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

ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

AUGUST 20, 1985

B-219535

The Honorable Edwin Meese
The Attorney General

Dear Mr. Attorney General:

Subject: Strengthening Internal Controls Would Help the Department of Justice Reduce Duplicate Payments (GAO/AFMD-85-72)

In response to a request by Representative Jack Brooks, Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations, we examined the issue of duplicate payments by federal agencies. His concern had been prompted by information received during the summer of 1984 that several agencies had paid a Maryland firm more than once for the same services. We have surveyed this aspect of payment procedures at selected federal payment centers which process a large number of invoices, including one within the Department of Justice's Justice Management Division in Washington, D.C. The results of our work at other agencies are presented in separate reports.[1]

We conducted an automated comparison of payment data for the first 4 months of fiscal year 1985, the latest data available when we began our survey. That comparison revealed about 580 instances of payments involving $500 or more in which selected payment descriptors--company name, payment amount, document control number, accounting classification data, and company invoice number--were identical. We judgmentally selected 30 of those potential duplicate payments and by reviewing supporting payment documents confirmed that 4 involving about $4,600 were

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[1]We also completed surveys at a payment center for the General Services Administration (GAO/AFMD-85-70) and at one for the Department of Defense's Defense Logistics Agency (GAO/AFMD-85-71).

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duplicates. Three of these amounting to about $3,900 had not been identified or collected by Justice at the time of our review.[2]

Justice officials told us that because of increased management emphasis on the duplicate payment issue, they began identifying any duplicate payments returned starting with those for March 1985. Our review of those records for March through May 1985 revealed 203 refunded duplicates for approximately $1.7 million. Although most of this amount was attributable to the fact that Justice sent two identical payment tapes to Treasury authorizing intradepartment reimbursements, private vendors had made 87 refunds[3] totaling about $40,000.

We did not attempt to determine the causes of the duplicate payments returned by vendors. However, our examination of the reasons for the four duplicates we identified through our independent testing of prior payments revealed weaknesses in the automated and manual controls used to prevent duplicate payments. We believe that the system problems we found would also have been responsible for a portion of the duplicate payments returned by private vendors. Specifically, we found that:

--The automated internal control feature did not reliably identify duplicate payments, and it required action by payment center staff to stop those it did detect.

--Payment clerks did not have access to comprehensive prior payment data needed to prevent duplicate payments. Specifically, they did not have access to automated files of payments authorized but not yet made, and manual records used to fill that information gap were not consistently maintained.

--The agency offices served by the payment center contributed to the duplicate payments by forwarding more than one vendor invoice for the same goods and services to the center. Also, because the ordering offices did not adequately reconcile what they had received with payments authorized by the center, they did not detect duplicate payments which had occurred.

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[2]We referred these to payment center officials who collected the $3,900 by the end of June 1985.

[3]This includes refunds for two of the four duplicate payments identified through our independent testing.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our principal objectives were to survey selected payment centers to determine whether federal agencies were paying private companies more than once for the same goods or services and whether controls to prevent such improper transactions were adequate. We selected a payment center within the department's Justice Management Division, in part, because it is a relatively high dollar value payment center for a civil agency. This center, referred to as the Financial Management Information System (FMIS), is the department's second largest payment center. During fiscal year 1984, FMIS processed 300,000 transactions totaling about $300 million. The main reason for selecting this payment center was that it had made 17 duplicate payments totaling about $5,000 to a Maryland company. This company had been instrumental in generating substantial concern about duplicate payments during the summer and fall of 1984. We conducted our field work between January and April 1985.

Title 7 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies and the Department of the Treasury's Treasury Financial Manual for Guidance of Departments and Agencies include requirements that agencies' controls over disbursements include the necessary safeguards to prevent duplicate payments. We also reviewed other federal audit reports on duplicate payments.

During November 1984, the Office of Management and Budget (OMB) directed federal executive agencies to conduct a comprehensive review of their payment systems, including the adequacy of system controls to prevent duplicate payments. Findings of the OMB-directed review are to be included in agencies' fiscal year 1985 reports under the Federal Managers' Financial Integrity Act. To avoid duplicating Justice's efforts to satisfy that requirement, we did not perform a detailed system review.

Instead, we concentrated on independent testing of prior payment transactions to identify duplicate payments. To do this, we requested a computer tape of all FMIS vendor payment transactions from October 1, 1984, through January 29, 1985, the latest data available when we began our evaluation. Ideally, we would have preferred to test disbursements covering a longer period, but Justice had only operated its new automated procedures for detecting possible duplicate payments since September 1984. Therefore, we limited our testing to transactions processed using the most current system controls. We did not perform any reliability assessments on the fiscal year 1985 automated payment data provided by the department for our analysis in identifying potential duplicate payments.

We developed and conducted an automated matching routine to identify potential duplicate payments for subsequent follow-up. We compared company name, payment amount, document control number, accounting classification data, and company invoice number. This transaction data for two or more payments had to match exactly for payments to be considered as potential duplicate payments and be selected for subsequent review. Our analysis identified about 4,800 potential duplicate payments, 580 of which involved at least $500. We judgmentally selected 30 potential duplicate payments of $500 or more and obtained the supporting payment documentation. We reviewed invoice data, information on check payments and cancellations, and repayment records and held discussions with payment center officials to determine whether those transactions represented duplicate payments.

To determine the adequacy of automated system controls, we interviewed accounting system and payment center officials to obtain an overview of operations and to identify automated and manual internal controls used to prevent duplicate payments. We also requested any available system documentation. Further, to find out whether the existing automated control function had flagged any second payments for review, we requested the daily exception reports for the duplicate payments we had identified. In addition, we examined whether the manual internal controls had been properly carried out for several duplicate payments.

We also identified the role in the payment process of other Justice offices that ordered goods or services paid for through FMIS. We determined whether they had instituted controls to avoid forwarding improper invoices for payment and whether they reconciled FMIS payment records with their own records of goods or services received. As an extension of that work, we obtained information on the reasons for the 17 duplicate payments to a Maryland firm. We reviewed copies of the invoices supporting each of the 34 payments to determine if the offices that received the services had advised the payment center that another invoice had been sent to them earlier. Also, we examined them to find out if payment center clerks had documented actions they had taken to assure themselves that these had not been paid previously.

Except that we did not perform a reliability assessment of Justice's fiscal year 1985 automated payment data or request official agency comments on a draft of this report, our work was performed in accordance with generally accepted government audit standards.

INTERNAL CONTROLS NEED TO BE IMPROVED TO PREVENT DUPLICATE PAYMENTS

We found several weaknesses and inefficiencies in disbursement system controls which need to be corrected to prevent duplicate payments. Areas needing improvement included (1) an automated internal control feature of the payment system, (2) records of prior payments available for use by payment center staff, and (3) maintenance and use of records at the offices that received the goods and services. Improvements in these areas should materially lessen the overall incidence of multiple payments for the same goods or services, such as the duplicate payments we identified by testing payment records and the duplicate payments returned by vendors between March and May 1985.

FMIS automated control should cover more data and reject potential duplicate payments

Our review of the existing automated internal control system showed that it could only detect duplicate payments if the invoice number and amount paid were identical for two or more transactions. Thus, the system was highly vulnerable to situations where a subsequent billing for the same goods or services contained a different invoice number or amount,[4] no matter how slight the difference. In addition, rather than stopping potential duplicate payments, the control feature generated a daily list of those possible duplicates. Consequently, the feature's effectiveness was dependent on timely efforts by payment center staff to analyze prior payments and manually delete duplicate payments.

Internal control should compare additional payment transaction data

In response to the generally increased federal sensitivity to duplicate payments and to its own knowledge that FMIS was vulnerable to duplicate payments, Justice upgraded the system during September 1984 by adding an automated internal control to detect duplicate payments. Although Justice did not have any documentation describing how that automated control operated at the time of our review, its officials told us that the system compared payment amounts and invoice numbers for each disbursement in process with the same data elements of prior payments. In addition, Justice was in the process of obtaining taxpayer identification numbers for each company with which it was doing business and incorporating these unique identification numbers into the automated system.

Conducting automated comparisons on such data elements provides some assurance against duplicate payments; however, certain fundamental weaknesses need to be addressed. A simple change in the data compared by the control, such as a modification to an invoice number, could allow a second payment for the same item to slip through the payment process undetected. In general, such changes can be the result of the company using another invoice number for follow-up billings or clerical errors in entering that information on the payment system files. As an

[4]The amount could be different if a discount had been taken, an interest penalty had been paid, or if the payment was either partial or had been combined with another to the same company.

example, 3 of the 17 duplicate payments made to the Maryland firm over the past 2 to 3 years had different invoice numbers on follow-up billings. Because the automated control procedure in FMIS could not identify a payment as a duplicate if the invoice number was changed from the first billing, such situations could result in the department paying for the same services twice. Justice officials told us that they had also identified other companies that had submitted follow-up billings using different invoice numbers.

Justice has been taking initiatives to place greater responsibility on the vendors to help the payment center avoid paying for merchandise or services twice. The Director of the Finance Staff advised us that Justice's purchase order documents and contract clauses now routinely require that vendors clearly mark any follow-up bills for the same services as a "second" invoice in order to alert payment clerks about the increased risk of making a duplicate payment. However, payment centers are primarily responsible for preventing duplicate payments, and any increased external cooperation which may result from these efforts does not lessen that role. Instead, knowledge of such practices as follow-up billings with different invoice numbers provides a warning that the internal controls against such risks need to be strengthened to the extent practical within realistic cost and benefit considerations.

Officials from the Finance Staff acknowledged that the existing payment system did not offer adequate controls to prevent duplicate payments. They told us that the department is currently working on a new automated accounting system that will provide centralized control over purchases and payments and incorporate many of the automated control features discussed in this letter. They said that the new system will be designed to integrate the functions of budgeting, procurement, property, and accounting and to minimize the amount of paperwork needed for transactions. A contractor is currently defining the system requirements, and officials hope to implement the system in fiscal year 1988.

In the interim, they said they were considering increasing the amount of data entered on the automated payment system for blanket purchase agreements.[5] Currently, individual orders for merchandise or services under these agreements are not recorded on the system as they occur. Instead, an estimated amount to be paid under each agreement is entered monthly as a lump sum. Thus, the automated system does not have the capability to

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[5]Blanket purchase agreements are contracts with vendors for goods or services at a specific unit price. Federal agencies can submit multiple purchase orders under such master agreements, thereby eliminating much of the administrative effort that would be involved in developing separate agreements for each purchase.

determine the propriety of individual bills as they are paid. Depending on the specific changes made and on how well they are implemented, such revisions could strengthen the accounting system and help prevent duplicate payments.

The automated control feature to avoid paying for goods and services twice should cover additional data relating to payments and preferably use transaction data unique to each payment. Additional descriptive data regarding payments, such as purchase order numbers, are already in the automated payment system files. Such numbers would be unique for one-time purchases, and other data could be added to the automated files for other types of procurement actions. For example, Justice assigns "call numbers" to each order for goods and services procured under blanket purchase agreements so that it can identify individual purchases. Similarly, merchandise delivery dates or service completion dates could help give each payment a unique identity. Adding such data elements to the automated information base and incorporating them and other transaction-unique data into the control to prevent duplicates would substantially upgrade the system's capability.

We believe the department should be able to obtain further insights into the necessary automated control features based on its current initiatives. As noted at the beginning of this letter, in March 1985 Justice started to collect data on the number of duplicate payments returned each month. Justice officials said that this effort was in response to recent management emphasis and said they would continue to collect this information for several months. In addition, during June 1985, they had started to determine why these duplicate payments had occurred. This effort should offer additional valuable perspective on the necessary components of any upgraded edit routine to minimize duplicate payments.

Automated control should suspend possible duplicate payments

The FMIS control routine for preventing duplicate payments currently produces a daily listing of possible duplicate payments but does not automatically suspend them from the payments in process. Instead, payment center officials are to examine promptly the propriety of each listed exception and intervene in the payment process to delete any confirmed duplicate transactions before the payment authorization is forwarded to the Department of the Treasury, which prepares and issues the checks.

Converting the automated control from a passive to an active feature would provide added assurance that potential duplicate payments detected by the system were revalidated before being paid. The advantage of an active control is that it would have detected and suspended processing of the four duplicate payments we confirmed because the payment data--the invoice numbers and payment amounts--on which the match would have been conducted were identical. We also believe that an active control feature would allow Justice to reduce the level of other duplicate payments now being made.

Although we have no reason to believe that the existing automated control did not identify these four duplicate payments as potential erroneous payments, FMIS officials could not provide us the automated exception reports on which those four should have been listed. In addition, they could not demonstrate that they had been aware of these duplicate payments based on other data or show that they had taken action to stop each of the second payments. One possible reason the control did not work as intended was that the responsibility for ensuring that the daily reports were examined and the results used was distributed among several supervisors. As a result, no control point existed to monitor the examination of questionable transactions. In the absence of an active control feature, establishing such a focal point for following up on exception report listings would provide added assurance that current system output is being used to help reduce duplicate payments.

Manual records were not always complete

Payment center officials' knowledge of weaknesses in the automated internal control for preventing duplicate payments had led to increased reliance on manual procedures by payment clerks to avoid such payment errors. Effective manual control over duplicate payments requires the availability of current information on prior payments; however, payment clerks did not have access to information on automated payments that had been processed but not yet forwarded to the Treasury for payment.[6] Recognizing that this information gap could lead to duplicate payments, during August 1984 the head of payment center operations required accounts payable clerks to enter data from each invoice authorized for payment onto a manual payment record. As they authorized payments and entered them on the record, they were to check previous postings to identify earlier payments that may have been made for the same goods or services.

Our review showed that the manual records for the four duplicate payments we identified had not been adequately maintained. Specifically, although the clerks had made two identical payments in each case, they had recorded only one payment in three instances and none in the remaining case. Payment center officials attributed this to oversight.

According to Justice officials, the department plans to upgrade the reporting capability so that all automated payment

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[6]The reason that some previously processed payments were held was that federal regulations require that payments not be made until due in order to minimize the Treasury's net borrowing costs.

data are accessible to payment clerks. Providing payment clerks full access to automated payment records could eliminate the need for manual records, thus improving both payment accuracy and reducing administrative requirements. Justice had not established any definite milestones for this system improvement at the time of our assessment.

Offices ordering goods and services also have a role in preventing duplicate payments

Individual agency offices that order goods and services need to work with the payment center to help avoid duplicate payments. Title 7 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies requires several specific precautionary measures if other than an original invoice is used to support making a payment. A full explanation as to why the original invoice is not being used and a description of the steps taken to prevent making a duplicate payment must be included on or attached to the duplicate invoice before it can be processed for payment. Further, offices that receive goods or services need to establish adequate techniques for assuring that they do not forward more than one invoice to be authorized for payment by the payment center. Lastly, offices served by the payment center need to compare listings of payments made on their behalf to their own records of items received.

For the four duplicate payments we identified, these requirements had not always been followed. The ordering offices had not consistently used available information either to avoid sending a second request for payment to the payment center or to detect duplicate payments already made. Also payment clerks had processed payments twice even though invoices contained indications that another payment may have been made previously for the same item.

Offices that obtain goods or services generate the required acknowledgement that orders have been received in the proper amount and condition and that payment is appropriate. In general, the offices prepare a separate receiving report confirming that goods have been received and accepted or write directly on the company's invoice (certified invoice) that any services have been completed satisfactorily. In order to avoid the possibility of triggering a second payment for the same goods or services, it is very important that these offices send only one such notification.

For three of the four duplicate payments we identified, the ordering offices had sent two certified invoices for the same services to the payment center. This could have been prevented through effective controls at the ordering office, but only one of the three offices involved prepared a written record of receipt acknowledgements forwarded to the payment center. In that office, routine referrals to the written record during the normal course of business eventually led to accidental discovery of a duplicate receiving report, inquiries to confirm that two payments had been made, and recovery of the duplicate payment. However, the initial failure to recognize that a second certified invoice had been forwarded contributed to making the duplicate payment and the additional administrative work to recover the funds.

In the three instances we identified in which ordering offices sent follow-up certified invoices, they had not specifically advised the payment center that they were not original invoices. However, it is reasonable to assume that the documentation submitted for one of the three was adequate to alert payment center clerks that an original bill may have been received earlier. In that instance, the ordering office had forwarded a company statement showing an unpaid balance and attached a copy of the original invoice which the company had designated as a memorandum copy. Our examination of that follow-up invoice did not reveal any annotation that the payment center had completed the necessary research to justify proceeding with the payment.

We found essentially the same situation for 14 of the 17 duplicate payments to the Maryland firm. Although there was no obvious reason as to why any of the 14 follow-up billings were sent to the payment center, the annotations on these 14 should have alerted payment center staff that a bill for the same services had been sent to them previously. However, through administrative oversight, these 14 were paid again. No annotations explained why the payment center had authorized the second payments for the same items.

As another checkpoint, FMIS generates weekly and monthly reports which are sent to all ordering offices for their use in reconciling the center's payments with their records of services or merchandise received. Three of the four offices told us that it was their policy to review these reports; however, they could not explain why those reviews had not detected the duplicate payments. Officials from the fourth office told us that they assumed the reports were correct and did not review them.

In an October 1984 memorandum, the Office of the Controller pointed out that weaknesses in the internal operating procedures at the payment center and failure of vendors to clearly identify follow-up invoices were two problems which led to duplicate payments. However, that memorandum which was addressed to the offices served by FMIS also attributed payment errors to those offices' mistakes in approving and sending more than one vendor invoice for the same item to the payment center. These offices were asked to review and, as appropriate, revise their procedures so that only one invoice would be forwarded for processing by the payment center.

CONCLUSIONS AND RECOMMENDATIONS

Our analyses of the duplicate payments we identified showed that the internal controls in FMIS needed to be improved. Justice had installed an automated control which compared selected payment data for prior transactions and produced a list of potential duplicate payments. However, the control did not automatically suspend those it identified from being processed for payment. As a result, the passive nature of the system could allow a duplicate payment to be made if no action was taken to analyze the listing and delete confirmed duplicates. Also, the transaction data compared were not the most appropriate for identifying possible duplicates. Other payment data which would be less susceptible to change on another invoice for the same item were available and could be used to increase the reliability of the comparison feature.

Further, Justice should strive for early completion of its efforts to provide payment clerks full access to all automated payment files. By having such complete and current data, payment clerks could help compensate for existing weaknesses in the automated controls. In addition, eliminating the need for manual records now maintained because of this gap would materially reduce the administrative workload and possibly increase productivity.

Also, both the offices served by FMIS and payment center personnel need to carry out specific administrative duties more effectively. This should provide more assurance that only one invoice for the same item is sent to the payment center and only one is entered on the payment system. Finally, FMIS routinely provides the offices it serves listings of payments made on their behalf. Thorough comparisons of these listings with their own records of goods or services received should allow detection of duplicate payments that slipped through the system.

Upgrading the quality and efficiency of FMIS controls will require several specific actions. We recommend that you direct the Assistant Attorney General for Administration, Justice Management Division, to:

--Improve the automated internal control feature for preventing duplicate payments.

- The automated internal control mechanism should be revised so that it can identify possible duplicate payments in process even when there are variances, such as different invoice numbers, in the data describing or supporting the payment.

- Achieving greater control will require including additional information in the automated files, especially any data unique to payment transactions such as call numbers under Justice's blanket purchase agreements or merchandise delivery or service completion dates.

* Justice should use its analysis of why duplicate payments were made to improve its controls for preventing duplicate payments.

--Convert the automated internal control from a passive to an active feature which stops or holds in suspense any identified potential duplicate payments until they are verified to be valid transactions.

--Provide payment clerks full access to all automated payment files.

--Require that staff in the payment center and in offices served by FMIS adhere to sound administrative practices.

* Ordering offices should maintain a log of merchandise or services received and review previous entries prior to sending any receipt acknowledgement to the payment center to authorize payment. This should help avoid forwarding more than one supporting document for the same goods or services.

* Payment center clerks should examine each receipt acknowledgement to identify any with annotations that would indicate that another supporting document for the same goods or services may have been received previously. Before authorizing payment based on any document containing such annotations, payment clerks should research prior payment records to ensure that the same item has not been paid for already.

* Ordering offices also should carefully reconcile the payment center's listings of prior payments with their records of goods and services received to identify any duplicate payments that slipped through earlier system checks.

Although we did not obtain official agency comments on a draft of this report, agency program officials told us during our survey that they planned to make several changes to improve the system's capability to prevent duplicate payments. As we were finalizing this letter, they advised us that they had substantially modified the automated control for detecting potential duplicate payments by substituting other data elements for the matching criteria--invoice number and payment amount--used at the time of our evaluation. They also expected to enter additional information onto their automated payment files which should provide greater capabilities for preventing duplicate payments. We did not evaluate the effect that such changes could have on Justice's ability to prevent duplicate payments.

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This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above-mentioned committees, the Chairman of the Subcommittee on Legislation and National Security, House Committee on Government Operations, and to the Chairmen of the Senate and House Committees on the Judiciary. In addition, we are sending copies to the Director, Office of Management and Budget, the Assistant Attorney General for Administration, Justice Management Division, and to other interested parties.

Sincerely yours,

For Fred. Wolf

Frederick D. Wolf
Director

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