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TECHNICAL SUMMARY
FINANCIAL MANAGEMENT PROFILE OF THE
OFFICE OF THE SECRETARY
OF THE DEPARTMENT OF HEALTH
AND HUMAN SERVICES

PREPARED
BY THE STAFF
OF THE
U.S. GENERAL ACCOUNTING OFFICE

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FOREWORD

The Office of the Secretary is an organizational component of the Department of Health and Human Services. In fiscal 1982 it received approximately $150 million in budget authority. The Office of the Secretary is responsible for providing overall direction, coordination, and control of program, financial, and administrative functions within the Department.

This technical summary is one of eleven volumes of detailed information that supports the overall Financial Management Profile for the Department of Health and Human Services (AFMD 84-15, April 9, 1984). The technical summaries provide detailed information on the major organization components of the Department of Health and Human Services (the Department), their financial management systems, and major internal control strenghts and weaknesses in these systems.

The financial management profile of the Department and the eleven technical summaries were prepared by GAO as a pilot test of a new audit approach--called Controls and Risk Evaluation (CARE)-- for (1) identifying and describing the financial management systems used by an agency and (2) assessing and ranking the internal control strengths and weaknesses of the systems. This analysis is based on reviews of available systems documentation, discussions with agency personnel, and reviews of prior GAO and Inspector General reports. Tests were not performed on actual information processed by and recorded in the systems, therefore, conclusions cannot be reached about whether the systems' internal controls were actually operating as designed.

The information in this technical summary is intended for use in:

--planning future tests and evaluations of the accounting and financial management systems at the Office of the Secretary.

--monitoring the Office's efforts to implement the Federal Managers' Financial Integrity Act of 1982, and

--supporting and enhancing the understanding and application of the CARE-based methodology by designers, operators, and evaluators of agency accounting and financial management systems.

This technical summary provides a description of the financial management structure of the Office of the Secretary. Three financial management systems form the financial management structure of the Office. These systems are used to (1) control appropriated funds and other resources; (2) authorize the use of funds and other resources; and (3) capture, record, process, and summarize financial information related to the execution of budget authority. This summary also provides a detailed analysis of the three systems and identifies specific internal control strengths and weaknesses for each system.

The Office of the Secretary also operates 11 Department-wide financial management systems. The internal control strengths and weaknesses related to seven of the Department-wide systems are discussed in this summary. The internal control strengths and weaknesses for the Department-wide Budget, A-11 Budget, Personnel/Payroll, and the Regional Accounting systems are discussed in separate technical summaries.

During the survey, agency officials were briefed. The summary was provided to cognizant agency officials for their review and comment. Agency comments were considered and appropriate changes were made in preparing this summary. The assistance and cooperation of agency management enhanced the successful completion of the work. The results of the survey will be used by GAO as the basis for planning future reviews of the Office of Secretary's financial management systems to ascertain if they conform to the Comptroller General's principles and standards. This summary is being provided to the Office to assist it in its continuing efforts to improve financial management.

C o n t e n t s

THE OFFICE OF THE SECRETARY--
ITS RESPONSIBILITIES, ACTIVITIES,
AND FINANCIAL MANAGEMENT STRUCTURE

The Office of the Secretary provides overall direction; coordination; and control of program, financial, and administrative functions and operations within the Department of Health and Human Services. In fiscal 1982, the Office of the Secretary's budget authority was approximately $150 million and it employed over 4,000 individuals.

Based upon our review and evaluation of available documents, and through discussions with agency officials, we ascertained that the Office of the Secretary's financial management structure is comprised of three systems. These systems, taken together, authorize payments, control assets and liabilities, record and control receipts, provide for administrative control of the Office of the Secretary's spending authority, and produce internal and external financial reports. The Office of the Secretary also operates 11 Department-wide financial management systems. These systems process budget, personnel, payroll, grant and contract transactions, and all financial transactions relating to the Department's 10 regional offices.

In assessing the internal control strengths and weaknesses of the three systems which comprise the Office of the Secretary's financial management structure, we determined that controls appear adequate to ensure that the Office's spending authority is not exceeded. We also determined, however, that the system for personal property appears inadequate to provide needed accountability and control over personal property and to ensure that property already on hand is considered when making procurement decisions.

In assessing the internal control strengths and weaknesses of the Department-wide systems, we ascertained that controls in these systems need improving to fully protect the resources of the Department. The internal control strengths and weaknesses related to seven of the Department-wide systems are discussed in this summary. The internal control strengths and weaknesses for the Department-wide Budget, A-11 Budget, Personnel/Payroll, and the Regional Accounting systems are discussed in separate technical summaries.

The Department does not use a central Department-wide accounting system to account for total assets, liabilities and appropriated funds. The Department, however, recognized the need for a Department-wide accounting system and has initiated three Department-wide projects to enhance its financial management systems. These projects are in various stages of completion and, therefore, were not reviewed during the survey. These enhancement efforts are discussed in more detail on pages 29-32.

Appendix I discusses the objectives, scope, and methodology used in applying the Controls and Risk Evaluation audit approach to

identify the financial management structure of the Office of the Secretary. Appendix II lists the internal control strengths and weaknesses we identified in the financial management systems; appendix III shows the interrelationship of these systems; and appendix IV contains agency comments. These comments were considered, and where appropriate, changes were made in preparing this summary.

RESPONSIBILITIES OF THE OFFICE OF THE SECRETARY

The Secretary of the Department of Health and Human Services advises the President on health, welfare, and income security plans, policies, and programs of the federal government. The staff of the Office of the Secretary sets policies and procedures to guide the organizational components of the Department in carrying out the programs and activities of the Department. The Department's programs are administered through four major operating components;

--Health Care Financing Administration,

--Office of Human Development Services,

--Public Health Service,[1] and

--Social Security Administration.

The Office of the Secretary is responsible for providing (1) leadership, policy, and administrative guidance to all Departmental components to ensure the successful accomplishment of the Departmental goals and missions; (2) financial services to Departmental components; and (3) certain services relating directly to the public.

OFFICE OF THE SECRETARY ORGANIZATIONAL STRUCTURE

The Office of the Secretary's organizational structure includes the immediate Office of the Secretary and 13 organizational units. A brief description of each organizational unit follows:

--Office of Deputy Undersecretary for Intergovernmental Affairs represents the Secretary with other governmental units to include the Office of the President, state, and local governments.

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[1]The Public Health Service is comprised of five organizational entities--The Alcohol, Drug Abuse, and Mental Health Administration, Health Resources and Services Administration, and National Institutes of Health, Center for Disease Control, and Food and Drug Administration.

--Office of General Counsel is the legal advisor to the
  Secretary and provides legal services related to the
  management of the Department.

--Office of Assistant Secretary for Management and Budget
  formulates Department-wide policy for budget, finance,
  grants, procurement, and management information systems.
  This Office operates the (1) Department-wide Budget Systems;
  (2) Department-wide Departmental Federal Assistance Financ-
  ing System which advances cash to contractors and grantees
  and receives and records expenditure reports; (3) Depart-
  ment-wide Working Capital Fund System which controls costs
  related to equipment rental, printing, and data processing
  services, and (5) maintains the Department's inventory of
  ADP application systems.

--Office of Assistant Secretary for Public Affairs oversees
  the planning and execution of communication activities
  throughout the Department, provides information on Depart-
  mental actions and purposes to appropriate audiences, and
  administers the Department's Freedom of Information Act and
  Privacy Act compliance activities.

--Office of Assistant Secretary for Planning and Evaluation
  provides leadership and policy direction for Departmental
  planning and evaluation activities including hospital cost
  containment and long-term care.

--Office of Assistant Secretary for Legislation develops the
  Department's legislative program.

--Office of Assistant Secretary for Personnel Administration
  plans and implements policy for personnel management, train-
  ing, career development, and equal employment opportunity
  and operates the Employee System Center. This office also
  operates a Department-wide Central Personnel/Payroll System.

--Directors of the Department's 10 Regional Offices represent
  the Secretary of Health and Human Services in the field,
  coordinate media and intergovernmental relations in the
  field, assess service delivery for Departmental programs,
  and resolve problems involving staff or major Departmental
  components assigned to field offices. These offices operate
  the automated Regional Accounting System.

--Office of Inspector General reviews the Department's pro-
  gram, financial, and administrative operations to ensure
  that (1) operations conform to required legislation, (2)
  spending authority is not exceeded, (3) financial results of
  operations are accurately reported, (4) resources are safe-
  guarded against fraud, waste, and abuse, and (5) operations
  are carried out efficiently, effectively, and economically.

--Office of Civil Rights develops, implements, and operates the Department's civil rights and non-discrimination enforcement programs.

--Office of Consumer Affairs represents consumers in the federal government, and its director is also a special assistant to the President. The Director is assigned to the Department for administrative support only and does not report to the Secretary of the Department.

--Office of Policy Research researches activities to develop new policy initiatives and improve existing Departmental programs.

--Office of Community Services administers community services project grants which had been administered by the Community Services Administration.

FINANCIAL MANAGEMENT STRUCTURE OF THE OFFICE OF THE SECRETARY

Three automated systems operated and maintained by the Office of the Secretary control the receipt of funds, make payments, control assets and liabilities, and control appropriated funds. These systems, taken together, form the financial management structure of the Office of the Secretary. A brief description of each system follows.

--Office of the Secretary's Accounting System maintains the Office of the Secretary's general ledger accounts, records the financial results of program and administrative operations, produces internal and external financial reports, and controls the Office of the Secretary's spending authority. This system also maintains the general ledger accounts and controls the spending authority for the Offices of Human Development Services and Community Services.

--Working Capital Fund System accounts for bills and controls costs related to services rendered and goods provided the Department's organizational components and other federal agencies--primarily data processing services.

--Office of the Secretary Property System maintains inventory records for and controls personal property held by the Office of the Secretary and its immediate staff offices.

Eleven Department-wide automated financial management systems are operated by the Office of the Secretary and they provide services Department-wide to all organizational components within the Department. A brief description of each system follows.

4

--Budget Information System prepares the Department's annual
  budget request based on information provided by the four
  major organizational components. This system records all
  changes made to the request by the Office of Management and
  Budget, the President, and the Congress. The operations of
  the Budget Information system and related internal control
  strengths and weaknesses are discussed in the Budget Infor-
  mation System technical summary.

--A-11 Budget System records financial data Department-wide on
  various categories such as capital investment, personnel,
  and equipment to satisfy OMB Circular A-11. The system's
  operations and related internal control strengths and weak-
  nesses are discussed in the Budget Information System tech-
  nical summary.

--Central Personnel/Payroll System computes, disburses,
  accounts for, and controls all salary payments made to the
  Department's employees. It provides summary cost informa-
  tion to the Department's eight general ledger/administrative
  control of funds systems as well as producing required per-
  sonnel and payroll reports. The operations of the system
  and related internal control strengths and weaknesses are
  discussed in a separate technical summary.

--Regional Accounting System records and maintains administra-
  tive control of funds and reports financial information to
  the Office of the Secretary, HCFA, and various PHS compo-
  nents for updating their general ledger accounts. The sys-
  tem operations and related internal control strengths and
  weaknesses are discussed in a separate technical summary.

--Departmental Federal Assistance Financing System accounts
  for, controls, and makes most cash advances to states, local
  governments, schools, and nonprofit medical research
  activities under terms of grants, contracts, loans, and
  other financial agreements.

--Central Registry System maintains the Department-wide file
  of all organizations and individuals who are authorized to
  receive payment from the Department under a contract, grant,
  loan, or other financial agreement.

--Division of Data Processing Billing and Reporting System
  provides data processing services and equipment to all
  organizational components within the Department and other
  federal agencies. Each month users of the system are billed
  for services rendered and goods provided.

--Department Contracts Information System accumulates Depart-
  ment-wide statistical information on all federal contracts.
  Data gathered is used to comply with federal procurement
  reporting requirements (Public Law 93-400).

--Outlay Analysis Tracking System records the amount of actual expenditures Department-wide and compares them to the spending authority to ensure that organizational components do not exceed their authorized spending levels. Data gathered and reported is required by OMB Circular A-112 which requires the Department to monitor its outlays.

--Owned Detail File records and maintains the Department-wide inventory of all owned real estate and facilities. Data maintained is used to comply with the General Services Administration (GSA) reporting requirements.

--Financial Assistance Reporting System receives and processes financial information relating to programs in the OMB Catalog of Federal Domestic Assistance Programs, to include miscellaneous administrative expenses and all obligations recorded in the Department's eight general ledger systems. The system prepares quarterly and annual reports for the Office of Management and Budget to satisfy the requirements of the newly enacted (1983) Consolidated Federal Funds Report, to satisfy Departmental Management needs, and to have a centralized source of information available for rapid response to Congress, other government agencies, and the general public.

FINANCIAL MANAGEMENT SYSTEMS OPERATED BY THE OFFICE OF THE SECRETARY

As previously discussed, the Office of the Secretary operates three internal financial management systems and 11 Department-wide financial management systems. In this section, we will discuss the inputs, processing, outputs, and internal control strengths and weaknesses of the Office of the Secretary's Accounting System, Working Capital Fund System, and the Property Accounting System.

Office of the Secretary Accounting System

The Office of the Secretary Accounting System maintains the general ledger accounts for the Office of the Secretary, the Office of Human Development Services, and the Office of Community Services. This system provides for the administrative control of funds and required financial reports. In fulfilling the internal needs, the system also produces financial information required by the Department of Treasury, Office of Management and Budget, and Department of Commerce. In addition, to affect payment of authorized expenditures, the Department's Division of Accounting Operations manually prepares a voucher on Form 1166 and submits the voucher to the Treasury, which in turn prepares and issues the appropriate checks.

System overview

The Office of the Secretary Accounting System operates on an IBM 4341 computer located in the Hubert Humphrey Building, Washington, D.C. This system maintains the general ledger and a series of automated files to record, control, and report financial information. The Office of the Secretary Accounting System provides accounting support to the Offices of Human Development Services and Community Services. Financial transactions reported are entered into the Office of the Secretary Accounting System.[2] This system interfaces with the Departmental Federal Assistance Financing System, Departmental Central Personnel/Payroll System, Regional Accounting System, and the Working Capital Fund System. A brief discussion of system inputs, processing, outputs, and related internal control strengths and weaknesses follows:

System inputs

The Office of the Secretary Accounting System receives inputs daily, bi-weekly, and monthly. Daily transactions (like purchase orders, travel orders, and grant awards) are received from the Office of the Secretary activities, Office of Human Development Services, and Office of Community Services. These transactions are on hard copy documents and entered into the Office of the Secretary's Accounting System by computer terminal.

Bi-weekly transactions, like payroll costs, are received from the Departmental Central Payroll System which is operated by the Office of the Assistant Secretary. Information received is in the form of magnetic tapes which are entered directly into the Office of the Secretary's Accounting System. In addition, monthly transactions on grants, advances, and expenditures are received in the form of magnetic tapes from the Departmental Federal Assistance Financing System and the Regional Accounting System.

System processing

As input data is received from the Office of Secretary's activities, Office of Human Development Services, Office of Community Services, and the Departmental systems, it is held pending initiation of the daily processing routine.

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[2]Information is entered into the Frontend Data Acquisition System, a subsystem of the Office of the Secretary Accounting System, from hard copy. This information is batched, transcribed onto magnetic tape, and then entered into the Office of the Secretary's Accounting System.

Access to the Office of the Secretary Accounting System and its files is gained through computer terminals and is controlled by a system of user passwords and transaction codes. The user passwords identify individuals authorized to use the system. If the terminal operator does not have a valid user password, he or she will not be permitted to enter or retrieve data from the system. The transaction code controls the items of information that can be entered into the system and its files. Based on the transaction codes which are entered into the system through the computer terminal, the Office of the Secretary Accounting System will prompt the terminal operator for the required transaction information. The system recognizes about 173 transaction codes.

Once the processing cycle has begun, the data is subject to about 56 different types of edit checks. The first basic type of edit is the batch validation check to ensure the accuracy of data. For example, batches are checked to ensure that the total dollar amount for all transactions in a batch equals the sum of dollar amounts of individual transactions in the batch. Another type of edit is the detail format edit. For detail format edits, the system reviews all the data fields, for example, to ensure that information entered in a numeric field contains only numeric characters. If errors are detected that cannot be corrected immediately, the transactions are rejected and written on a rotating error file. Rejected transactions are sent to the Department's Division of Accounting Operations to be corrected by accounting technicians. After errors are corrected, the corrected transactions are reentered into the system.

System Files

The Office of the Secretary Accounting System uses 13 automated files to validate information. A brief description of each file follows:

--General Ledger File contains all the general ledger accounts which reflect the assets, liabilities, government equity, expenses, and income for all appropriations.

--Document Summary File contains the status of a document maintained in the status code fields within the document summary record.

--Common Account Number Summary File contains summary of accounting transactions such as obligations, appropriations, allotments, receivables, advances, disbursements, etc., to assist in the management and control of funds.

--Allotment Summary File verifies funds availability.

--Accepted Transactions Log File contains transactions which passed all validation tests.

--Transactions History File contains all accepted transactions by the system and the master summary records.

--Transactions Code Table File cross-references each transaction in the system to the appropriate general ledger accounts.

--Descripter Table File allows the retrieval of various transaction codes used by the system.

--Rotating Error File contains all rejected transactions and ensures that transactions are processed in a timely manner.

--General Ledger Balance File contains summary information for the general ledger report.

--Obligating Ledger Balance File contains total obligations, disbursements, accrued liabilities, undelivered orders, and unfunded costs.

--Cost Report Balance File contains planned versus actual cost data for each line on the cost report.

--Cost Center Cost and Performance File maintains information to be used to prepare the cost performance reports.

System outputs

The Office of the Secretary Accounting System produces about 26 reports which are prepared either monthly, quarterly, semi-annually, or annually. Examples of these reports are the:

--Report on Budget Execution which is prepared and submitted to the Office of Management and Budget monthly.

--International Transactions of the Federal Government report which is prepared and submitted to the Department of Commerce quarterly.

--Statement of Financial Condition Report which is prepared and submitted to the Department of the Treasury semi-annually.

--Year-end Closing Statement Report which is prepared and submitted to the Department of the Treasury annually.

Internal control strengths
and weaknesses

Internal controls in the Office of the Secretary Accounting System appear adequate to ensure that financial information on the results of programs and administrative operations are completely and accurately recorded and the spending authority for the Office of the Secretary, Office of Human Development Services, and Office of Community Services is not exceeded. The key internal control strengths are:

--User passwords to identify individuals authorized to enter
transactions into the system and screen-out unauthorized
system users.

--Transaction codes to limit the kinds of information that can
be posted to the automated files.

--Computer edits of transactions to verify the completeness
and accuracy of transactions and reject incomplete,
inaccurate, and invalid transactions.

--An error rotating file to prevent erroneous data from
entering into the system and also to ensure that rejected
transactions are processed by the system in a timely manner.

The Working Capital Fund System

The Working Capital Fund System accounts for funds received
from the Department's organizational components and other Federal
agencies for goods provided and services rendered such as data pro-
cessing services, equipment rentals, and printing by the Government
Printing Office and the Department. This system interfaces with
the Division of Data Procesing (DDP) Billing and Reporting System
and the Office of the Secretary's Accounting System. A brief dis-
cussion of the system inputs, processing, outputs, and related
internal control strengths and weaknesses follows.

System inputs

The Working Capital Fund System receives inputs from

--Division of Data Processing (DDP) Billing and Reporting
System,

--Offices within the Office of the Secretary, and

--Other federal agencies.

The DDP Billing and Reporting System provides the Working
Capital Fund System with a magnetic tape each month of cost
information for goods rendered and services provided to users of
Departmental ADP services. The users of ADP services include
offices within the Department and other federal agencies such as
the U.S. Customs and Internal Revenue Service. Offices within the
Department receive monthly charges on a voucher which they certify
as to the accuracy of the charges and return to the Working Capital

10

Fund System. Other federal agencies also receive a monthly
statement of charges on a voucher and they return the voucher along
with a check for the amount billed. These transactions are entered
into the Working Capital Fund System by computer terminal.

System processing

The Working Capital Fund System is run on an IBM computer
located in Washington, D.C. Access to the Working Capital Fund
System and its files is controlled by a system of user passwords
and transaction codes. The user password identifies individuals
authorized to use the system. If the terminal operator does not
have a valid user password, he or she will not be permitted to
enter or retrieve information. The transaction codes control the
items of information that can be entered into the system and its
files. Based on the transaction codes entered, the system will
prompt the terminal operator for the required transactions. The
system recognizes about 16 transaction codes.

Transactions entered into the Working Capital Fund System are
reviewed and verified before they are accepted and stored by the
system. Overall, the Working Capital Fund System performs about 17
edit checks. For example, the system checks to ensure that costs
recorded are comprised of all numeric characters and that the docu-
ment number is valid.

If errors are detected, the transactions are rejected from
further processing and an error report is printed. The report is
forwarded to the Department's Division of Accounting Operation,
Accounts Receivable Branch for correction. After corrections are
made, the transactions are reentered into the system.

System outputs

The Working Capital Fund System produces about six reports.
Three examples of these reports are:

--Activity report showing all activity for the accounting
  period.

--Report of estimated Working Capital Fund income for goods
  and services in process.

--Report of actual Working Capital fund income for goods and
  services delivered.

Internal control strengths
and weaknesses

Internal controls in the Working Capital Fund System appear
adequate to ensure that revenues and accounting adjustments are
accurately and completely entered into the system and its files.
The key internal control strengths of the system are:

--User passwords to identify individuals authorized to use the system.

--Transaction codes to limit the kinds of information that can be posted to the system files.

--Computer edits to verify the validity, completeness, and accuracy of transaction information and to reject incomplete, inaccurate, and invalid transactions.

The Property Accounting System

The Property Accounting System is an automated system designed to maintain and control inventory records for all personal property items held by the Office of the Secretary and its staff offices. New items purchased are assigned decal numbers and are logged manually before they are entered into the Property Accounting System. Financial information is separately entered into the Office of the Secretary Accounting System for updating the general ledger accounts. A brief discussion of the system inputs, processes, outputs, and related internal control strengths and weaknesses follows.

System inputs

Initial requests for personal property are made by individuals within the Office of the Secretary and its staff offices. A request is prepared and sent to either the Director, Administrative Services or the Chief, Materials Management Branch for approval. Once approved, depending on the type of property requested, the procurement branch prepares the purchase order. Copies of the purchase order are sent to the Office of the Secretary Accounting System for posting to the general ledger accounts, vendor for ordering of property, and warehouse for review when goods are received. Information is not entered into the system to track and control property items on order.

When property is received, it is checked for damages, quantity, and correctness at the warehouse. If no problems are found, the property is accepted and assigned decal numbers, and the individual who requested the property is notified. The shipping invoice is signed by the property officer and copies are sent to the Office of the Secretary Accounting System for independent entry into the general ledger accounts and to the Materials Management Branch for recording on manually maintained worksheets. Periodically, data on the worksheets are entered into the property accounting system via computer terminals.

System processes

The Property Accounting System is run on an IBM 370 located in Washington, D.C. Access to the Property Accounting System and its files is controlled by a system of user passwords and transaction codes. The system recognizes about 20 transaction codes.

12

Information entered into the Property Accounting System is reviewed for completeness and accuracy by a series of computer edit checks. For example, the system checks numeric data fields to ensure that information stored consists of only numeric characters. If errors are detected, they are printed on an error listing report and submitted to the Material Branch for corrections. After corrections are made, the transactions are reentered. If no more errors are found, the transactions are then accepted and stored in the Property Accounting System.

The system maintains three main files--master catalog, detailed transaction, and voucher master files. The master catalog file shows property items by index number, account code, source code, federal stock number, and life expectancy. The voucher master file shows property items by acccountable area code, account code, transaction code, location code, and decal number. The transaction file shows property items by description, sub-object class code, and federal stock number.

Property items that are no longer needed by the Office of the Secretary and its staff offices are transferred to the General Services Administration. Staff in the Office of the Secretary prepares a request form (Excess Personal Property Form) to disclose as excess property items which are no longer needed and submits it to the procurement branch. This form is then forwarded to the General Services Administration. Once the General Services Administration has sent disposition instructions to the Department, a transfer order/excess personal property form is prepared and submitted to the procurement office within the Office of the Secretary. A copy of that form is also posted to the Property Accounting System and the Office of the Secretary Accounting System to update property records and general ledger accounts.

System outputs

Information accepted and stored by the system is used to generate about 17 reports. Ten of the 17 reports are error listings and summary reports. Three examples of these reports are:

--Edit reject listing report,

--Master decal register report, and

--Closing inventory of capitalized assets reports.

Other concerns

The Property Accounting System does not maintain information on the status of items--idle or in use--within the Office of the Secretary. Such information could be useful to assist managers in determining where needed items can be obtained before issuing a requisition for the purchase of new property items.

13

A physical inventory for the Office of the Secretary and its staff offices is accomplished each year. The purpose is to maintain a current log of all personal property. This information is kept by the Property Accounting System. The last complete physical inventory was conducted in December 1982. According to the Chief, Materials Management Branch, physical inventory is taken by location throughout the calendar year and is completed by December 31 of that year. However, the chief is not certain whether the Property Accounting System and the accounting records are reconciled to the general ledger property control accounts on the Office of the Secretary Accounting System. Even though the Property Accounting System produces monthly reports which are provided to the Division of Accounting for reconciliation purposes, the reports are not used.

Internal control strengths and weaknesses

Internal controls in the Property Accounting System appear inadequate to provide needed assurance to management that personal property is not lost, stolen, or improperly used. The internal control strengths and weaknesses follow.

The key internal control strengths are user passwords and transaction codes to identify individuals authorized to enter data into and retrieve data from the system and to control the specific items of information entered into the system.

The internal control weaknesses are:

--Information is not entered into the system in an efficient manner. Information on property items received is logged on worksheets before being entered into the Property Accounting System.

--Data is not captured and recorded on individual property items, such as, the status of an item idle or in-use. This information could assist managers in making procurement decisions.

--No rotating error file is maintained to ensure that rejected transactions are corrected and resubmitted for computer processing in a timely manner.

--No reconciliation is made between the Property Accounting System and the Office of the Secretary Accounting System.

DEPARTMENT-WIDE FINANCIAL
MANAGEMENT SYSTEMS OPERATED
BY THE OFFICE OF THE SECRETARY

In addition to the three internal financial systems discussed above, we also identified 11 Department-wide financial systems that are operated by the Office of the Secretary. The inputs,

processing, outputs, and related internal control strengths and
weaknesses for the Department-wide Budget Information, A-11 Budget,
Personnel/Payroll, and the Regional Accounting systems are
discussed in separate technical summaries. The following sections
discuss the specific operations of the other seven Department-wide
systems.

Departmental Federal
Assistance Financing System

The Departmental Federal Assistance Financing System (DFAFS)
is the Department-wide automated system which (1) makes cash advan-
ces to states, local governments, schools, and nonprofit medical
research activities under terms of grants, contracts, loans, and
other financial agreements and (2) accepts and records expenditure
reports from recipients of advance Federal cash. This system makes
cash advances based on obligations established by the Department's
organizational components that award grants, contracts, loans, or
other financial agreements.

In December 1979, in a report entitled "HEW Must Improve
Control Over Billions in Cash Advances," (FGMSD-80-6) we stated
that serious internal control weaknesses existed within the
system. The report recognized the Department's effort to
redesign the system to include essential controls and recommended
several actions to improve those controls. The Department's
development effort is still underway and according to Department
officials it is currently anticipated that a new system should be
implemented during fiscal 1984.

System overview

The Department's organizational component accounting systems
such as the Health Care Financing Administration's Accounting,
Reporting and Tracking (HART) System, Regional Accounting System,
and the Departmental Federal Assistance Financing System operate on
an interchange of magnetic data tapes. These tapes have a standard
format for data elements. The Departmental Federal Assistance
Financing System uses the tapes to record the initial obligation or
any obligation adjustment for any grant, contract, loan, or other
financial agreement that is also recorded in the organizational
component accounting systems. DFAFS records all cash advances and
other subsequent transactions relating to grants, contracts,
loans,or other financial agreements based on reports from the
Treasury Department. DFAFS also records expenditures of advanced
cash reported by holders of grants, contracts, loans, or other
financial agreements. Monthly, DFAFS prepares magnetic tape files
of cash advances, expenditures, and the financial status of the
grants, contracts, loans, or other financial agreements and sends
them to the Departmental organizational component accounting
systems.

A brief discussion of payment methods, system inputs, process-
ing, outputs, and related internal control strengths and weaknesses
follows.

15

Payment methods

Treasury's Fiscal Requirement's Manual provides for two methods federal agencies may use to advance cash under grants, contracts, loans, and other financial agreements. These methods are the:

--Direct Treasury check method whereby agency officials request the Treasury to draw a check.

--Letter-of-credit method whereby agency officials specify the amounts and timeframes so that organizations can withdraw funds as needed from a federal reserve bank.

The Letter-of-Credit method is the most frequently used method. Treasury instructs federal agencies to extend letters-of-credit to all eligible recipients. Our report dated December 1979, stated that not all eligible recipients had been extended letters-of-credit.

System inputs

DFAFS receives input data daily, weekly, monthly, and quarterly. Daily, DFAFS receives contract and grant obligation data from each organizational component of the Department. Weekly, DFAFS receives a magnetic tape, from Treasury showing the amounts of cash drawdowns that have occurred under the letter-of-credit payment method and amounts of cash advances made by the direct Treasury check method. Monthly and quarterly, DFAFS receives Federal Cash Transaction reports from each recipient. The reports indicate the amount of funds that each recipient has drawn and expended during the period. Information is entered into DFAFS by computer terminal.

System processing

DFAFS is run on an IBM 370 located in Bethesda, Maryland. Access to DFAFS and its files is controlled by a system of user passwords and transaction codes. The user password identifies individuals authorized to use the system. The transaction codes control the items of information that can be entered into the system and its files. The system recognizes about 930 transaction codes.

Obligation information entered into DFAFS is reviewed for completeness and accuracy by a series of computer edit checks. For example, transactions are reviewed for possible errors against the financial information maintained on the payee summary file prior to being processed. If errors are detected in transactions, the transactions are rejected from further processing, written onto a rotating error file, and printed out on an approriate error report by computer terminal to inform the terminal operator what is wrong with the transactions.

The rotating error file helps ensure that rejected transactions are corrected and reentered for processing in a timely manner. DFAFS compares all transactions entered by computer terminal to the rotating error file prior to accepting transactions for processing. Rejected transactions that are corrected and are submitted for reprocessing are removed from the rotating error file.

DFAFS performs about 180 edit checks such as ensuring that awards are recorded to the detail award file. Grant, contract, loan, and other financial agreement obligation, cash advance, and expenditure transactions are all subjected to the same edit checks.

System files

DFAFS uses 15 different master files to control and record transactions. A brief description of each follows.

--Detail Awards File is the prime DFAFS file. It contains data at the lowest level of detail, for example the individual award by fiscal year plus summary data.

--Rotating Error File contains all transactions which have failed edits.

--Characteristics File contains all administrative data identifiable to a specific payee institution located in a separate file. This file validates the financial data maintained on the Payee Summary File, Detail Awards File, and Detail Payments File during the file updates. For example, the file checks to ensure that award information is accessed during the daily edits to ascertain that the payee data is contained within the system.

--Payee Summary File is a temporary storage file of the payee information used in daily operations. This file facilitates the processing of cash requests on a daily basis allowing the schedule of payments to be sent to Treasury after the next cycle has completed.

--Detail Payment File contains data records concerning payments from cash requests, letter-of-credit payment vouchers, and individual payments.

--Key File contains valid payment identification numbers to verify grantees, contractor, and loan recipient identification numbers. Daily transactions originating within the agency accounting systems contain only entity identification numbers. Most DFAFS files are keyed on payment identification numbers, therefore the key file must be used to determine if a valid payment identification number exists for the entity identification number.

--Reformatted Transaction File is an output of daily pre-edits such as fiscal year and the transaction date. It contains all valid transactions that have been reformatted to allow for subsequent processing.

17

--<u>Tables File</u> helps to pinpoint errors during the edit process cycle. The errors are recorded on the rotating error file. The tables file is used, for example, to verify that a transaction contains the correct transaction code and that all data is recorded within the correct field.

--<u>Audit Trail File</u> contains transactions which have been successfully posted against the detail awards file, the detail payment file, and the payee summary file.

--<u>Characteristics Name Index File</u> lists identification number for each contractor, grantee, and loan recipient.

--<u>Payment Identification Number File</u> contains a nine position code identifying an organization by its Internal Revenue Service assigned employer identification number or an individual by his/her social security number.

--<u>Document Payment Identification Number File</u> serves as an inquiry file. It contains award information when the payment identification number and employee identification numbers are unknown.

--<u>Bank File</u> contains, for each letter of credit recipient organization, a record that includes the recipients' payment identification number, name, and address data for the recipients commercial bank.

--<u>Parent Payment Identification Number File</u> contains information on the number of grants and contracts that have been awarded to each state.

--<u>Combined Daily Transaction File</u> contains transactions which have been edited and otherwise validated and posted to the DFAFS files.

DFAFS records, accounts for, and reports on cash advances for more than 190,000 grants, contracts, loans, and other financial agreements. DFAFS is designed to record, account for, and report as though all cash advances are made from a "cash pool" of all Department appropriations. Under this approach, DFAFS does not record cash advances by individual grants, contracts, loans, or other financial agreements but records cash advances as coming from the cash pool and ensures that total cash advances do not exceed the total pool amount. The Department relies on the Treasury Department to ensure that individual holders of grants, contracts, loans or other financial agreements do not exceed their cash advance priviledges under individual letters-of-credit.

System outputs

The DFAFS produces magnetic tapes and hard copy reports. The magnetic tapes are distributed to the Departmental organizational components' accounting systems to post cash advance and expenditure

information to general ledger accounts. The reports are submitted to grantees, Treasury, and managers in Departmental organizational component groups. Two examples of the reports are:

--Closed award documents purged from DFAFS reports.

--Summary of advances and expenditures reports.

Internal control strengths
and weaknesses

The internal controls in DFAFS appear inadequate to efficiently make payments and control funds of all the Department's recipients of federal grants, contracts, and loans. The specific internal control strengths in DFAFS are:

--User passwords to identify individuals authorized to enter information into the system and screen out unauthorized system users.

--Transaction codes to limit the kinds of information that can be posted to the DFAFS files.

--Computer edits of transactions to verify the completeness and accuracy of transactions and reject incomplete, inaccurate, and invalid transactions.

The key internal control weaknesses in the system are:

--Federal Cash Transaction Reports are received too late to identify excess federal funds in the hands of recipients.

--DFAFS does not manage cash but relies on the Federal Cash Transaction reports to determine if advances were applied to grants in excess of authorizations.

--The Department's cash management system does not have controls to ensure that a grantee, contractor, or loan recipient does not receive advances in excess of its authorized funds.

--DFAFS had not extended letters-of-credit to all eligible recipients.

Central Registry System

The Central Registry System (CRS) is an automated system designed to maintain the Department-wide file of all organizations and individuals who are authorized to receive payments for goods provided and services rendered. The system contains recipients of the Department funds by name, address, geographic location, and IRS Employer Identification Number (EIN) for organizations and Social Security Number (SSN) for individuals.

CRS provides information to all activities of the Department that are involved in the advancing and disbursing of federal funds. A brief discussion of system inputs, processing, outputs, and related internal control strengths and weaknesses follows.

System inputs

Daily, the Department's organizational components submit grant, contract, and loan award documents directly to the Central Registry System via computer terminals. Offices without computer terminals submit information to a parent office which has a terminal or, if no parent office is involved, it is sent directly to the Central Registry System Staff on the Central Registry Entity Information Form. The information which is captured from the Central Registry Entity Information Form includes name, address, geographic location, entity types, and Social Security Number or IRS Employer Identification Number.

System processing

The Central Registry System is run on an IBM 370 computer located in the Department's North Building, Washington, D.C. Access to the system and its files is controlled by a system of user passwords and transaction codes. The user password identifies individuals authorized to use the system. The transaction codes control the items of information that can be entered into the system and its files. The system recognizes about 25 transaction codes. The system maintains primarily a master file which includes data fields such as mailing addresses, zip codes, and states.

Information entered into the Central Registry System is checked for completeness and accuracy by a series of computer edit checks. These edits, for example, check to ensure that the mailing address contains all alpha/numeric characters. Overall, the Central Registry System performs about seven edit checks. If errors in a transaction are detected, the transaction is rejected from further processing and an error message is printed out on the computer terminal to inform the terminal operator what is wrong with the transaction. Only the transactions which pass all computer edit checks are posted to the master file.

The Department organizational components submit information into the Central Registry System. Components are responsible for providing accurate and complete information. The information in the system is only as accurate and complete as the source data. The system master file is purged yearly to the extent that the Central Registry staff determines that the files contain entities that are no longer needed by users of the system.

System outputs

Annually, the Central Registry System produces a computer magnetic tape for publication of the central registry directory.

Weekly, the edit/update program is processed and magnetic tapes are created and sent to the users of the system.

Internal control strengths
and weaknesses

Internal controls in the Central Registry System appear adequate to provide a yearly directory to users of the system. The key internal control strengths are:

--User passwords to identify individuals authorized to enter transactions into the system and screen óut unauthorized system users.

--Transaction codes to limit the kinds of information that can be posted to the Central Registry System master file given the type of transaction being processed.

The key internal control weaknesses are:

--Data in the Central Registry System is only as good as the data submitted by the organizational components.

--Specific dates for purging the Central Registry System files have not been established. This decision is made arbitrarily. A system should have definitive dates when its files should be purged. If not, data stored could be used to make unauthorized payments.

Division of Data Processing (DDP)
Billing and Reporting System

The DDP Billing and Reporting System is an automated system designed to record data on charges incurred for data processing services provided to Offices of the Secretary, other offices within the Department, and other federal agencies. This system bills customers monthly for goods provided and services rendered such as computer processing, equipment rental, data preparation such as keypunch and key-to-disk, microfilm and microfiche recording, and supplies. A brief discussion of system inputs, processing, outputs, and internal control strengths and weaknesses follows.

System inputs

The Department organizational components and other federal agencies which have an account with the DDP Billing and Reporting System for ADP related services, like computer usage, generate magnetic tapes on a weekly basis. Also, equipment, supplies, and other services provided to these offices are recorded by the staff in the DDP Billing and Reporting System. Information entered into the DDP Billing and Reporting System is used to create the monthly resource utilization file.

System processing

The DDP Billing and Reporting System is run on an IBM 370 computer located at the Department Headquarters, Washington, D.C. Access to the DDP Billing and Reporting System and its files is controlled by a system of user passwords and transaction codes.The user password identifies individuals authorized to use the system. The transaction codes control the items of information that can be entered into the system and its files.

Data is checked for completeness and accuracy before it is entered into the system via computer terminal. Additionally, the DDP Billing and Reporting System performs a series of computer edit checks. These edits, for example, check to ensure that numeric field data contains only numeric characters. If errors are identified in a transaction, an error message is printed. Errors must be corrected before the transactions can be accepted by the system. Only the transactions which pass all computer edit checks are posted to the system's files.

The system does not maintain an automated record of transactions rejected by computer edits. Information that passes the computer edits is posted to the DDP Billing and Reporting system. The DDP Billing and Reporting System has three files-- resource utilization, miscellaneous, and master files. The resource utilization file contains all transactions related to batch processing. The miscellaneous file contains transactions for credits and all other charges. The master file stores summary cost data from the other two files.

System outputs

Every month, the DDP Billing and Reporting System produces two outputs: (1) a magnetic tape of total charges for each customer for input to the Working Capital Fund System, and (2) detailed and summary print-outs of the monthly charges for distribution to customers and DDP Management.

Internal control strengths and weaknesses

Internal controls in the DDP Billing and Reporting System appear adequate to ensure that revenues are received for goods provided and services rendered. The key internal control strengths of the DDP Billing and Reporting System are:

--User passwords to identify individuals authorized to enter transactions into the system and screen-out unauthorized system users.

--Transaction codes to limit the information that can be entered into the system.

--Computer edits to verify the completeness and accuracy of transactions and reject incomplete, inaccurate, and invalid transactions.

The key internal control weakness of the system is that transactions rejected are not controlled through an automated error suspense file. As a result, the system does not have the information needed to ensure that rejected transactions are corrected and resubmitted for computer processing.

Department Contracts
Information System

The Department Contracts Information System (DCIS) is an automated system designed to capture and store Department-wide statistical data on all contracts. Information entered and stored in the system is used to provide information on all levels of Departmental management, the Congress, the Executive Branch, and the private sector. According to a report prepared by the Department in April, 1983, the Department Contracts Information System was designed to:

--Provide the Secretary with accurate and timely data on the Department's procurement activities;

--Satisfy federal statutory and administrative reporting requirements of Public Law 93-400;

--Satisfy congressional and public inquires concerning the Department's procurement activities;

--Provide data for use in evaluating the Department's procurement systems; and

--Provide background information for the development of procurement policies and management proposals.

A brief discussion of system inputs, processing, outputs, the Department's report findings, and internal control strengths and weaknesses follows.

System inputs

The Department Contracts Information System receives obligation information on all contracts from the Department's organizational components. Information is transmitted on hard copy documents from the Regional Offices, OHDS, and HCFA; on magnetic tape from PHS; and on punched cards from SSA. Data from these sources are entered into the system. These components are responsible for providing accurate and complete information.

Information entered into the Department Contracts Information System is only as good as the information submitted by the Department's organizational components.

System outputs

Information accepted by the Department Contracts Information System is used to prepare four reports. The key report is prepared quarterly and submitted to the General Services Administration.

Internal review of the Department
Contracts Information System

The Department assigned a study team to:

--Assess the capabilities of the Department Contract Information System;

--Identify strengths and deficiencies of the current Department Contracts Information System and determine the extent to which DCIS is relied upon as an information source; and

--Identify and recommend alternate systems if the Department Contracts Information System is found to be inadequate.

The team identified these deficiencies in the current system:

--Management control of the system is lacking because no single person of authority is solely responsible for alleviating the system's problems. For example in 1978, responsibility for DCIS was shifted along with three staff slots from the former Office of Grants and Procurement to the Office of Management. The Office of Grants and Procurement had no ADP knowledge and little understanding of the type of information needed to exercise functional management.

--The Department's procurement officials need more data than what is available in the Department Contracts Information System. For example, management requires pre and post-award, planning, and scheduling information. This information is not being captured by the Department Contracts Information System.

--The decentralized Contracts Information System arrangements of the Department has resulted in lack of standardization, haphazard documents, duplication of efforts, and disparities in the quality and content of feeder systems. For example, this study identified 16 separate contracts information systems and each enters and processes procurement and data along with DCIS data elements using different techniques and on different equipment.

--There is currently inadequate staff for operating the
   Department Contracts Information System. For example, two
   full time personnel, one GS-7 ADP Clerk and one GS-12 Com-
   puter Specialist, are responsible for a budget of $200,000.

Internal control strengths
and weaknesses

Internal controls in the Department Controls Information
System appear inadequate to provide the necessary reports to man-
agers to aid them in the decisionmaking process. The key internal
control strengths are:

--User passwords to identify individuals authorized to enter
   transactions into the system and screen out unauthorized
   system users.

--Transaction codes to limit the kinds of information that can
   entered into the system.

--Computer edits to verify the completeness and accuracy of
   transactions and reject incomplete, inaccurate, and invalid
   transactions.

The key internal control weaknesses are:

--Transactions rejected by computer edits are not controlled
   through an automated error suspense file so the system does
   not have the information needed to ensure that rejected
   transactions are corrected and resubmitted for computer
   processing in a timely manner.

--Management control of the system is lacking and no single
   person of authority is solely responsible for resolving
   system problems.

--Data stored in the system is insufficient to assist
   managers in their procurement decisions.

--Decentralization has caused information to be haphazard.

--No assurance that all contract information is recorded in
   the system.

Outlay Analysis Tracking System

The Outlay Analysis Tracking System is an automated system
designed to track the Department-wide obligations and expenditures
and compare them to the Department's spending authority to ensure
that organizational components do not exceed their authorized
spending levels. This system is used primarily to satisfy OMB
Circular A-112, that is, to monitor outlays and submit periodic
reports on outlays. The Outlay Analysis Tracking System is
operated by a private contractor called Control Data Corporation
located in Cleveland, Ohio.

A brief discussion of system inputs, processing, outputs, and related internal control strengths follows.

System inputs

The Outlay Analysis Tracking System receives two inputs;

--Obligation allowances, and

--Outlays--actual expenditures made.

The obligation allowances from appropriated funds are received and processed through the system yearly. The actual outlays from the organizational components are prepared and submitted to the system monthly. Information is entered into the Outlay Analysis Tracking System by computer terminal.

System processing

The organizational components submit information into the system via a computer terminal to an IBM computer located in Cleveland, Ohio. This computer is owned and operated by the Control Data Corporation--a private contractor. Access to the Outlay Analysis Tracking System and its files is controlled by a system of user passwords and transaction codes.

Information entered into the Outlay Analysis Tracking System is checked for completeness and accuracy by a series of computer edit checks. These edits, for example, check to ensure that the outlay information is comprised of numeric characters.

System outputs

Information accepted and stored in the Outlay Analysis Tracking System is used to generate two reports:

--A-112 report.

--Outlay Analysis report.

The A-112 report is submitted to OMB and Treasury. The Outlay Analysis report is submitted to the Department's organizational components and OMB.

Internal control strengths

Internal controls in the Outlay Analysis Tracking System appear adequate to provide the A-112 report and Outlay Analysis report to OMB and Treasury. The key internal control strengths of the system are:

--User passwords to identify individuals authorized to enter data into and retrieve data from the system.

--Errors corrected upfront before transactions are stored in the system.

Owned Detail File System

The Owned Detail File system is an automated inventory system designed to assist management in determining the status, use, condition, and value of the Department's real property. This system records, maintains, and reports Department-wide information on real property. A brief discussion of system inputs, processing, outputs, and internal control strengths and weaknesses follows.

System inputs

The Owned Detail File System receives only one input: a real property inventory form--Form 3-17. This form is received from the Department organizational components that own an installation or facility. Information is entered into the Owned Detail File System by computer terminal.

System processing

The Owned Detail File System is run on an IBM 370 computer located in the Department's North Building, Washington, D.C. Access to the Owned Detail File System and its files is controlled by a system of user password and transaction codes. The system recognizes about 11 transaction codes.

Information entered into the Owned Detail File System is reviewed for accuracy and completeness. The initial review of the real property inventory is a manual process. The form is reviewed for errors and, if errors are found, it is returned to the real property unit for corrections. After the review, the information is entered into the Owned Detail File System. Information entered into the Owned Detail File System is again checked for errors. The system performs about 16 edit checks. These edits, for example, check to ensure that the data on the facility acquisition is comprised of all numeric characters. If errors are detected, the transactions are rejected from further processing and an error message is printed out by the computer terminal to tell the terminal operator what is wrong with the transactions. Only transactions which pass all computer checks are posted to the automated files maintained by the system.

System output

Information accepted and stored by the Owned Detail File System is used in generating quarterly and yearly reports. The quarterly report is submitted to the Department's organizational components. The yearly report is submitted to the General Services Administration (GSA) and the Department's organizational components.

Internal control strengths
and weaknesses

Internal controls in the Owned Detail File System appear adequate to generate the information needed for GSA. The key internal control strengths of the system are:

--User passwords to identify individuals authorized to enter transactions into the system and screen-out unauthorized system users.

--Transaction codes to limit the kinds of information that can be posted to the Owned Detail Master File.

Financial Assistance Reporting System

The Financial Assistance Reporting System is designed to record and process financial information on Departmental programs in the OMB catalog of Federal Domestic Assistance Programs. Obligation information entered into the system is used to generate quarterly and yearly reports to OMB and Congress. The system and its master file are run on an IBM 370 computer located in the Department's North Building, Washington, D.C.

The Financial Assistance Reporting System receives, on a quarterly basis, magnetic tapes from each of the Department's eight general ledger systems. Access to the Financial Assistance Reporting System is controlled by a series of user passwords which identify individuals authorized to use the system. Transactions entered into the system are subject to a series of computer edits to validate the information entered for processing through the system. Transactions rejected by computer edits are not accepted by the system. Transactions accepted are entered into the Financial Assistance Reporting System master file. The system does not maintain an automated record of transactions rejected by computer edits.

Information accepted into the system is used to generate six reports. Two examples of these reports are:

--Financial Assistance Award Data Quarterly Report, and

--Annual Congressional Consolidated Federal Funds Report.

The system appears adequate to provide OMB and Congress with information needed on assistance programs. The key internal control strength of the system is that user passwords identify individuals authorized to enter information into the system and screen-out unauthorized system users.

The primary internal control weakness is that the system does not maintain a rotating error file of rejected transactions. As a result, there is no assurance that all transactions have been entered into the system. It is possible, therefore, that the reports provided to OMB and Congress may not be complete.

SYSTEM ENHANCEMENT EFFORTS

Some of the financial management systems operated by the Office of the Secretary have serious limitations and deficiencies. In order to maintain accountability, improve the financial management structure, and control systems effectively and efficiently, the Department initiated three major improvement efforts.

--Standard Accounting System designed to replace the eight operating component's general ledger systems.

--Payment Management System designed to replace the Departmental Federal Assistance Financing System and the Central Registry System.

--Central Property Accounting System currently in development is intended to replace the Office of the Secretary, Regional Offices, and other organizational components' Property Accounting Systems.

Although these efforts have been initiated to improve upon the Department's financial management structure, until these systems are fully developed, implemented, and tested there is no assurance that improvements will actually result.

Standard Accounting System

The Standard Accounting System (SAS) will be the Department's central accounting system. At the onset, SAS will only replace the Office of the Secretary's Accounting System--which also does the accounting for the Office of Human Development Services and the Office of Community Services. Subsequent to the completion of our work we were informed by Department officials that the Standard Accounting System was implemented October 1, 1983.

It is currently planned that, if SAS is successfully implemented, it will be expanded to replace the eight general ledger systems operated by the Department's organizational components. However, problems could develop in the future because each organizational component has extensive efforts underway to enhance their current accounting/general ledger systems. These efforts may impact upon the implementation of the SAS in these organizational components.

SAS will utilize a modern computer which will be capable of processing financial information automatically into the subsidiary ledgers and the general ledger accounts. This will allow uniformity over accounting policies and also a central accounting system.

Some key features of the Standard Accounting System are to:

--Provide accurate accounting information that is immediately accessible to management.

--Assist accounting technicians by simplifying their procedures.

--Produce official documents through the computer at the same time that source data is entered into the system. Reduce the number of manual operations in the process of recording obligations, payments, billings, and collections.

--Provide an accounting data base with selective information retrieval capability, thereby reducing the need to produce a large volume of standard, recuring reports.

--Interface with all other relevant Department and Treasury automated systems.

The Standard Accounting System will have 14 application modules but only seven will be in place for use in fiscal 1984. The seven modules are:

--Umbrella Accounting Module will process all the accounting transactions that are being presently processed by the Office of the Secretary's Accounting System but in a more efficient manner. For example, an award transaction which enters into the system will be recorded automatically into all the subsidiary ledgers and general ledger accounts.

--Travel Module will capture travel obligations and advances from source documents and provide data retrieval by computer terminal.

--Budget Execution Module will provide capability to record, confirm, and adjust appropriations, allotments, allowances, commitments, and provide query capability on the status of funds.

--Security Module will allow only authorized users to enter information into and retrieve information from the system. The module will record all attempts of unauthorized entry.

--Reports Module will initially provide for 40 different financial reports for the Department, OMB, Congress, and Treasury.

--Interface Module will provide linkages with other Departmental systems such as payroll and the new Payment Management System.

--Table Module will permit users to enter, modify or delete information in an object class or a Common Account Number and also edit and determine if the object class and Common Account Number are valid.

30

The Payment Management System

The Departmental Federal Assistance Financing System (DFAFS) was evaluated by GAO in December, 1979. We reported that serious internal control weaknesses existed in the system which the Department has recognized. In an effort to correct those weaknesses, the Department is in the process of developing and implementing the Payment Management System (PMS). PMS will replace both DFAFS and the Central Registry System and is scheduled to be operational in fiscal 1984. PMS will be an automated system designed to utilize modern computer technology to expand services beyond the capabilities of DFAFS. This system will replace the Federal Reserve Bank Letter of Credit method of payment with modern electronic funds transfer techniques as the primary payment delivery system.

The Payment Management System will have these major enhancements:

--New procedures for comparing cash disbursements reported by contractors and grantees with expenditures finally accepted by the program offices in the Department's organizational components.

--New procedures to preclude deobligation and reuse of advances by contractors and grantees.

--Accounting for multi-year awards on a unique budget period basis rather than on a cumulative basis.

--A streamlined registration process for recipient identification by combining the CRS and PMS data, to eliminate duplicative registration and reconciliation problems.

Central Property Accounting System

The Central Property Accounting System is in early stages of development and is intended to replace of the Office of the Secretary, regional office, and organizational component property accounting systems. This system will be implemented first in the Office of the Secretary and then the regional offices. If the system is successfully implemented, it will be expanded to replace the remaining organizational components' property accounting systems. The system is expected to be in operation in about two years.

Some key features to be included in the Central Property Accounting System are the abilities to (1) account for each piece of property procured or on hand anywhere in the Department, and (2) account for the property by type, location, age, and value. It will also store and report the life expectancy tables, depreciation schedules, voucher listings, and types of transactions (acquisition, lease, transfer, disposal) for all property items.

OBJECTIVES, SCOPE, AND METHODOLOGY

This survey viewed the Office of the Secretary as a financial entity and focused on identifying its financial management structure and related systems of internal control and on identifying internal control strengths and weaknesses. The survey applied GAO's Controls and Risk Evaluation (CARE) audit approach.

SURVEY OBJECTIVES

Our survey objectives were to (1) document all manual and automated systems at the Office of the Secretary that process financial transactions from the time they are authorized through final reporting of these transactions in internal and external reports, (2) identify the relationships between these systems, that is, the flow of information among different systems, and (3) identify and document internal control strengths and weaknesses in the system.

SURVEY SCOPE

This survey viewed the Office of the Secretary as a single financial entity. Therefore, we identified and surveyed the financial management systems in the various organizational components of the Office. Survey work was performed at the Headquarters, Office of the Secretary, Washington, D.C.

We documented the financial management systems in operation and identified, based on available system documentation and through discussions with agency accounting, ADP systems, and program officials, and review of prior GAO, Inspector General, and special system study group reports, the internal control strengths and weaknesses in those systems. We did not perform any tests of system operations or actual financial information processed by and recorded in the systems. The following sections present the definitions of a financial management system, internal control, and an agency system of internal control used in this survey.

DEFINITION OF A FINANCIAL
MANAGEMENT SYSTEM

In consonance with GAO's Policy and Procedures Manual for Guidance for Federal Agencies (Titles 2 through 8), we defined a financial management system for this survey, as the manual and/or automated systems that capture, record, summarize, and/or report financial and related quantitative information related to the:

--Authorization of the use of resources.

--Management of Liabilities.

--Receipt of revenue.

--Disbursement of funds.

--Control of assets.

--Control of appropriated funds.

--Development and issuance of reports on the financial status of assets, liabilities, and appropriated funds and the financial results of program and administrative operations.

In an April 18, 1983, letter to the heads of the Departments and Agencies, the Comptroller General announced changes to GAO's procedures for approving agency accounting systems. In this letter, the Comptroller General reiterated the definition of an accounting system in GAO's Policy and Procedures Manual for Guidance of Federal Agencies.

DEFINITION OF INTERNAL CONTROLS

On June 16, 1983, the Comptroller General issued the Standards for Internal Controls in the federal government to be followed by agencies in establishing and maintaining systems of internal controls. The standards define systems of internal controls as:

"The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports."

Processing procedures are those manual and/or automated procedures that govern capturing, recording, processing, summarizing, and reporting of financial and related quantitative information. Internal control procedures and independent procedures provide evidence that processing procedures have, in fact, been followed.

DEFINITION OF AN AGENCY'S
SYSTEM OF INTERNAL CONTROL

Most agencies operate several financial management systems that process different types of financial transactions and provide information to each other. The individual financial management systems--taken together--form the agency's overall financial accounting, control, and reporting system. For example, most agencies have a general ledger/administrative control of funds system, and a subsidiary system that, for example, process transactions relating to personnel/payroll actions, personal property, disbursements, receipts, loans, accounts receivable,

and accounts payable. These systems--taken together--are the agency's overall financial accounting, control, and reporting system.

The financial management systems that make up an agency's overall financial accounting, control, and reporting system include both processing procedures and independent internal control procedures, as defined in the preceeding two sections. For this survey, we defined an agency's system of internal control as all the internal control procedures--taken together--that are included in all the financial management systems that comprise the overall financial accounting, control, and reporting system.

OFFICE OF THE SECRETARY
FINANCIAL MANAGEMENT SYSTEM
INCLUDED IN OUR SURVEY

Based on the foregoing definitions, we included in our survey all manual and automated systems at the Office of the Secretary that:

--Maintain general ledger accounts and produce financial reports.

--Control appropriated funds.

--Validate information from subsidiary financial management systems that feed information to general ledger systems.

--Determine eligibility for, and authorize the making of payments to vendors.

--Authorize acquisition of resources.

--Record and account for assets and liabilities.

SURVEY METHODOLOGY

Our survey followed the requirements of GAO's Controls and Risk Evaluation (CARE) survey approach. Accordingly, our survey included identification and documentation of the Office of the Secretary's:

--Organizational structure and major organizational components and the mission of each component.

--Accounting and related financial management systems, as previously discussed, and the interrelationships between these systems.

--Internal control strengths and weakneses in the Office's systems based on the internal control strengths and weaknesses identified during the survey.

In consonance with the CARE approach our work entailed identification and documentation of the operations and related internal control strengths and weaknesses of the Office of the Secretary financial management system based on (1) available agency system documentation, (2) discussions with cognizant agency accounting, program, and ADP systems officials, and (3) prior issued GAO, Inspector General, and special study group reports. Our survey was made in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," except that no tests were performed of system operations or of information processed by and recorded in those systems.

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR RECEIPT CYCLE

Cycle Control Objectives	Control Techniques in Place	Control Weaknesses
Authorization		
1. Receipts should be accepted from only those parties authorized in accordance with laws, regulations and management's policy.	Each customer is required to prepare a requisition for Data Management Center Services. This form indicates an intent of payment and acts as a commitment of funds to the Division of Data Processing. After the requisition has been processed and approved, the customer is assigned a job account number.	
2. The amounts of receipts (license fees, tax rates, etc.) should be authorized in accordance with laws, regulations, and management's policy.	Rates are prescribed for services rendered and goods provided. Each customer is billed monthly for his or her share of services rendered and good provided. This data is gathered and maintained by the Division of Data Processing (DDP) Billing and Reporting staff.	
3. Adjustments to receipts, receivables and other accounts should be authorized in accordance with laws, regulations and management's policy.	When adjustments are required a DDP Customer Report form is used. This form is reviewed and approved by the Customer Assistance Branch. If a refund is required the billing section will initiate the necessary action to credit the customer's account.	
4. Receipt processing procedures should be established and maintained in accordance with laws, regulations and management's policy.	See Cycle Control Objectives 2 and 3.	
Economy, Efficiency and Effectiveness		
5. Receipt cycle results should be in accordance with laws, regulations and management's policy and plans.	See Cycle Control Objectives 3.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR RECEIPT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
6. Receipts should be collected in an economical and efficient manner.	Revenues collected from customers are entered into the working Capital Fund System. This data is reviewed, validated, and entered into the Office of the Secretary's Accounting System for posting to the ledger accounts.	Data is entered into the Working Capital Fund and the Office of the Secretary's Accounting (OSA) Systems before the ledger accounts are updated. This process takes a longer time to update the ledger accounts and also, the data is coded manually which makes it vulnerable to errors.
7. Receipt processing procedures used should be economical and efficient.	See Cycle Control Objective 6.	
Transaction Processing		
8. Only those receipts that meet management's policy should be approved.	See Cycle Control Objectives 2 and 3.	
9. Each receipt should be prepared accurately and promptly.	See Cycle Control Objectives 2 and 3.	
10. Accountability for cash items received should be established before the cash can be misdirected.	See Cycle Control Objective 6.	
11. Cash items received should be accurately and promptly classified, summarized and reported.	See Cycle Control Objective 6.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR RECEIPT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
12. Adjustment to receipts, receivables and other accounts should be accurately and promptly, classified, summarized and reported.	See Cycle Objectives 3 and 6.	
13. Receipts, collections and related adjustments should be accurately applied to the proper receivable accounts.	See Cycle Objectives 3 and 6.	

Classification

14. Journal entries should be prepared each accounting period for receipts and related adjustments.	See Cycle Control Objective 6.	
15. Revenue journal entries should summarize and classify receipts in accordance with management's plan.	See Cycle Control Objectives 3 and 6.	

Substantiation and Evaluation

16. Recorded balances of receipts and accounts receivable, and related transaction activity, should be periodically substantiated and evaluated.	See Cycle Control Objectives 3 and 6.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR RECEIPT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses

Physical Safeguards

17. Access to cash and cash items received should be permitted only in accordance with management's criteria until control is turned over to the asset management cycle.

    This cycle was not surveyed.

18. Access to receipts and receivable records; critical forms; processing areas; and processing procedures should be permitted only in accordance with management's criteria.

    The computer hardware is maintained in an office type environment which is equipped with locked doors. Before data is entered into and retrieved from the system, a coded password is keyed into the terminal.

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR PROCUREMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
1. Vendors should be authorized in accordance with laws, regulations and management's policy.	The Office of the Secretary's procurement branch maintains a vendor file for all authorized vendors in which the Office of the Secretary's procurement branch can enter into agreement for goods and services. Once approved, a purchase order is issued and a vendor is selected for doing business. If the vendor's list is inadequate, the procurement branch will then competitively select three non-authorized vendors and determine the lowest bidder to enter into agreement with for goods and services.	
2. The types, estimated quantities and prices and items of goods and services needed should be authorized in accordance with laws, regulations and management's policy.	Request for goods and services is initiated by individual units within the Office of the Secretary. This request goes to the Director of Administrative Services or the Chief of the Material Section for approval. Once approved, a purchase order is prepared and a vendor is selected by the procurement branch. Copies of the purchase order are sent to the (1) Office of the Secretary's Accounting system for posting to the ledger accounts, (2) vendor for the goods and services, and (3) warehouse for review once the goods are received.	
3. Adjustments should be authorized in accordance with laws, regulations and management's policy.	When goods are received by the warehouse, they are compared to the purchase order and reviewed for damages. Items which are damaged or not requested are returned to the vendor and the purchase order is annotated. If partial shipments are made, this is annotated on the purchase order too. Both the procurement branch and the Office of the Secretary's Accounting System will be notified. Goods accepted are assigned decal numbers and coded on worksheets.	No written document available for procurement cycle processing procedures.
4. Procurement cycle processing procedures should be established and maintained in accordance with laws, regulations and management's policy.	This cycle control objective was not included in our survey.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR PROCUREMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
Economy, Efficiency and Effectiveness		
5. Procurement cycle operations should be in accordance with laws, regulations and management's policy and plans.	See Cycle Control Objective 4.	
6. Procurements should be achieved in an economical and efficient manner.		The procurement branch prepares the purchase order and transmits it through hard copy manually to the (1) Frontend Data Acquisition System and the Office of the Secretary's Accounting system, (2) vendors, and (3) warehouse. The Property system does not provide enough useful information to managers to determine where idle items can be obtained before issuing a requisition order. Items are procured when needed because information regarding other supply sources is not readily available for use.
7. Procurement procedures used should be economical and efficient.		Personal property items received are not entered into the system immediately. Worksheets are prepared from the shipping invoices and on a weekly basis that information is entered into the property accounting system.
Transaction Processing		
8. Only those requests of vendors for goods and services that meet management's criteria should be approved.	See Cycle Control Objectives 1, 2, and 3.	

41

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR PROCUREMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
9. Only requested goods and services should be accepted.	See Cycle Control Objective 3.	
10. Goods and services accepted should be accurately and promptly reported.		See Cycle Control Objective 7.
11. Amounts due to vendors for goods and services accepted and the accounting distribution of such amounts, should be comprised and recognized as liabilities promptly.	When personal property items are received and accepted, copies of the shipping invoice are sent to the procurement branch and the Office of the Secretary's Accounting System for posting to the ledger accounts.	
12. Amounts due to vendors should be accurately and promptly classified, summarized and reported.	See Cycle Control Objective 11.	
13. Purchasing adjustments should be accurately and promptly classified, summarized and reported.	See Cycle Control Objective 11.	
14. Liabilities incurred, and related adjustment should be accurately applied to the proper vendor's accounts.	See Cycle Control Objective 11.	

Classification

15. Journal entries for amounts due to vendors and related adjustments should be prepared each accounting period.	See Cycle Control Objective 11.	

Cycle Control Objectives	Controls in Place	Control Weaknesses
16. Purchasing journal entries should summarize and classify economic activities in accordance with management's plan.	See Cycle Control Objective 11.	

Substantiation and Evaluation

17. Recorded balances of accounts payable, and related transactions activity, should be periodically substantiated and evaluated.	This Cycle Control Objective was not surveyed.	

Physical Safeguards

18. Access to purchasing, receiving and disbursement records; critical forms; processing areas; and processing procedures should be permitted only in accordance with management's criteria.	The computer hardware and its files are maintained in an office type environment in a locked room. Access to the Property Accounting System is controlled by user passwords which identify individuals authorized to enter into and retrieve from the system information and to screen out unauthorized users.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR DISBURSEMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
1. Disbursements should be authorized in accordance with laws, regulations and management's policy.	The Office of the Secretary's Central Registry System maintains a vendor file for all authorized recipients who receive the Department's funds. If entity is not registered, payments cannot be made for services rendered and goods provided.	
2. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations and management's policy.	Once a grant/contract is approved, funds are then obligated. This document is submitted to the Departmental Federal Assistance Financing System (DFAFS) which authorizes payment based upon the obligated documents. Cash advances are made monthly to grantees who report monthly and quarterly on their current expenditures to DFAFS.	
3. Disbursement processing procedures should be established and maintained in accordance with laws, regulations and management's policy.	This Cycle Control Objective was not surveyed.	

Economy, Efficiency and Effectiveness

4. Disbursement cycle results should be in accordance with laws, regulations and management's policy and plans.	The Central Registry System (CRS) maintains unique identification numbers of an individual or organization that is registered in the system. For an individual, his or her Social Security Number is used and for an organization, its IRS employment identification number is used. The same information is maintained by DFAFS. Prior to authorizing payment to grantees, the system queries its files to ensure that all payees do have their unique identification numbers.	
5. Disbursements should be made in an economical and efficient manner.		Grantees receive cash advances to meet their monthly obligations through letters-of-credit. This method could be strengthened by utilizing modern computer technology like an electronic fund transfer technique.

44

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR DISBURSEMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
6. Disbursements processing procedures used to create, recognize and report events and related transactions should be economical and efficient.		DFAFS transmits data to its grantees through hard copy and vice versa.
Transaction Processing		
7. Only those requests for disbursements that meet management's policy should be approved.	See Cycle Control Objective 2.	
8. Disbursements should be accurately and promptly reported.	Grantees submit monthly and quarterly Federal Cash Transaction reports. In addition, they submit quarterly reports showing Financial status. Also, see Cycle Control Objective 2.	
9. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.	See Cycle Control Objective 2.	
10. Each disbursement of cash should be based upon a recognized liability, be accurately prepared and be appropriately authorized.	See Cycle Control Objective 2.	
11. Disbursements should be accurately and promptly, classified, summarized, and reported.	See Cycle Control Objectives 2 and 8.	
12. Cash disbursements and related adjustments should be accurately and promptly classified, summarized and reported.	See Cycle Control Objectives 2 and 8.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR DISBURSEMENT CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
13. Liabilities incurred, cash disbursements and related adjustments should be accurately applied to the proper vendor's accounts.	This cycle control objective was not surveyed.	

Classification

14. Transactions for amounts due to vendors, cash disbursements and related adjustments should be prepared each period.	See Cycle Control Objective 8.	
15. Disbursements should be summarized and classified in accordance with management's plan.	See Cycle Control Objectives 2 and 8.	

Substantiation and Evaluation

16. Recorded balances of disbursements, and related transaction activity should be periodically substantiated and evaluated.	This cycle control objective was not surveyed.	

Physical Safeguards

17. Access to disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.	Both DFAFS and CRS computer hardware is kept in an office type environment with locked doors. Data cannot be processed into the systems unless password codes are keyed into the terminals. These codes allow only authorized personnel to enter data into and retrieve data from the systems.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR ASSET AND LIABILITY CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses

Authorization

1. Sources of assets and liabilities should be authorized in accordance with laws, regulations and management's policy.

The Office of the Secretary maintains a vendor master file for all authorized vendors. The procurement branch selects the vendor to ensure that vendors are authorized to enter into agreements.

2. The amounts, timing and conditions of transactions should be authorized in accordance with laws, regulations and management's policy.

When goods and services are requested a request/service/stock form is prepared and submitted to the Administrative Services Office within the Office of the Secretary for approval. Once approved, a purchase order is issued and an authorized vendor is selected. Also, an individual or an organization that wishes to enter into agreement with the Government must register with the Central Registry System. In this system, a review is performed to ensure that each payee is registered and assigned a unique number like his/her social security number or, for an organization, its IRS Employer Identification Number.

3. The amounts, timing and conditions of expenditures of funds should be authorized in accordance with laws, regulations and management's policy.

Once goods are provided and services are rendered, the shipping invoices and expenditure reports are submitted to the Office of the Secretary's Accounting Systems. Journal entries are made to the valid common accounting number (CAN), object class, and appropriate transactions. Transactions which involve payment for services rendered are submitted to the Departmental Federal Assistance Financing System (DFAFS).

4. Adjustments to asset and liability accounts and account distributions should be authorized in accordance with management's policy.

See Cycle Control Objective 3.

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR ASSET AND LIABILITY CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
5. Asset and liability management procedures should be established and maintained in accordance with management's policy.	See Cycle Control Objective 1, 2, and 3.	
Economy, Efficiency and Effectiveness		
6. Cycle results should be in accordance with laws, regulations and management's policy and plans.	The Office of the Secretary's Accounting System is an automated system which maintains and generates various reports such as ledger accounts, trial balances, and cost reports.	
7. Cycle results should be achieved in an economical and efficient manner.	See Cycle Control Objectives 1, 2, 3, and 6.	
8. Processing procedures used to create, recognize and report events and related transactions should be economical and efficient.	See Cycle Control Objectives 1, 2, 3, and 6.	Both the Departmental Federal Assistance Financing System and the Central Registry System duplicate recipient's identification. The Departmental Federal Assistance Financing System submits monthly magnetic tape to the Central registry System for updating its payee identification number file.
Transaction Processing		
9. Only those requests to buy or sell assets that meet laws, regulations and management's policy should be approved.	See Cycle Control Objectives 1, and 2.	
10. Assets and liabilities acquired should be accurately and promptly reported.	See Cycle Control Objectives 1 and 2.	
11. Retirements or dispositions of assets to outsiders should be accurately and promptly reported.	See Cycle Control Objectives 1, 2, and 3.	

48

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR ASSET AND LIABILITY CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
12. Amounts due from or to purchasers and creditors, and the accounting distribution of those amounts, should be computed accurately and promptly recognized as assets or liabilities.	See Cycle Control Objectives 1, 2, 3, and 6.	
13. Changes in values should, where required by generally accepted governmental accounting principles, be computed accurately and recognized promptly.	See Cycle Control Objectives 1, 2, 3, and 6.	

Classification

14. Amounts due the creditors, and related adjustments should be accurately and promptly classified, summarized and reported.	See Cycle Control Objectives 1, 2, 3, and 6.	
15. Purchases and sales of assets, changes in liabilities and related adjustments should be accurately applied to the proper subsidiary accounts.	See Cycle Control Objectives 1, 2, 3, and 6.	
16. Journal entries for assets and liabilities acquired and retired, and related adjustments, should be prepared and posted each accounting period.	See Cycle Control Objectives 1, 2, 3, and 6.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR ASSET AND LIABLIITY CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses

Classification

17. Journal entries should summarize and classify economic activities in accordance with management's plan.

See Cycle Control Objectives 1, 2, 3, and 6.

Substantiation and Evaluation

18. Recorded balances of asset and liability accounts, and related transaction activity, should be periodically substantiated and evaluated.

This Cycle Control Objective was not surveyed.

Physical Safeguards

19. Physical security safeguards should be maintained where assets are stored and transactions processed.

The computer hardware is maintained in an office type environment with locked doors for DFAFS, CRS, and the Property Accounting System. To enter data into these systems, a password code is keyed into the terminals. This allows data to be entered into and retrieved from the systems.

50

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR REPORTING CYCLE

Cycle Control Objectives	Control Techniques in Place	Control Weaknesses
1. Data entered to reporting systems should be authorized in accordance with laws, regulations and management's policy.	The Office of the Secretary's Accounting System is an automated system which utilizes massive storage devices and random access techniques to allow flexibility, and auditing in the system. This system has written documentation which explains the procedures and processes for reporting and recording of data.	
2. Reporting system processing procedures should be established and maintained in accordance with laws, regulations, and management's policy.	The Office of the Secretary's Accounting System generates monthly and yearly reports on summary balances such as, accounts payable, accounts receivable, general ledger trial balances, obligation ledger, and cost reports.	
Economy, Efficiency, and Effectiveness		
3. Reporting should be in accordance with laws, regulations and management's policy and plans.	See Cycle Control Objective 2.	
4. Reporting should be achieved in an economical and efficient manner.		Obligation and expenditure reports are transmitted manually into the Office of the Secretary's accounting system. These transactions are coded manually by accounting technicians before they are entered into the computer. By performing manual operations the chances for errors are greater than in a computerized system. To limit the unnecessary errors, a followup system is required to assure that no errors are posted to transactions.
5. Reporting procedures used should be economial and efficient.		See Cycle Control Objective 4.

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR REPORTING CYCLE

Cycle Control Objectives	Controls in Place	Control Weaknesses
6. Only those reports that meet management's policy should be approved.	See Cycle Control Objective 2.	
7. Reports should be prepared accurately and promptly.	The Office of the Secretary's Accounting System performs over 56 edit checks. If errors are found, they are maintained on a rotating error file. Errors are corrected before they are accepted into the system. After corrections are made, the transactions are reentered into the system to be used for generating required reports.	
8. Relevant disclosure data should be gathered accurately and promptly.	See Cycle Control Objectives 2 and 7.	
9. Relevant disclosure data should be accurately summarized and reported.	See Cycle Control Objectives 2 and 7.	
10. File and account balances should be accurately and promptly reported.	See Cycle Control Objectives 1, 2, and 7.	
11. Consolidation of reports should be accomplished accurately and promptly.	See Cycle Control Objectives 1, 2, and 7.	

Classification

12. Reporting entries should classify activities in accordance with management's plan.	See Cycle Control Objectives 1 and 2.	

OFFICE OF THE SECRETARY
CONTROL OBJECTIVES FOR REPORTING CYCLE

Cycle Control Objectives

Controls in Place

Control Weaknesses

13. Reports should be prepared accurately and promptly, be prepared on consistent basis and fairly present the information they purpose to display.

See Cycle Control Objectives 1, 2, and 7.

Substantiation and Evaluation

14. Recorded balances in the records should be periodically substantiated and evaluated.

This cycle control objective was not surveyed.

Physical Safeguards

15. Access to records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.

Before data can be entered into and retrieved from the Office of the Secretary's Accounting System, a password code is provided. The user password identifies individuals authorized to use the system. The system is controlled by transaction codes which control items of information that can be entered into the systems and its files. The hardware is maintained in an office type environment with locked doors.

Office of Secretary
Financial Management Structure
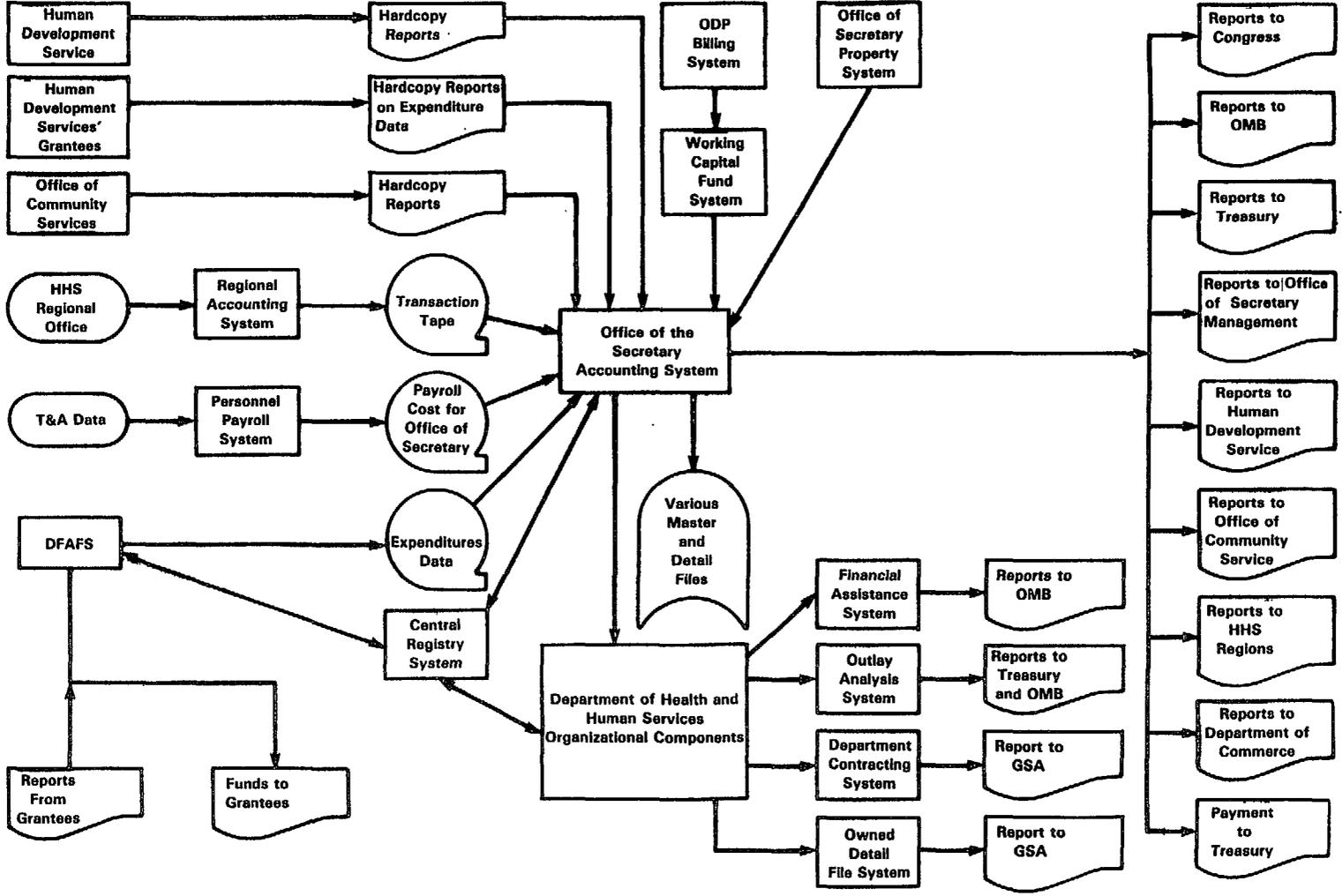
DEPARTMENT OF HEALTH & HUMAN SERVICES   Office of the Secretary

Memorandum

Date   .. JAN 12 1982 .

From   Director, Office of Facilities and Management Services

Subject   General Accounting Office Draft Document of the Office of the
          Secretary -- Its Responsibities, Activities, and Financial
          Management Structure

To   Guy F. Linza, Chief, Operating Divisions'
          Systems and Procedures Branch

On reviewing the GAO draft document I feel that I can comment
appropriately on only the OS/Working Capital Fund System and
OS/Property Accounting System. I do not feel that any of the
OFMS activities have sufficient involvement with the other
systems to permit any informed comments.

The Working Capital Fund System has been known as the Accounting
Information System (AIS) and I was not aware the name had been
officially changed. There are two activities currently in the
Working Capital Fund the Division of Data Processing (DDP) and
the Printing Plant both of which provide input data related to
services to users. DDP provides magnetic tape output from the
.ODP Billing and Reporting System and the Printing Plant provides
the Division of Accounting Operations (DAO) with copies of the
forms HEW-26 submitted by users for services. The DDP system was
described in detail but the Printing Plant input method was only
inferred.

The description of the system is very general and not strictly
accurate, however, for the purposes of the "draft document" it
may be adequate. I do not believe the intent was to describe, in
detail, all of the operating procedures but to describe the
system in general terms sufficient to establish a basis for
conclusions as to the adequacy or inadequacy of the system.
Execpt for the description of Printing Plant inputs I would say
it is adequately described.

GAO NOTE: The Financial Management Profile for the Division of
           Data Processing (DDP) Billing and Reporting System was
           changed (see pages 21-23). However, the working
           Capital Fund System was not changed.

In the description of the Property Accounting System I agree with
the general description and the identification of the strengths
and weakness. Again, I do not feel that the document was
intended as a detailed description of operating procedures and
there are inaccuracies and omissions in the procedures described.

However, I do not feel that they would affect the conclusions
reached or distort the overall picture of the system.

If you have any questions or if I can be of further assistance
please contact Jack Lundberg of my staff.
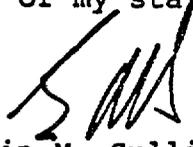
Edwin M. Sullivan

GAO NOTE: Changes were not required.

DEPARTMENT OF HEALTH & HUMAN SERVICES   Office of the Secretary

Memorandum

Date   · JAN 5 1984

From   Director, Division of Financial Operations and
        Fiscal Procedures

Subject GAO Draft Document on OS Systems

To   Guy F. Linza
        Chief, OPDIVs' Systems and Procedures Branch

My staff and I have reviewed the GAO draft document on OS ---Its Responsibil-
ities, Activities, and Financial Management Structure. Our comments are
limited to those systems operated in DFOFP or which interfaces with our systems.
Our specific comments and recommended changes are as follows:

1. Page 8 - Regional Accounting System [1]/
   Suggest the first sentence be changed to read "...records and maintains
   administrative control of funds and reports financial information to the
   Office of the Secretary, HCFA and various PHS components for updating their
   general ledger acounts."

   GAO NOTE: The Financial Management Profile for this system was
              changed (see page 5).

   2. Page 8 - Central Registry System

      Suggest it be changed to read: "....maintains the official DHHS
      file of all entities (organizations or individuals) who receive,
      currently or in the past, funds from the Department under programs
      authorized by the Office of Management and Budget and as contained in
      the Catalog of Federal Domestic Assistance or under contracts."

   GAO NOTE: The Financial Management Profile for this system was
              changed (see page 5).

   1/ These comments were based on the Department's review of a draft
      technical summary, and consequently, the page numbers cited in
      the Department's comments do not correspond to the page numbers
      in the final technical summary.

3. Page 9 - Financial Assistance Reporting System

· Suggest it be changed to read: "....Receives and processes
  financial information (Programs in the OMB Catalog of Federal Domestic
  Assistance, to ·include Miscellaneous Administrative Expenses) on all
  obligations recorded in the Department's accounting systems and prepares
  quarterly and annual reports for the Office of Management and Budget to
  satisfy the requirements of the newly enacted (1983) Consolidated
  Federal Funds Report, to satisfy Departmental management needs, and to
  have a centralized source of information available for rapid response
  to Congress, other Government Agencies, and the general public."

GAO NOTE: The Financial Management Profile for this system was
            changed (see page 6).

4. Page 26 - 1st Paragraph, last sentence

  Suggest the sentence be deleted. DFAFS does not receive a copy of the
  Central Registry file.

GAO NOTE: This change was made (see page 16).

5. Page 31 - Central Registry System

  1st Sentence. Change to read: "....to receive payment for funds awarded
  under programs authorized in the Catalog of Federal Domestic Assistance
  and/or contracts awarded by the Department."

GAO NOTE: This change was not required.

                                                            page 2
  5. Continued

  3d Sentence. Delete and substitute: "....CRS provides information to all
  activities (OPDIVs/STAFFDIVs) of the Department that are involved in the
  advancing and disbursing of federal funds."

GAO NOTE: This change was made (see page 20).

6. Page 31-32 3d Paragraph - <u>Systems Input</u>
   Change the first sentence to read "The Central Registry System has one
   source of input which is the Central Registry Entity Information Form.
   Data from this form is usually keyed into the system by the originating
   offices. However if the office does not have a terminal the form is sent
   to a parent office which has a terminal or, if no parent office is involved,
   it is sent directly to the CRS staff.

   Page 32, 1st sentence
   Delete because the Central Registry System does not receive any grant/contract
   award documents. Replace with "Daily, or as required, organizations of the
   Department register individuals and organizations directly into the CRS via
   computer terminals."

           2nd sentence
   Delete - covered in suggested rewording above.

           3d sentence
   Delete because DFAFS does not provide magnetic tape input to the Central
   Registry System.

           4th Sentence
   Delete. Comment: New recipients are not assigned EIN's - this is done
   by the IRS.

GAO NOTE: The above changes were made (see page   20).

7. Page 33 <u>Systems Processing</u>, line 3
   Delete word "mechanical"

           - 2nd Paragraph, 4th Sentence
   Delete. Accuracy of the data is determined when the transaction register
   is processed through the normal update procedure.

           - 3d Paragraph, 1st Sentence
   Replace the words "components submit contract, grant, and loan information"
   with the words "components enter registration information."

           - 3d Paragraph, last sentence
   Delete. This is an obvious caveat that applies to all systems.

           - 4th Paragraph
   Change as follows: "The Central Registry System master file is purged
   when required as determined by the staff. Entity registration data is required
   for future reference as many entities do not receive funds every fiscal year."

GAO NOTE: The above changes were made as deemed necessary (see
          page 20).

8. Page 34 Systems Output - 1st Sentence
   Change to read " The edit update is processed on a weekly basis and more
   often if required by the users." By way of an explanation we again point
   out that DFAFS does not receive a tape copy of the file.

GAO NOTE: This change was made (see page 21).

9. Page 34 - Internal Control
   1st Sentence. Delete "to provide yearly directory to users of the system."
   Comment: The Directory is only one output. CRS is used by all accounting
   systems of the Department as an edit routine to ensure that prospective
   recipients of Departmental funds are registered as required and for
   simplifying financial reporting in that agencies are able to provide an
   80 position input record that can later be expanded to the 400 position
   record through the use of the CRS data and thus reduce the amount of
   processing by agencies, eliminate the potential errors, and achive
   consistency of reporting of entities.

   Last subparagraph - 2nd Sentence
   Delete. Comment: The decision to purge the CRS system is not an
   arbitrary one, rather the decision to purge or not to purge is
   based on the necessity to purge. It should be understood that the CRS
   provides a ready reference on entities who were eligible to receive or
   did receive, or who are receiving funds from the Department. Many
   request for data concern entities going back at least ten years.

                     - Last sentence
   Delete - The CRS was not designed for the purposes listed and
   canot control waste and abuse.

GAO NOTE: Changes were not required.

10. *Page 46 - Last Line*
    Delete the two examples and add: "....The Financial Assistance Award
    Data quarterly report" and "The Annual Congressioinal Consolidated
    Federal Funds Report."

GAO NOTE: This change was made (see page 28).

11. *Page 47, 1st Paragraph, last Sentence*
    Delete. Comment: Each quarterly and the annual submission of each
    operating division is reconciled to the official SF-133 Report of Budget
    Execution as submitted to OMB.

        2nd Paragraph
    Comment: The primary internal control weakness is not that the system does
    not maintain an error rotating file of rejected transactions. It should
    be noted that the rejections are recorded and can be re-inputed. The major
    weakness is not the control of errors but of the strict time limitations
    imposed at year end. The current processing system produces a complete
    record of each record that fails edit.

    GAO NOTE: Changes were not required.

12. *Page 8, of the Tables, Paragraph 1, last sentence*
    Delete last sentence and substitute the following: "If an entity
    is not registered, payments cannot be made." The word vendor should be
    deleted as it is not a good description of our entities. Our entities
    basically fall into two categories - Contractors and grantees (program
    recipients).

        Paragraph 4 - 3rd sentence
    End the sentence after the word "DFAFS" and delete the rest of the sentence.

GAO NOTE: The above changes were made (see page 45).

        Paragraph 4 - last sentence
    Delete and substitute: " Prior to recording an obligation, each of the
    Department accounting systems contain an edit program that checks to ensure
    that the recipient is registered in the Central Registry System. If the
    entity is not registered the transaction fails resulting in the rejection
    of the obligation transaction and as a result there is not a transaction
    in the accounting system to disburse funds against.

    GAO NOTE: This change was not required.