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TECHNICAL SUMMARY
FINANCIAL MANAGEMENT PROFILE
OF THE
OFFICE OF HUMAN DEVELOPMENT SERVICES
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 Human Development Services is an organizational component of the Department of Health and Human Services. In fiscal 1982 it received approximately $4.9 billion in budget authority. The Office of Human Development Services is responsible for administering human services programs to the elderly, children, Native Americans, persons with developmental disabilities and public assistance recipients. In addition, the Office advocates state and local programs for these groups to help eliminate social barriers which preclude them from fully participating in society.

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 strengths 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 system at the Office of Human Development Services,

--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 Human Development Services. Four 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 (3) capture, record, process, and summarize financial

information related to the execution of its budget authority. The summary also provides a detailed analysis of the four systems and identifies specific internal control strengths and weaknesses in each system.

During our survey agency officials were briefed. The summary was provided to cognizant agency officials for their review and comments. 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 Human Development Services' financial management systems to ascertain if they conform to the Comptroller General's accounting 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

ABBREVIATIONS

AOA   Administration on Aging

CARE   Controls and Risk Evaluation   .

GAO   General Accounting Office

HHS   Department of Health and Human Services

OHDS   Office of Human Development Services

OS   Office of the Secretary

THE OFFICE OF HUMAN DEVELOPMENT SERVICES--

ITS RESPONSIBILITIES, ACTIVITIES, AND

FINANCIAL MANAGEMENT STRUCTURE

The Office of Human Development Services (OHDS) is responsible for operating federal human services programs--such as programs for the aged and the head start program. OHDS received $4.9 billion in fiscal 1982 budget authority and employed about 5,700 individuals. Its budget authority includes funds for state and local municipalities for social services and work-related training programs.

OHDS does not operate its own accounting--general ledger/ administrative control of funds system--but does maintain commitment control, personal property, and procurement systems. OHDS's general ledger accounts are maintained on the Department of Health and Human Services' (HHS's) Office of the Secretary's (OS) Accounting System. This system provides for administrative control of OHDS's congressional approved spending authority. OHDS procurements are also processed through the OS's Accounting System.

OHDS operates four financial management systems which provide OHDS managers with information on discretionary and formula grants, the status of personal property, and the status of OHDS's spending authority. We surveyed these systems to determine whether they provide OHDS managers with the information needed to effectively control grants, personal property, and OHDS's spending authority.

In assessing OHDS's systems, we found that systems' controls appear adequate to ensure that managers received reliable information. There are, however, certain aspects of these systems' internal controls that could be strengthened. Specifically, OHDS needs to improve controls over:

--Information rejected from further processing by computer edits.

--Information in OHDS's financial management systems and related information in the OS's Accounting System.

--Cash advances to OHDS grantees.

OHDS does not monitor and control grantees cash drawdowns of advanced cash because these responsibilities rest with the Departmental Federal Assistance Financing System and the Office of the Secretary's Division of Accounting Operations. OHDS management, however, has recognized the need for improving controls over cash advances to grantees to better assure that grantees do not maintain excessive balances of federal cash. OHDS is in the process of enhancing its automated grant systems to better control cash advances to grantees.

Appendix I discusses the objectives, scope, and methodology used in applying the controls and risk evaluation approach to identify the financial management structure of OHDS. Appendix II lists the internal control strengths and weaknesses we identified in the financial management systems. Appendix III shows the interrelationship of those systems. Appendix IV contains the agency comments which were considered and appropriate changes were made in preparing this summary.

RESPONSIBILITIES AND ORGANIZATIONAL
STRUCTURE OF THE OFFICE OF HUMAN
DEVELOPMENT SERVICES

OHDS administers human development service programs to the elderly, children, youth, Native Americans, persons with developmental disabilities, and public assistance recipients. These include programs for the aged and head start. In addition, OHDS advocates state and local programs for these groups to help eliminate social barriers which preclude them from fully participating in society. These include programs such as, foster care and adoption assistance programs.

OHDS is headed by an Assistant Secretary, who reports directly to the Secretary of HHS and is comprised of eight operating entities. A brief description of each entity follows:

--Office of the Assistant Secretary for Human Development Services provides executive direction, leadership, and guidance to all OHDS components, including OHDS staff assigned to HHS's ten regional offices.

--Office of Policy Development formulates policy and provides direction in establishing agency goals and objectives.

--Office of Program Coordination and Review is responsible for assuring coordination in the management of all programs administered by OHDS.

--Office of Management Services advises the Assistant Secretary for Human Development Services on internal OHDS administration and management, federal financial participation in state and local grantee information system development efforts, and reporting requirements for state and local grants.

--Administration on Aging is the principal agency designated to carry out the provisions of the Older Americans Act of 1965.

--Administration of Children, Youth, and Families seeks to expand and improve the range of human services which promote sound development of children and youth.

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> —**Administration for Native Americans** represents the concerns of American Indians, Alaskan Natives, and Native Hawaiians.

> —**Administration on Developmental Disabilities** assists states to increase the quality of services to persons with developmental disabilities.

FINANCIAL MANAGEMENT
STRUCTURE OF OHDS

OHDS's general ledger accounts, spending authority, and internal and external financial reports are maintained, controlled, and produced by the OS Accounting System. The OS Accounting System is discussed in a separate technical summary. OHDS's personal property is recorded by and controlled through the OHDS's Office of Administrative Services. OHDS procurement of goods and services is authorized by OHDS, but the actual purchase is done through the Office of the Secretary's Procurement Branch.

OHDS operates four automated financial management systems which provide OHDS managers with financial information on grants, personal property, and status of OHDS's spending authority. The four systems are the:

> —Grants Management Information System,

> —Administration on Aging (AOA) Financial Status Reporting System,

> —Property Accounting System, and

> —Commitment Ledger System.

The Grants Management Information and AOA Financial Status Reporting Systems process awards to grantees, record expenditures reported by grantees, and provide input information to the OS Accounting System. The Property Accounting System records the acquisition and disposition of personal property and maintains OHDS's inventory of personal property. The Commitment Ledger System is used to record commitments for payroll costs and administrative expenses.

Inputs into the Commitment Ledger System come from information reported to OHDS from HHS's Central Payroll System, obligation documents from OHDS's staff offices, and reports from the OS Accounting System. This system controls OHDS's commitment of funds and records commitments prior to them being recorded in the OS Accounting System. However, the commitments, such as obligations and travel vouchers are entered in the OS Accounting System manually from hard copy documents. The Commitment Ledger System is a stand-alone system to provide OHDS managers with supplemental information on the status of OHDS's spending authority.

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Our survey focused on the operations of OHDS's Grants Management Information, AOA Financial Status Reporting, and Property Accounting systems. We did not survey the operations of the Commitment Ledger System because it supplements the information in the OS Accounting System. In addition, it does not authorize disbursements or provide input into the OS Accounting System. The following sections discuss the inputs, processing, outputs, and related internal control strengths and weaknesses of the OHDS financial management systems.

Grants Management Information System

The Grants Management Information System provides OHDS managers with information on the status of OHDS project grants except for the formula grants awarded by the Administration on Aging. The Grants Management Information System (1) records initial grant awards, information on expenditures, and financial status of grants reported by grantees, (2) maintains a grant masterfile, and (3) produces a series of reports on the financial status of grants. A brief discussion of payment methods, system inputs, processing, outputs, and related internal control strengths and weaknesses follows.

Payment methods

Five different payment methods are used to provide funds to OHDS project grantees. Specifically, the methods are the:

--Letter-of-credit under the Departmental Federal Assistance Financing System.

--Letter-of-credit administered by HHS's Division of Accounting Operations.

--Treasury checks issued by HHS's Division of Accounting Operations.

--Treasury checks issued by HHS's regional offices and accounted for through HHS's Regional Accounting System.

--Reimbursement authorized by HHS's Division of Accounting Operations based on expenditure reports from grantees.

The Letter-of-Credit under the Departmental Federal Assistance Financing System is the primary method of disbursing funds to grantees.

System inputs

The Grants Management Information System receives three inputs:

--Draft Notice of Federal Assistance Award,

--Federal Cash Transactions Report (SF 272) and,

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--Financial Status Report (Standard Form (SF 269).

The draft Notice of Federal Assistance Award is received and processed through the system on a daily basis. The Federal Cash Transactions Report is prepared by each grantee on a quarterly basis and sent to OHDS. The Financial Status Report is prepared by each grantee on a quarterly basis and sent to OHDS. Information on the two reports is also independently entered into the OS Accounting System to update OHDS's general ledger accounts. Information on all three documents is entered into the Grants Management Information System by computer terminal.

System processing

The initial review and approval of an application for an OHDS project grant is a manual process. After a grant application is approved, the draft Notice of Federal Assistance Award is prepared and entered into the Grants Management Information System by computer terminal.

Access to the Grants Management Information 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 into or retrieve information 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 code, the Grants Management Information System will ask/prompt the terminal operator for the required transaction information. The system recognizes about 27 transaction codes.

Information entered into the Grants Management Information System is checked for completeness and accuracy by a series of computer edit checks. For example, there is an edit check to ensure that the region code is comprised of all numeric characters. Overall, the Grants Management Information System performs about 60 edit checks.

If errors in a transaction are detected, the transaction is rejected from further processing and an appropriate error message is printed out on the computer terminal to inform the operator what data needs to be corrected. Only transactions which pass all computer edit checks are posted to the automated files maintained by the Grants Management Information System. The system, however, does not maintain an automated record of rejected transactions. As a result, a rejected transaction may not be reprocessed and the information in the system may not present an accurate status on a grantee's financial position.

Information that passes computer edits is posted to the grants masterfile maintained by the Grants Management Information System. The system and its masterfile are run and maintained on an IBM 4331 minicomputer located in OHDS's Washington, D.C., computer center.

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Similar to the draft Notice of Federal Assistance Awards, Quarterly Federal Cash Transactions and Quarterly Financial Status reports received from grantees are entered into the Grants Management Information System and are posted to the grants master file. The information on these reports is subjected to the same computer edits as the information on the Notice of Federal Assistance Awards.

The Quarterly Federal Cash Transaction Report includes the cash advanced to a grantee, the disbursements made by a grantee in carrying out the work called for under its grants, and the balance of advanced cash on hand. The Quarterly Financial Status Report shows the financial status of each grant; that is, the amount of expenditures made and obligations incurred by a grantee to carry out work called for under the grant.

System outputs

The Grants Management Information System produces the Final Notice of Federal Assistance Award and a series of reports on the financial status of grants. The Final Notice of Federal Assistance Award is sent (1) to the grant applicant as authorization to start work called for in the grant agreement and (2) to the OS Accounting System to establish an obligation on the general ledger for the amount of the grant award. The system also produces about 14 regular reports on the status of grants based on the information reported by grantees on the Quarterly Federal Cash Transactions and Financial Status Reports.

Internal control strengths and weaknesses

Internal controls in the Grants Management Information System appear adequate to ensure that grant awards, grantee disbursements, and grant financial status information is accurately and completely entered into the system and its files. The key internal control strengths and weaknesses in the Grants Management Information System follow.

The 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 type of information that can be posted to the grants master file.

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

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The internal control weaknesses are:

--Transactions rejected by computer edits 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 in a timely manner.

--Grant award information is transferred between the Grants Management Information System and the OS Accounting System via hardcopy records--the Final Notice of Federal Assistance Award--rather than through a machine media record. The manual transfer of information between automated systems increases the chance for errors in the grant award information in the OS Accounting System. The information on the hardcopy document must be reconverted to a machine media file before it can be processed by the OS Accounting System. Errors can occur during reconversation. Further, the reconversion nullifies the edits of grant award information performed by the Grants Management Information System.

In addition to the above internal control weaknesses, we noted that the Grants Management Information System does not produce reports designed to help managers identify grantees which hold excessive balances of federal cash. Under current government regulations and practices, federal contractors and grantees are limited to a 3-day cash supply if they receive cash advances by letter-of-credit, and a 30-day cash supply if they receive cash advances by Treasury check.

OHDS officials stated that the Grants Management Information System is not designed to analyze grantees' balances of advanced federal cash to identify those grantees who maintain federal cash balances in excess of the amount set by regulations. They stated that project grants under the letter-of-credit method are administered by the Departmental Federal Assistance Financing System, which includes the related cash management controls. For grantees receiving cash advances under letters-of-credit administered by the OS Division of Accounting Operations and by the direct Treasury check method, the OS, Division of Accounting Operations is responsible for monitoring and controlling cash advances made to grantees and grantee cash balances. The Division of Accounting Operations performs manual reviews of grantee federal cash transactions reports to identify grantees holding excessive balances of Federal cash.

OHDS's Grants Management Information System, however, is being modified so that it will be able to monitor and control grantee balances of advanced federal cash. The system enhancement effort will initially include the Head Start and the Administration for Native Americans grants. During fiscal 1984 the system enhancement will be expanded to include all other project grants.

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<u>Administration on Aging Financial</u>
<u>Status Reporting System</u>

The Administration on Aging (AOA) Financial Status Reporting System provides OHDS managers with the financial status of AOA formula grants to states. These grants are used to fund programs to increase the quality of life of older Americans and study the problems associated with the aging process and the relationships of older Americans to society in general. The AOA Financial Status Reporting System computes the amount of the award to states and records the financial status reports filed quarterly by the states. A brief discussion of payment methods, system inputs, processing, outputs, and related internal control strengths and weaknesses follows.

Payment methods

Three types of payment methods are used to provide funds to OHDS formula grantees. Specifically, the methods are the:

--Office of the Secretary (OS) letter-of-credit administered by the OS Division of Accounting Operations.

--Single letter-of-credit administered by the Departmental Federal Assistance Financing System.

--Reimbursements authorized by HHS's Division of Accounting Operations based on expenditure reports from grantees.

The primary method of disbursement is the Office of the Secretary letter-of-credit administered by the Division of Accounting Operations.

System Inputs

The AOA Financial Status Reporting System receives only one input document, the Financial Status Report (SF 269). The Financial Status Report is prepared by each state on a quarterly basis and is sent to OHDS. The data from the report is entered by computer terminal into the system. Information on the Financial Status report is also independently entered into the OS Accounting System to update OHDS's general ledger accounts.

System processing

The review and approval of the AOA state plan and the preparation and issuance of a Statement of Grant Award is a manual process. The Statement of Grant Award is the document which establishes the amount of money a state is to receive under an AOA grant and authorizes the state to begin carrying out work called for under the state plan. The Statement of Grant Award is (1) sent to the state to notify it to begin work and authorizes it to incur expenditures and (2) entered into the OS Accounting System to establish an obligation for the amount of the grant in OHDS's general ledger accounts.

The Financial Status Report (SF 269) is entered into the AOA
Financial Status Reporting System by computer terminal. Access to
the system and its files is controlled by a system of user pass-
words and transaction codes. The user password identifies individ-
uals 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 into or retrieve information 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
code, the AOA Financial Status Reporting System will ask/prompt the
terminal operator for the required transaction information. The
system recognizes about six transaction codes.

Information entered into the AOA Financial Status Reporting
system is checked for completeness and accuracy by a series of com-
puter edit checks. For example, there is an edit check to ensure
that the grant number is comprised of all numeric characters.
Overall, the AOA Financial Reporting System performs about 24 edit
checks.

If errors are detected in a transaction, the transaction is
rejected from further processing and an appropriate error message
is printed out on the computer terminal to inform the operator what
data needs to be corrected. Only the transactions which pass all
computer edit checks are posted to the automated files maintained
by AOA Financial Status Reporting System. The system,however, does
not maintain an automated record of transactions rejected by
computer edits. Therefore, there is no assurance that rejected
transactions are corrected and resubmitted for reprocessing.

The Financial Status Reports are also entered into the OS
Accounting System to update OHDS's general ledger accounts. The
Quarterly Financial Status Reports show the financial status of
each grant; that is, the amount of expenditures made and
obligations incurred by a state to carry out the work called for
under the grant.

States also submit to AOA a Monthly Federal Cash Transactions
Report which includes the amount of cash advanced to a state,
disbursements made by a state in carrying out the work called for
under the grant, and the balance of advanced cash on hand. The
Monthly Federal Cash Transactions Reports are also entered into the
OS Accounting System to update OHDS's general ledger accounts.
This report, however, is not entered into the AOA Financial Status
Reporting System and is not posted to the grants master file.

Information that passes computer edits is posted to the grants
master file maintained by the AOA Financial Status Reporting Sys-
tem. The system and its master file are run on and maintained on
an IBM 4331 minicomputer located in OHDS's Washington, D.C.,
computer center.

System outputs

The AOA Financial Status Reporting System produces about seven recurring quarterly reports on the financial status of AOA grants. The system also produces four special reports. The reports produced by the system are distributed to HHS's regional offices, OHDS budget office, and AOA grant managers.

Internal control strengths
and weaknesses

Internal controls in the AOA Financial Status Reporting System appear adequate to ensure that grant awards and quarterly financial status information are accurately and completely entered into the system and its files. The key internal control strengths and weaknesses in the AOA Financial Status Reporting System follow.

The internal control strengths are:

--User passwords that 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 grants master file.

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

The primary internal control weakness is that transactions rejected by computer edits 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. In addition, the AOA Financial Status Reporting System does not produce reports designed to help managers identify states that hold federal cash in excess of their needs.

OHDS officials stated that the AOA Financial Status Reporting System is not designed to analyze state-held balances of advanced federal cash and to identify states that hold federal cash balances in excess of the amounts set by regulations. They also stated that cash management controls for AOA grantees, receiving cash advances under a single letter-of-credit are included in the Departmental Federal Assistance Financing System. Balances of cash advances made to AOA grantees under the Office of the Secretary letters-of-credit administered by the OS Division of Accounting Operations are not monitored.

Property Accounting System

The Property Accounting System provides OHDS managers with an annual inventory of all OHDS personal property. This report is

submitted to the Chief, Logistics Branch, Office of the Secretary. A brief discussion of system inputs, processing, outputs, and related internal control strengths and weaknesses follows.

System inputs

The Property Accounting System receives three inputs: requisitions, invoice forms, and property log sheets. The requisition and invoice forms are received when orders are placed for new property items. The physical inventory log is prepared based on a physical inventory. Information is entered into the Property Accounting System by computer terminal.

System processing

New property items are requisitioned by individuals in various OHDS organizational units on a purchase/service/stock request form. Requisitions are approved by OHDS's Division of Administrative Services. Once approved, the requisitions are submitted to the Chief, Procurement Branch, Office of the Secretary, for issuance of a purchase order.

A copy of the purchase order is posted to the OS Accounting System to record the obligation in OHDS's general ledger accounts. Another copy of the purchase order is sent to OHDS's Office of Administrative Services. Purchase order information is recorded on a property log sheet and retained in OHDS's Division of Administrative Services until the property is received.

At the time a property item is received and accepted a receiving report is prepared, a decal number is assigned to the property item, and the transaction is entered into the OHDS's Property Accounting System. An OHDS custodial officer also prepares a personal custody property record before the property is delivered to the requestor.

The receiving report is placed in the vendor's file, and the receipt is recorded on the property log sheet. When the vendor's invoice is received, a copy of the receiving report and vendor's invoice is posted to the OS Accounting System to (1) initiate payment to the vendor, (2) liquidate the obligation, and (3) record the payment in OHDS's general ledger accounts.

If a personal property item is no longer needed by OHDS, staff in the OHDS Property Accounting Office prepares a Report of Excess Personal Property and sends it to the General Services Administration. The General Services Administration will direct OHDS where to send the excess property item--that is, to a General Services Administration storage facility or another federal agency--by preparing and sending OHDS a Transfer Order for Excess Personal Property. Upon receipt of the Transfer Order OHDS disposes of the property item as directed, and the appropriate information is recorded on the property log sheet. The information on the property log sheets is subsequently entered by computer terminal into the Property Accounting System.

The Property Accounting System maintains one master file. For each property item the master file contains decal numbers, location, property description, requisition number, dollar value at time of purchase, object class, life expectancy, and property accountable officer. Access to the Property Accounting System is controlled by user passwords which identify individuals authorized to operate and use the system and to screen out unauthorized users. Each transaction is subject to a series of computer edits to validate the information entered for processing. Transactions rejected by computer edits are not accepted by the system. The Property Accounting System does not maintain an automated record of rejected transactions.

System outputs

The key output of the Property Accounting System is an annual inventory report. This report is submitted to the Chief, Logistics Branch, Office of the Secretary. According to the Director of HHS's Division of Accounting Operations, this report is not submitted to the Division of Accounting Operations. As a result, there is no reconcilation of the detailed property records and corresponding general ledger accounts.

Other concerns

The Property Accounting System had no system documentation in place to describe how the system operates. In addition, while OHDS officials said that a physical inventory is required annually, with the last physical inventory conducted in April 1983, they added that inventory results are not retained after the results are compared with the property records and required adjustments are posted to the Property Accounting System. In August 1983 we requested a copy of OHDS's physical inventory and were only able to obtain the results for four of the eight physical inventories taken. After several more requests, we obtained only two of the remaining four inventory results.

Although an annual inventory is taken of OHDS's property, the information compiled is not used to make needed adjusting entries in the OS Accounting System. In addition, a reconciliation is not made of the detailed property records and corresponding general ledger accounts. The Director of the Department's Division of Accounting Operation stated that OHDS's Property Accounting System is not reconciled because no reports are prepared and submitted to the Division of Accounting Operations. In addition, the Property Accounting System's files might not be complete because on one occasion the system's automated files were destroyed. The Data Processing Division erased all the data stored in the system's files. As a result, OHDS's property staff had to reconstruct and reenter all detailed property records into the system.

Internal control strengths
and weaknesses

Internal controls in the Property Accounting System appear inadequate to ensure that property items are properly accounted for

and controlled. The Property Accounting System has only one key output--the annual inventory report. The key weakness is that the system does not produce reports to help managers make procurement decisions.

The Property Accounting System does not capture and record information on individual property items, such as whether the item is idle or in-use, which could help managers make procurement decisions. Specifically, OHDS managers cannot use the Property Accounting System when they are considering a property requisition to determine (1) whether they have the requisitioned item already on hand, and (2) if they have the requisitioned item on hand whether the item is idle or only partially used and consequently available for use in another organizational unit in OHDS.

OHDS's property items are not reconciled to OHDS's ledger accounts. Its physical inventory log sheets are of little benefit once information from the log sheets is entered into the Property Accounting System. In addition, the system has no written system documentation and therefore it is difficult to obtain an understanding of how the system is designed to operate.

SYSTEM ENHANCEMENT EFFORTS

OHDS management recognizes that its two grants management systems--the Grants Management Information and the AOA Financial Status Reporting systems--do not provide grant managers with the information needed to monitor grantee cash advance balances to identify those grantees who hold excess federal funds. The Grants Management Information System is being enhanced to provide for the identification of grantees that have federal funds in excess of their needs. According to agency officials the system enhancement will begin with the Head Start and the Administration for Native American grantees. In fiscal 1984, this system enhancement effort will be expanded to include all other project grantees.

OBJECTIVES, SCOPE, AND METHODOLOGY

This survey viewed the Office of Human Development Services as a financial entity and focused on identifying its financial management structure, related systems, and 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 Human Development Services 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 systems.

SURVEY SCOPE

This survey viewed the Office of Human Development Services 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 Office of Human Development Services, 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, 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 and transactions. 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 Departments and
Agencies, the Comptroller General announced changes to GAO's pro-
cedures 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 safe-
guarded against waste, loss, and misuse; and that reliable
data are obtained, maintained, and disclosed in reports."

Processing procedures are those manual and/or automated procedures
that govern capturing, recording, processing, summarizing, and re-
porting 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, ac-
counting, control, and reporting system. For example, most agen-
cies 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, disburse-
ments, 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 preceding 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 HUMAN DEVELOPMENT SERVICES
FINANCIAL MANAGEMENT SYSTEMS
INCLUDED IN OUR SURVEY

Based on the foregoing definitions, we included in our survey
all manual and automated systems at the Office of Human Development
Services 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) audit approach. Accordingly, our survey
included identification and documentation of the Office'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 weaknesses in the Office's
  systems based on the internal control strengths and
  weaknesses identified during the survey.

In consonance with the CARE audit approach our work entailed
identification and documentation of the operations and related in-
ternal control strengths and weaknesses of the Office's financial
management systems based on (1) available agency system documenta-
tion, (2) discussions with cognizant agency accounting, program,
and ADP 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
tests were not performed of system operations or of information
processed by and recorded in those systems.

THE OFFICE OF HUMAN DEVELOPMENT SERVICES — GRANT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
Authorization		
1. Grant eligibility requirements should be authorized in accordance with laws, regulations, and management's policy.	Determination of eligibility of an applicant for a grant and an award is a manual process. Reviews are conducted in compliance with laws, regulations, and management's policy. Periodic Inspector General audit of grant authorization process is the control that is in place.	
2. Information and methods used to publicize the program should be authorized in accordance with laws, regulations, and management's policy.	The system to achieve this control objective is a manual system. Periodic Inspector General audit of this system is the control in place.	
3. Grant application processing procedures should be established and maintained in accordance with laws, regulations, and management's policy.	See control objectives 1 and 2.	

THE OFFICE OF HUMAN DEVELOPMENT SERVICES — GRANT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
4. Grantee procedures for control, use, and reporting of grant funded operations should be authorized in accordance with laws, regulations, and management's policy.	OHDS has published detailed guidance for grantees to follow in reporting expenditures of grants. Grants are established according to agreements. The control in place is the periodic Inspector General audit.	

Economy, Efficiency, and Effectiveness

5. Grant program results should be in accordance with laws, regulations and management's policy and plans.	Grantees provide information for the preparation of monthly and quarterly reports on SF 272 (Federal Status Report) and on SF 269 (Financial Status Report). These reports are forwarded to the program offices and the OS Accounting system to be used for generating regular and ad hoc reports and posting to the general ledger accounts.	

THE OFFICE OF HUMAN DEVELOPMENT SERVICES -- GRANT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
6. Program results should be achieved in an economical and efficient manner.		Formula grants information which is gathered for formulation of the SF 272's and SF 269's is compiled manually. After these reports are prepared they are forwarded manually to the regions for review. The regions then forward those reports to the program office and the OS Accounting System manually. Project grant information reported on SF 272's and SF 269's is compiled manually. The reports are forwarded to the program office and the Office of the Secretary's Accounting System manually.
7. Procedures used to review process and report grants and related transactions should be economical and efficient.		See Control Objective 6.
Transaction Processing		
8. Only those grant requests that meet the eligibility requirements should be approved.	See control objective 1.	
9. Resources (personnel, supplies and overhead costs) incurred for grant processing should be accurately and promptly reported.		OHDS does not maintain separate records to determine the cost of processing grants information for either the Grants Management Information System or the Administration on Aging System. This information is compiled, in total, for all users of the computer system.

THE OFFICE OF HUMAN DEVELOPMENT SERVICES -- GRANT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
10. Grants issued should be accurately and promptly reported.		See control objective 6.
11. Resources used, program results and related adjustments should be accurately applied to the proper records.	Data is entered into a computer terminal by an access code. The system is controlled by password codes. Information to be entered into the system is requested by the system. This is accomplished by requesting specific items of information through messages displayed on the computer terminals. Information entered by the computer terminal is subjected to computer edits. For example, if errors are found, error messages are printed out on the computer terminal. If the correct information is known, errors are corrected immediately. Errors requiring follow-up work are controlled through a computer maintained error file in the AOA Financial States Reporting System until the correct data is subsequently entered. All errors are corrected, revalidated, and posted to the files.	Transactions rejected by computer edits are not controlled through an automated suspense file. The Grants Management Information System does not have the information needed to ensure that rejected transactions are corrected and resubmitted for processing in a timely manner.
Classification		
12. Grants and costs of processing should be summarized each period and classified in accordance with management's policy.	See control objective 5.	See control objective 9.
13. Reports should be prepared accurately, promptly and on a consistent basis that adequately presents the information they purport to display.		Grantees report monthly and quarterly on SF 272 cash balances on hand. This information is meaningless since grantees have different withdrawal and disbursement patterns. To determine whether grantees do comply with the requirement to maintain less than a month's cash on hand after monthly disbursements, it is necessary to know their withdrawal and disbursement patterns and then compare them. The SF 272 reports are insufficient to track this information.

THE OFFICE OF HUMAN DEVELOPMENT SERVICES -- GRANT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
		Under current government regulations and practices, federal contractors and grantees are limited to a 3-day cash supply, if they receive cash advances by letter-of-credit and a 30-day cash supply, if they receive cash advances by Treasury check. Even though OHDS officials disagreed, the responsibilities for cash management lie with both DFAFS and OHDS.
Substantiation and Evaluation		
14. Recorded data should be periodically substantiated and evaluated.		See control objective 6
15. The distribution of costs to accounts should be periodically reviewed and evaluated.	Distribution of costs to accounts is accomplished through the Office of the Secretary's Accounting System based on the common account numbers cited in each transaction.	
16. Grantee records should be periodically substantiated and evaluated.	See control objective 5	See control objective 9
Physical Safeguards		
17. Access to grant and cost accounting records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.	The computer hardware which is used for data inputs, processing, and outputs is maintained and safeguarded in an office type environment. To access any terminal, a password is necessary before information is entered into the system. In addition, data stored in the computer cannot be retrieved unless a password is given.	

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THE OFFICE OF HUMAN DEVELOPMENT SERVICES - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Controls in Place

Control Weaknesses

Authorization

1. Vendors should be authorized in
accordance with laws, regulations
and management's policy.

The Procurement Branch within HHS maintains a master file of all
authorized vendors for the Department. When OHDS submits a requisi-
tion for personal property, the procurement branch ensures that the
property is ordered from the schedule and that sole source
purchasing is approved for purchase.

2. The types, estimated quantities,
and prices and terms of goods and
services needed should be authorized
in accordance with laws, regulations
and management's policy.

When a unit within OHDS needs personal property items a purchase/
service/stock request form (HHS Form 393) is prepared and approved
by OHDS management and then is forwarded to the Chief, Procurement
Branch in HHS to ensure that the property is ordered from the
schedule and that sole source purchasing is approved for purchase.
A purchase order is issued on Standard Form 147 by the Procurement
Branch. This office selects an authorized vendor for procuring the
goods. Copies of the purchase order are forwarded to OHDS's
Property Accounting Office and are further distributed to the (1)
vendor, (2) warehouse, and (3) Office of the Secretary's Accounting
System when goods are received.

3. Adjustments should be authorized in
accordance with laws, regulations
and management's policy.

Personal property items when ordered are shipped to the Department's
warehouse located in Springfield, Virginia. Items received are
examined by the warehouse staff to ensure (1) the correct quantity
is received, (2) the goods are not damaged, and (3) the goods are
what was ordered. If damages or errors are found, the goods will be
returned to the vendors, and the warehouse staff will notify the
unit which ordered the goods about the problem. Both the
Procurement Branch and the OS Accounting Office will also be
notified. If no problem is found with the goods after the warehouse
review, the warehouse staff then notifies the OHDS unit that the
goods are received. Arrangement is made for delivery to that unit.
When the goods are delivered and received, the vendor submits its
invoice for payment.

THE OFFICE OF HUMAN DEVELOPMENT SERVICES - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses
4. Procurement cycle processing procedures should be established and maintained in accordance with laws, regulations and management's policy.		OHDS's Property Accounting System does not have either written procedures or system documentation in place. Because these were not available, it was difficult to determine how the system was designed to operate, and how edits were performed, new items were purchased, and items were disposed of.
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 system does not provide enough useful information to assist managers in determining if items being ordered are already on hand. As a result, items maybe procured when not needed.
7. Procurement procedures used should be economical and efficient.	See cycle control objectives 1, 2, and 3.	

THE OFFICE OF HUMAN DEVELOPMENT SERVICES (HDS) - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives	Controls in Place	Control Weaknesses

Transaction Processing

8. Only those requests of vendors for goods or services that meet management's criteria should be approved.

See cycle control objectives 1, 2, and 3

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.

When personal property items are received by OHDS they are assigned decal numbers before entering into the computer system. An inventory sheet shows item description, serial number, index number, acquisition date, acquisition value, voucher number, and replacement cost.

11. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.

The OS Accounting System maintains OHDS's accounting records. When the goods are received within OHDS, a copy of the invoice is forwarded to that office for issuing a check to the vendor and updating OHDS's ledger accounts.

Yearly the property accounting system produces a capitalized report on property which is submitted to the Chief, Logistics Branch in HHS. This report is not submitted to the OS Accounting System for reconciling of the property and accounting records. Checks are issued within 21 days of goods received. The Prompt Payment Act specifies that payment should be made 30 days from receipt of goods.

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 adjustments, should be accurately applied to the proper vendor's accounts.

See cycle control objective 11.

THE OFFICE OF HUMAN DEVELOPMENT SERVICES - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

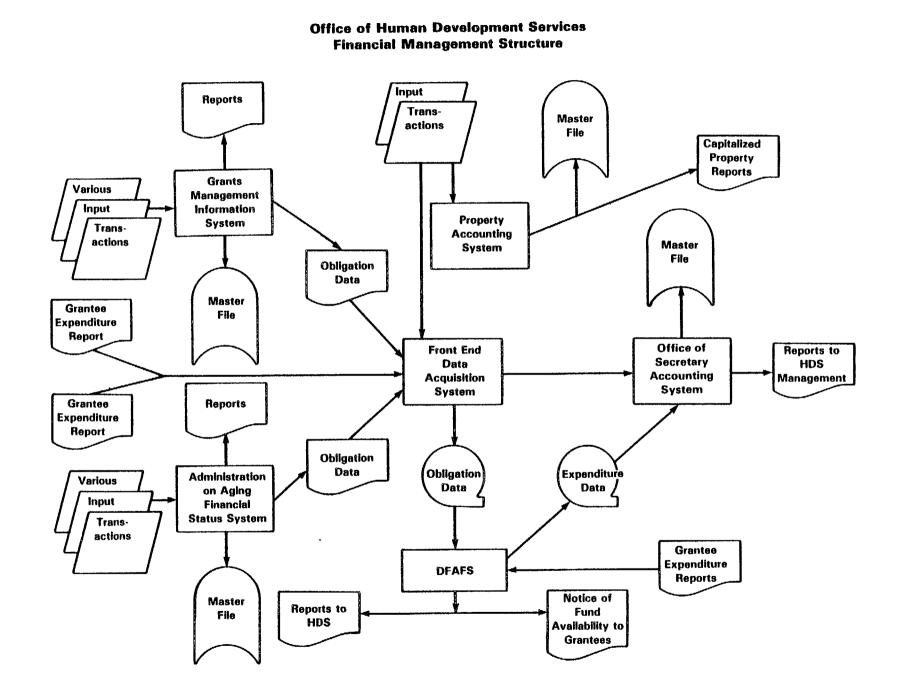| Cycle Control Objectives	Controls in Place	Control Weaknesses
Classification		
15. Journal entries for amounts due to vendors and related adjustments should be prepared each accounting period.	See cycle control objective 11.	
16. Purchasing journal entries should summarize and classify economic activities in accordance with management's plan.	See cycle control objective 11.	
Substantiation and Evaluation		
17. Recorded balances of accounts payable, and related transaction activity, should be periodically substantiated and evaluated.	OHDS does have an internal commitment ledger system which verifies cash balances from the budget authority. This system supplements the OS Accounting System. Before purchases are made, the cash balances for goods and services are verified to ensure that sufficient funds are available.	
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.	OHDS's Property Accounting System is run on an IBM 3270 computer. This hardware is maintained in an office type environment. There are locked doors available to secure the files and equipment when they are not in use.	The system data base was destroyed completely on one occasion. The Data Processing Division erased all the data stored in the system. As a result, all the data had to be reentered into the system. Access control is needed to limit specific information desired by other users of the systems.

Office of Human Development Services
Financial Management Structure

DEPARTMENT OF HEALTH & HUMAN SERVICES

Memorandum

DATE   : AUG 2 1983

FROM   : Joseph A. Mottola, Director,
           Office of Management Services, HDS

SUBJECT: General Accounting Office Draft Document on The Office of
           Human Development Services Responsibilities, Activities,
           and Financial Management Structure

TO   : Guy F. Linza, Chief,
           Operating Divisions' Systems and Procedures Branch, OS

     We have reviewed the subject GAO draft document and find that it
is inaccurate in its discussion of HDS systems and procedures. The
major points that we take exception to are as follows:

     Funding level - The HDS Fiscal Year 1982 budget authority was
     approximately $4.9 billion rather than the $3 billion as stated.

GAO Note: The change was made to reflect $4.9 billion (see
            page 1).

     Commitment Ledger System - HDS does operate its own commitment
     accounting system for the administrative control of funds. The
     HDS system records commitments of funds prior to obligations
     being incurred. The DAO Accounting System records obligations
     and expenditures. Spending authority is controlled through the
     HDS Commitment Ledger System.

GAO NOTE: The necessary changes were made (see page 3).

Grants Management Information Systems – The Grants Management
Information System is a project grant management system.
Payments to grantees may be under either the DFAFS letter of
credit system or by Treasury check. The control of cash on hand
under the letter of credit is a responsibility of DFAFS and not
the granting activity. The grants that are paid by Treasury
check are controlled as follows:

a. A payment schedule is prepared for each grant at the time of
    award.

b. The payment schedule is adjusted based upon the 272 reports
    submitted by the grantee quarterly. Record of cash
    transactions should be recorded in the payment system
    (DAO). It would be a duplication for both HDS and DAO to
    have the cash transaction data.

GAO NOTE: The necessary changes were made (see pages 4-7).

   HDS has implemented a cash management system with DAO to monitor
and control excessive cash balances that may be in the hands of
grantees. In FY '83 this covers Head Start and ANA grantees. It
will cover all grantees in FY '84.

GAO NOTE: This change was made (see page   13   )

   AOA Financial Status Reporting System – The Financial Status
Reporting System is a formula grant system. The grants are
awarded to states and are paid under the letter of credit system
operated by DFAFS. DFAFS is responsible for the controlling of
cash in the hands of grantees for these grants. The reviewer
apparently considered these as project grants rather than
formula grants. The reviewer on page 15 states that "the System
does not produce reports analyzing the balances of advanced
Federal cash held by States in relation to State disbursement
rates to help managers identify States that hold excessive
balances of Federal cash". This is a function of DFAFS not of
HDS. The same is true for the discussion in the next paragraph
on cash transactions.

GAO NOTE: The necessary changes were made (see pages 8 - 10).

Property Accounting System - The OS function for personal
property is that of a purchasing agent. They process
requisitions submitted by the HDS Division of Administrative
Services. HDS has complete control of HDS personal property.
To our knowledge there is no reason for HDS personal property to
enter the OS Personal Property System. HDS has approval
authority for the purchase of personal property. The only
approval that OS has is to determine that property is purchased
from the schedule and that sole source purchasing is justified.
HDS makes its own determination as to what property is required
and has approval authority for its purchase.

The Property Accounting System is used as a means of keeping the
HDS property inventory up to date and is more than an annual
listing of property. The System can be manipulated to obtain
various reports if the need arises. Due to the size of HDS and
the fact that the Division of Administrative Services is
responsible for all aspects of property management, it is not
necessary for managers to interrogate the System. All
requisitions for purchase of property are funneled through that
Division which makes the determination as to whether or not
requisitioned items are available and on hand.

An annual report is submitted to the Chief, Logistics Branch, OS
and inventory printouts are run quarterly and submitted to each
HDS program staff for verification.

GAO NOTE: The necessary changes were made (see pages 10 - 13).

The attachment on the Grant cycle apparently attempts to combine
GMIS and the AOA FSRS. In other words it discusses both project
and formula grants as one cycle. We do not believe that this is
a proper procedure. This attachment is also based partly on a
draft IG Report on the Review of Grants Management Practices,
HDS dated November 22, 1982. The subject report has not been
finalized and issued. We do not believe that a draft IG report
should be included in this draft document.

GAO NOTE: The changes are made (see page 17).