. We strongly disagree with this view. Quite the contrary, we believe that this separation of responsibility is a sound management and fiscal practice.

GAO Response

We do not intend to discuss the merits of centralized versus decentralized management. In our view, either can be effective if properly administered.

In the body of our report we indicated that ADTS implemented the single billing method over the objections of GSA finance officials. In addition, ADTS is functionally responsible for administering TSP. Thus, it was tasked to provide comments to our draft report, with input from other GSA activities that have functional responsibility for TSP. We were advised by GSA's National Capital Region Director of Finance, who has functional responsibility for ADP Fund accounts receivable including TSP, that his office did not see our draft report nor was it requested to provide comments.

In our opinion, this is another example of the lack of cooperation and communication between GSA activities that have decentralized functional responsibility for a major program.

GSA Comment

GAO found that of the 51 agencies they visited, most had less than adequate internal controls to verify their TSP invoices. As a result, verification is not being properly done by using activities. GAO also recommended that GSA needs to do more to educate the user community in the verification of TSP invoices.

GSA agrees that many agencies are doing an inadequate job in verifying their TSP invoices. However, the problems with invoice verification would exist under direct or single billing.

To help educate users in how to verify their invoices, GSA continually provides guidance to using activities in such instances as:

1. The TSP Handbook.
2. TSP Reports (monthly).
3. User Group Meetings (quarterly).
4. Special flyers attached to monthly billings to agencies (monthly).
5. Assisting users with billing problems, questions, etc. (daily).
6. Handling credit requests, disputes, etc. (daily).
7. Developing and disseminating the "TSP Semi-annual Report of Invoice Audit Verification" form to all users (semi-annually). Completed audit report forms are returned to the ADP Fund Branch where they are reviewed to determine if agencies are having any problems with their TSP invoices. These forms also provide GSA with feedback on how well or how poorly agencies are verifying their invoices, so that GSA can step up its efforts in issuing additional instructions to agencies for verifying their invoices.

As evidenced by these many publications, GSA issues instructions to users on a continuing basis to advise them of their responsibility to verify their TSP invoices. In the final analysis, however, it is the agency's responsibility to verify all charges on their monthly TSP invoices, in accordance with OMB Circular A-123.

GAO Response

We acknowledged GSA's efforts in providing guidance to using activities in the body of our report. However, we found that not all using activities receive the TSP guidance and, furthermore, we believe more guidance is necessary, such as detailed instructions in verifying invoices. ADTS should ensure that all using activities receive the TSP guidance.

An official in the ADP Fund Branch said that only 15 percent of the TSP users have responded to the "TSP Semi-annual Report of Invoice Audit Verification" requirement. We do not believe this percentage is significant enough for ADTS to determine the kind of problems agencies are having with their TSP invoices.



General Services Administration  
Automated Data and Telecommunications Service

Washington, DC 20405

MAY 24 1982

Mr. Wilbur D. Campbell, Acting Director  
Accounting and Financial Management Division  
General Accounting Office  
441 G. Street, N.W.  
Washington, DC 20548

Dear Mr. Campbell:

During GAO's audit of the TSP program, conducted by GAO Auditors Mr. Clem Cuilik & Ms. Fran Pereira, they noted that the accounts receivable balance was excessive and increasing each month. They also noted, that with decreased staffing, little effective effort was devoted to collecting the ever increasing delinquencies. Taking both my staff members and members of the regional Finance Division in tow, they then met with top officials of the Department of Defense and major civilian agencies to determine what the problems were, how to resolve them, and effect collections. When initial meetings did not achieve desired results, they went back again and again until results were achieved.

Specifically, the auditors:

1. Had a revision made to Title 7 of the GAO regulations to bring it into conformance with 31 USC 686, to effect immediate collections.
2. Had both Army and Navy issue revised regulations concerning payment of TSP invoices.
3. Created liaisons between GSA and other agency officials to assure prompt collections in the future.
4. Affected a turnaround in the accounts receivable balance. Between Jan 1, 1982 and March 31, 1982, the delinquent accounts receivable were reduced by \$4.5 million.
5. Affected changes in our procedures to assure correct billing addresses were used, and that billings were not issued against expired purchase orders.

In summary, they did far more that would normally be expected of auditors. They not only detected the problem, but determined the multiple causes and personally took corrective action. They then ensured the problem would not be repeated by having regulations and procedures changed and created inter-agency liaisons to detect and resolve any future problems.

ADTS, and myself, deeply appreciate this extremely dedicated effort on the part of Mr. Cuilik and Ms. Pereira. I want to personally thank them for this job extremely well done!

A handwritten signature in black ink, appearing to read 'L. Yonker'.

LEONARD YONKER  
Executive Director



General  
Services  
Administration

Washington, DC 20405

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SEP 14 1982

Honorable Charles A. Bowsler  
Comptroller General of the United States  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Bowsler:

On August 20, 1982, we furnished comments on the draft Audit Report entitled "Financial Management Problems Permeate GSA's Teleprocessing Services Program" (Code 913677). A further inquiry by Mr. Anderson, Associate Director, GAO, has revealed that one item in the response should be amended.

Item 7.c. of the detailed comments stated "...the requirement to do a cost benefit study in accordance with DTS 2100.1 was waived by Commissioner Puckorius."

The decision to proceed with single billing for all TSP Multiple Award Schedule Contracts was made by the Executive Director, Mr. Leonard Yonkler, supported by the Commissioner at that time, Mr. Frank J. Carr. However, the development of this policy direction was begun some two years earlier by the Commissioner at that time, Mr. Theodore Puckorius.

We regret the confusion caused by this error in chronology.

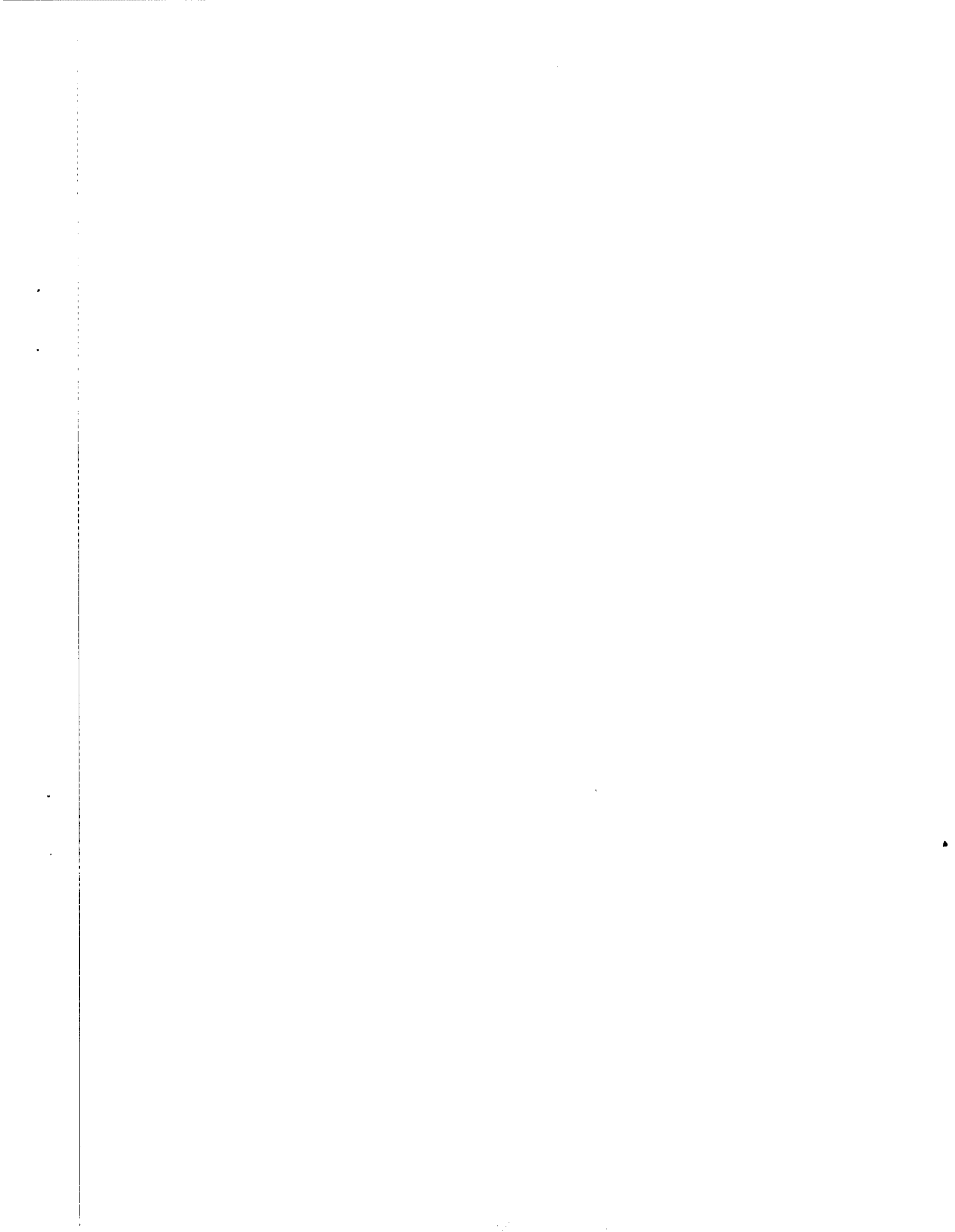
Sincerely,

A handwritten signature in black ink, appearing to read 'Gerald P. Carmen', written in a cursive style.

Gerald P. Carmen  
Administrator

(913677)





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