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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Millions Paid Out In Duplicate And Forged Government Checks

Over the last several years, the Treasury disbursed millions of dollars for duplicate and forged Government checks which were not charged to appropriations and were not handled in accord with all applicable laws.

The Treasury's handling of these payments raises important policy questions which the Congress should address to see if legislative revisions are needed or the Treasury's procedures should be changed.

The Treasury's failure to accurately account for and control the accounts receivable resulting from duplicate payments and forgeries precludes assurance that millions of dollars will be collected promptly. Poor procedures in initiating collection action and not adhering to prescribed collection standards have also delayed recovery of the funds.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To The President of the Senate and the
Speaker of the House of Representatives

In response to a request from Congressman Thomas B. Evans, we reviewed the Treasury's Division of Check Claims' accounting procedures for receivables that result from issuing replacement checks. We also reviewed selected aspects of the Division's efforts to collect those receivables and made inquiries at various other agencies which work with the Division in the collection effort.

The report describes the Division's accounting and collection procedures and makes recommendations for improving them. Considerable corrective action has begun, but several additional changes are necessary. The report also contains information on possible legislative changes regarding the issuance of substitute checks, and presents ways to reduce the number of duplicate payments and check forgeries which the Government must recover. Because the report discusses issues which may be of interest to the entire Congress, we agreed with Congressman Evans' office to issue the report to the Congress.

As agreed with Congressman Evans' office, we are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the heads of the other agencies mentioned in the report.

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

MILLIONS PAID OUT IN DUPLICATE AND FORGED GOVERNMENT CHECKS

D I G E S T

Congressman Thomas B. Evans asked GAO to study the Treasury's accounting procedures for duplicate payments and payments on forged checks. GAO's review disclosed that the Treasury is not meeting all legal requirements in accounting for and recovering the payments with the result that funds are disbursed without congressional approval and amounts due the Government are not recovered promptly.

The Treasury issues checks for all Government civil agencies based on data provided by the agencies. In some cases, the checks are lost, stolen (and forged) or, for other reasons, not received by the payee. Under title 31, section 528 of the U.S. Code, the Treasury Department may issue substitute checks when the payee does not receive the original check, provided that the original check has not been paid.

When a forgery occurs, the Treasury attempts to recover the amount involved from the bank that cashed the check, but for various reasons is not always successful. The Congress established a check forgery insurance fund in 1941, which has been increased from time to time and now totals $2 million, which can absorb uncollected amounts paid on forged checks.

GAO's review of the Treasury's procedures for handling duplicate payments and check forgeries showed that:

--Contrary to legal requirements the Treasury has paid both original and substitute checks in many cases.

--Second payments involving original and substitute checks were not charged to appropriations.

--Replacement checks for forgeries were not charged to the fund the Congress established for this purpose.

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Tear Sheet

--There is no appropriation for payment of a forged check discovered after the substitute check is issued.

--The exact amount of receivables and losses resulting from the duplicate payments and check forgeries was not known because of inadequate accounting procedures and controls.

--The Treasury was not acting promptly and effectively to enable recovery of all the receivables.

--More efforts are needed to reduce the number of future duplicate payments and forgeries. Although they represent an extremely small percentage (less than one-tenth of one percent) of the total checks issued by the Treasury, the amounts involved are substantial and total millions of dollars. For example, the Treasury reported gross receivables resulting from duplicate payments and check forgeries of nearly $93 million as of January 1981. (See p. 3.)

TREASURY HAS PAID BOTH ORIGINAL AND SUBSTITUTE CHECKS

To meet the legal requirement of determining that the first check has not been paid before issuing a substitute check, the Treasury must determine the status of the original check quickly. This is sometimes impractical. To delay issuing the second check until such a determination is made could hurt the recipients, many of whom are very needy. As a result of this and other practical considerations, the Treasury has been issuing substantial numbers of both original and substitute checks for many years. (See pp. 5-7.)

SECOND PAYMENT NOT CHARGED TO APPROPRIATIONS

Although the expenditure of funds is legally prohibited unless these funds have been appropriated by the Congress, the Treasury authorized second payments on millions of dollars of checks and did not charge them to any appropriation. The Treasury was reluctant to charge the second payments to the agencies that authorized the first payments, and did so only when the agencies agreed. (See pp. 7-9.)

Charging the second payment to the agency that authorized the first payment is desirable because the agencies often can offset future payments to the payees and thereby facilitate collection. (See p. 9.)

REPLACEMENT CHECKS FOR FORGERIES NOT CHARGED TO APPROPRIATIONS

Replacement checks issued to forgery victims are a special situation and must by law be charged to a specific appropriation--the Check Forgery Insurance Fund. Although the Congress originally intended that all checks issued to replace forged checks be charged to this fund, this has not been done. Because the fund became insufficient to absorb all the replacement checks, the Treasury established an alternate procedure under which the amount of the replacement checks was not charged to the fund or any other appropriation until it was determined that the forged amounts would not be recovered. Although the Treasury's current practice was disclosed in its budget documents, the law was never amended to permit it. (See pp. 10-12.)

NO APPROPRIATION FOR PAYMENT OF FORGED CHECKS DISCOVERED AFTER ISSUANCE OF SUBSTITUTE CHECKS

When a forgery is discovered after both original and substitute checks have been paid the disbursement cannot legally be charged to the forgery fund or any existing appropriation. Legally, the check forgery fund can only be charged when the forgery is discovered before the replacement check is issued. Because the Treasury is responsible for recovering forged amounts from the banks which cashed them, it would not be appropriate to charge the forgeries to the agencies' appropriations. The Treasury often cannot recover the money involved from the banks, but has not sought an appropriation for unrecovered payments and therefore has no funds to which to charge them. Unless other appropriations are provided, the Treasury should be authorized to charge the forgeries to the forgery fund. (See p. 12.)

AMOUNT OF RECEIVABLES AND LOSSES NOT KNOWN

The Treasury did not know the exact number, age, and amount of uncollected duplicate payments and forgeries because of poor accounting procedures and controls. Thus, there is no assurance that millions of dollars will be collected promptly. The specific weaknesses GAO found included:

--Improper transactions recorded in the receivable accounts.

--An undetermined amount of payments commingled in other accounts with other types of transactions and not recorded as receivables.

--No policy for writing off uncollectible receivables.

These problems resulted in lack of control over financial transactions, reporting of inaccurate receivable balances, and failure to comply with GAO's accounting principles and standards for Government agencies. As long as such problems exist, the Treasury cannot effectively manage the receivables and ensure that the Government recovers all the funds. (See pp. 16-21.)

INADEQUATE EFFORTS TO COLLECT DUPLICATE PAYMENTS AND FORGERIES

The Treasury delayed initiating collection of the duplicate payments and forgeries because of difficulties in locating the checks, obtaining legible copies, and distributing them to the appropriate units within the Treasury. The delays deprive the Government of the use of the funds, contribute to increased losses due to uncollectible debts, and increase administrative work. Also, the Treasury failed to charge interest on delinquent accounts and follow up on all unanswered requests for repayment as required by Federal regulations. According to Treasury officials, efforts are underway to begin charging interest and improving the collection effort. (See pp. 22-28.)

DUPLICATE PAYMENTS AND FORGERIES CAN BE REDUCED

The volume of future duplicate payments and forgeries could be reduced if changes, such as different payment delivery methods, were made. Among the alternatives are direct payment to the payee's bank and requiring some payees to personally pick up their checks. While these alternatives could provide savings to the Government, they could also inconvenience payees and financial institutions and increase the costs in other areas. The information needed to determine whether the added costs warrant such inconveniences and to select the most appropriate method or methods, has not been developed. (See pp. 29-35.)

CONCLUSIONS

The problems that have evolved regarding duplicate payments and forgeries are complex. Action is needed to deal with current as well as future duplicate payments. Further action is needed to resolve the accounting for check forgeries, not all of which can be charged to the Check Forgery Insurance Fund as previously explained. Some of these matters can be addressed now, but the situation will not be fully resolved until the Congress acts.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

The Treasury's accounting procedures for duplicate payments and check forgeries do not comply with all applicable laws. For those duplicate payments not involving forgeries, the Secretary should:

--Seek appropriations sufficient to cover those on hand which cannot be recovered.

--Charge future cases in which payees benefit from duplicate checks to the agencies responsible for them if the Congress permits duplicate payments to continue.

To handle forgery cases, the Secretary should charge to the Check Forgery Insurance Fund those payments which the law now allows. Sufficient appropriations should be sought for that fund. (See pp. 13-14.) (See pp. 20 and 27 for further recommendations.)

Finally, GAO recommends that the Secretary, in cooperation with the affected agencies, consider various alternatives for reducing the number of future duplicate payments and forgeries such as

--using alternative payment delivery methods and

--slowing the issuance of some substitute checks. (See p. 35.)

RECOMMENDATIONS TO THE CONGRESS

Because the above actions will not solve the problem entirely, congressional involvement is needed. If the Congress decides that the Treasury should continue its current procedures in issuing and paying substitute checks, GAO recommends that:

--The law be amended to permit the procedure.

--Funds be appropriated to absorb the payments.

GAO also recommends that the Congress:

--Authorize the Treasury to charge all payments resulting from check forgeries to the Check Forgery Insurance Fund.

--Provide the appropriations necessary for the fund's operation. The primary options for providing the resources are to (1) increase the fund's existing appropriation or (2) authorize a permanent indefinite appropriation for the fund. (See p. 14.)

AGENCY COMMENTS

The Treasury agreed with GAO's recommendations that (1) appropriations should be obtained to cover the uncollectible receivables on hand and (2) future cases in which payees benefit from duplicate checks should be charged to the agencies responsible for them. Although it also agreed with the feasibility of GAO's recommendation that the Treasury be authorized to charge all payments resulting from forgeries to the Check Forgery Insurance Fund, the Treasury believes that the payments should be charged to the agencies authorizing issuance of the initial check. However, GAO believes the Treasury should continue to account for the payments because the Treasury has primary responsibility for recovering the forged amounts from the banks that cashed the checks.

In response to GAO's recommendations for improving the accounting control and collection of receivables, the Treasury indicated that many of the recommendations have been or are being implemented. For example, the Treasury stated that a new accounting system has been installed, the accounting staff has been given additional training, and procedures have been established for improving the timeliness of collections.

Finally, the Treasury agreed with the need to examine various means for reducing the number of future duplicate payments and forgeries. Among the methods which the Treasury says it is exploring are alternative payment delivery methods and slower issuance of substitute checks.

Contents

ABBREVIATIONS

DCC	Division of Check Claims
DD/EFT	Direct Deposit/Electronic Funds Transfer
FAB	Financial Activities Branch
GAO	General Accounting Office
IRS	Internal Revenue Service
SSI	Supplemental Security Income

CHAPTER 1

INTRODUCTION

In July 1979, the Secret Service reported that the Treasury had disbursed about $58.9 million in duplicate payments which had not been promptly recovered. The failure to act promptly was attributed to management within the Treasury's Bureau of Government Financial Operations and to a series of accounting control weaknesses. Because the report indicated that the condition had existed for some time, Congressman Thomas B. Evans asked us to review the Treasury activities responsible for recovering the duplicate payments.

Within the Bureau, the Division of Check Claims (DCC) is responsible for the department's efforts to recover duplicate and other improper payments. In fiscal 1980, DCC spent about $12 million, primarily to pay about 500 employees. Some of these employees were added specifically to help reduce the backlog of duplicate payments on which recovery action had not been accomplished.

THE CLAIMS PROCESS

Under the claims process, the payee of a Government check files a request with the administrative agency--the one authorizing the original check--for a substitute check. This claim is filed on the basis that the original was lost, stolen, destroyed, mutilated, or not received. The agency refers the claim to the Treasury after verifying that the payee was entitled to receive payment. The Treasury then establishes whether the original check has been issued and presented for payment. If the original check has not been presented, the Treasury issues a substitute check. The substitute check contains the same serial number as the original one to permit easy identification of duplicate payments. The substitute check is mailed to the payee along with a caution against negotiating both the original and substitute checks.

If, in this claims process, the Treasury finds the original check has been cashed, the payee will be asked to sign an affidavit indicating whether the endorsement is genuine. Also, the Treasury will examine the endorsement to establish its authenticity. If these efforts confirm a check forgery, Treasury issues a replacement check to the payee and refers the case to the Secret Service for investigation.

TYPES OF PAYMENTS TO BE RECOVERED

The payments for which DCC must initiate recovery action are generally categorized as duplicate payments and forgeries. The Secret Service report focused on a backlog of unrecovered duplicate payments which is the phrase used to initially classify all cases in which both the original and substitute checks are cashed. Forgeries refer to cases in which a Government check has been cashed on a forged or other unauthorized endorsement and a second check is issued to the payee. The distinction between the two categories is not always a clear one because forgery may also be involved where original and substitute checks have been cashed. Regardless of the classification, the Government has paid more than it was actually obligated to pay and must recover the excess.

TREASURY'S RESPONSIBILITY FOR DUPLICATE PAYMENTS AND FORGERIES

Within the Treasury, the Division of Check Claims is responsible for the initial accounting for the duplicate payments and forgeries as well as for initiating collection action. DCC's key work units responsible for these actions are:

--The Financial Activities Branch (FAB), which examines copies of checks involving duplicate payments and determines what action should be taken. In cases in which the payee benefited from the proceeds of both the original and substitute checks, FAB will either refer the case to the administrative agency involved or attempt to recover the money directly from the payee. At the time of our review, FAB was to be consolidated with the Adjudication Branch.

--The Adjudication Branch, which authorizes replacement checks to forgery victims and attempts to recover the proceeds of forged Government checks from the banks that cashed them. This action, referred to as reclamation, is taken because the banks are responsible for verifying the identity of the check endorser. The forgery cases are also referred to the Secret Service for investigation.

--Initial Claims Processing Branch, which maintains files of checks being used in the claims process and provides copies of checks needed to document duplicate payment and forgery cases.

--Outstanding Check Claims Branch, which examines and settles claims for the proceeds of mutilated checks and outstanding checks reportedly lost or destroyed.

--Voucher and Accounts Branch, which provides accounting services for the Division.

SECRET SERVICE INVESTIGATION OF FORGERIES

Between December 1978 and March 1979, the monthly forgery referrals by DCC declined from 4,744 to 1,911. This condition led the Secret Service to begin investigating the reason for this substantial drop. In July 1979, the Secret Service issued a report on the investigation which received considerable attention from the press and resulted in a special congressional hearing.

The Secret Service report focused on a large backlog of duplicate payments on which prompt recovery actions were not being taken. It said Treasury records showed the backlog to be about $58.9 million as of April 30, 1979, and estimated that amount to comprise about 300,000 individual payments. The report discussed several factors contributing to the backlog, including poor records, lack of accurate management information on the problem, and employee dissatisfaction with management.

One news article attributed the unprocessed duplicate payment backlog to mismanagement by Treasury officials, especially those in DCC. The press also pointed out that the cost of the mismanagement was being passed on to the U.S. taxpayer.

The backlog included payments on behalf of agencies over which the Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, had legislative responsibility. Accordingly, the subcommittee held a special hearing in November 1979 on possible losses from the duplicate payments and forgeries. The backlog received considerable attention at the hearings and Treasury officials said that they were acting to reduce the backlog and to permit more prompt recovery of future improper payments. The officials proposed, among other things, to hire more employees, improve procedures, and automate manual functions. They also emphasized that a special departmental task force had been established to make sure appropriate corrective actions were taken.

Treasury officials told the subcommittee that the department's goal was to reduce the duplicate payment backlog to $40 million by December 1980. The officials also indicated that a goal would be established for reducing the uncollected forgeries, which totaled about $14.6 million at that time. The officials pointed out that although the duplicate payments and forgeries involved less than one tenth of one percent of the checks Treasury issued, the duplicate payment backlog had grown to over $69 million. This was considerably more than the Secret Service found about 6 months earlier. At January 31, 1981, the reported gross receivables were nearly $93 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our primary objective was to determine whether the receivables resulting from the duplicate payments and forgeries were being accounted for properly and in accord with applicable laws and Government accounting principles and procedures. We also gathered data on procedures used by other agencies which issue substitute checks and/or assist DCC in collecting the duplicate payments. We initially concentrated on the accounting area and other agencies because the Treasury appeared to be addressing the operational problems in DCC. As our work progressed, however, we discovered problems in the processing and collecting of the duplicate payments and forgeries which warranted our attention.

Accordingly, we reviewed the accounting procedures being followed in DCC as well as selected aspects of the work processing and collection procedures. We also examined, using statistical sampling techniques, selected accounting transactions, documents, and duplicate payment and forgery case files. (See app. I.) Because of the problems caused by the duplicate payments and forgeries, we also looked into various means of reducing their occurrence. We interviewed responsible Treasury officials, particularly those in DCC, and reviewed data gathered by the check claims oversight group. Our examination of records was confined primarily to those generated after February 1979. We did not examine earlier records because they were incomplete and not in condition for auditing. Finally, we reviewed numerous laws and regulations regarding the disbursement of and control over public funds.

The other agencies visited (Social Security Administration, Internal Revenue Service (IRS), Veterans Administration, Army, Air Force, and Navy) were selected based on DCC estimates of the largest sources of duplicate payments. We interviewed officials of those agencies and discussed their accounting and collecting procedures for duplicate payments referred by DCC.

CHAPTER 2

SUBSTITUTE CHECKS AND CHECK FORGERIES

WERE NOT HANDLED IN ACCORD WITH LAW

Our review of the Treasury's procedures for handling duplicate payments and check forgeries showed that

--contrary to law, the Treasury has paid both the original and substitute checks in a substantial number of cases,

--the second payments involving original and substitute checks were not charged to appropriations,

--replacement checks for forgeries were not charged to the fund the Congress established for this purpose, and

--there is no appropriation for payment of forged checks discovered after the substitute check is issued.

These problems not only result in failure to meet all legal requirements, but allow expenditures without congressional review or authorization. The Treasury maintains that practical considerations, such as protecting the negotiability of Government checks and quickly compensating parties who do not receive checks due them, brought about its current procedures. These matters involve important policy questions which the Congress should address. Unless the necessary legislative changes are made to accommodate the Treasury's procedures, the Treasury must revise its accounting procedures and comply with the laws governing substitute checks and forgeries.

TREASURY HAS PAID BOTH ORIGINAL AND SUBSTITUTE CHECKS

The Treasury violated existing law by paying both original and substitute checks and thereby allowing duplicate payments to occur. The Treasury was complying with the law several years ago, but pressure from the banking community led to the practice of paying both checks. Other pressures to speed the issuance of substitute checks led to the Treasury issuing some substitute checks without first determining, as the law requires, that the original had not been paid. The Congress should examine these matters and determine whether the law should be amended to permit Treasury's practices or whether Treasury should revise its procedures to comply with existing legislation.

Title 31, section 528(a) of the U.S. Code states:

"Whenever it is clearly proved to the satisfaction of the Secretary of the Treasury that any original check of the United States is lost, stolen, or wholly or partly" "destroyed, or is so mutilated or defaced as to impair its value to its owner or holder, the Secretary of the Treasury is authorized to issue to the owner or holder thereof against funds available for the payment of the original check a substitute showing such information as may be necessary to identify the original check, <u>but no such substitute shall be payable if the original check shall first have been paid</u>." (Underscoring provided.)

We interpret this statute to mean that (1) Treasury should attempt to determine if the original check has been paid before issuing the substitute and (2) only one of the two checks may be paid. Treasury has found it impractical to consistently meet these requirements. For example, Treasury officials stated that there has been considerable pressure to expedite the issuance of substitute checks. That pressure became particularly intense with respect to Supplemental Security Income (SSI) checks, which are intended to provide a minimum level of income for aged, blind, or disabled people with little or no means of self-support. In response to a suit filed in Massachusetts, Treasury filed an affidavit with the court in 1976 pledging to issue substitute SSI checks within 24 hours of receipt of the claims. To meet that time constraint, Treasury does not attempt to determine the status of the original check if the claim is filed in the same month the original is issued.

As for paying only one of the two checks, Treasury followed that practice until 1970. The first of the two checks cashed and returned to the Treasury was always paid whether it was the original or substitute. Payment on the second check was denied, and the check was returned to the bank that cashed it. If the bank or other subsequent endorsers could not recover from the payee, they filed holder-in-due-course claims against the Treasury and were paid.

According to Treasury officials, this practice led to protests from banks which had cashed the checks on valid payee endorsements. The banks contended that they were being forced to act as the Treasury's collection agents. Thus, the Treasury changed the policy in June 1970 and began automatically paying both checks. The Treasury contends that the change in policy was necessary to protect the negotiability of Government checks. According to Treasury officials, the change also averted possible legal action by payees who were entitled to the proceeds of the check and by subsequent endorsers of the checks who would have the right to file a claim against the United States. In many cases, the check that was paid had been cashed on a forged endorsement and only the declined check had been negotiated by the rightful payee. The Treasury is now reconsidering its policy and may begin declining payment on selected large dollar checks.

In the commercial banking industry, the accepted procedure in such cases would be to stop payment on the original check prior to issuing the substitute. If the original check is presented for payment, it is returned to the depository bank within 1 or 2 days. Treasury's check processing and reconciliation system, however, does not allow the original check to be identified quickly enough after payment to meet the banks' time standards for returning checks. The Treasury plans to redesign the reconciliation system, but it is considered a long range project.

APPROPRIATIONS ARE NEEDED
FOR DUPLICATE PAYMENTS

Once the duplicate payments occurred, Treasury did not act to ensure that appropriations were available to cover them as the law requires. Appropriations are needed, as required by the Constitution, to absorb any of the duplicate payments which are not recovered. Otherwise, expenditures are made without the Congress' knowledge and the accounts cannot be resolved for accounting purposes. Treasury charged some duplicate payments to agencies which supposedly had appropriations available for them, but that practice was not consistent for all agencies.

The Treasury issues checks for nearly all executive agencies, reconciles all checks that it issues, and operates a Government-wide accounting system to account for agencies' financial transactions. Under that system, each agency is assigned an Agency Location Code. The Treasury charges each agency's disbursements to the code and it is up to the agencies to see that the proper accounts are charged. The agencies authorize Treasury to issue original checks generally drawn on their appropriated funds. When substitute checks are issued based on claims of loss, destruction, and so forth, no appropriations are charged. The underlying assumption is that only one check, either the original or the substitute, will be cashed. According to Treasury estimates, that assumption has been proven correct about 75 percent of the time.

A problem arises when both checks are cashed. The duplicate payments are identified in Treasury's check reconciliation system when an original and a substitute check, both bearing the same serial number, have been presented for payment. DCC carries the duplicate payments as accounts receivable in an unfunded account until collected or transferred to other agencies willing to accept the accounting and collection responsibility.

Treasury has negotiated agreements with some agencies to allow DCC to transfer the collection and accounting responsibility for the duplicate payments to the agencies which authorized the initial payments. Under these agreements, DCC charges the duplicate payments to the other agency's location code in Treasury's Government-wide accounting system and reduces the accounts receivable in Treasury's records. It is then the agency's responsibility to establish the receivable in its accounts and take collection action.

Appropriations must be available for expenditures

Article 1, section 9, clause 7 of the U.S. Constitution states:

"No money shall be drawn from the Treasury but in consequence of appropriations made by law."

This provision was intended to restrict the disbursing authority of the executive branch and precludes expenditures from the Treasury except as authorized by the Congress. Such authorization is provided through legislative acts known as appropriations. Expenditures made without appropriations escape congressional oversight and control. Duplicate payments that are recovered present no problem. However, the receivables resulting from the duplicate payments must be accounted for against an appropriation so that funds are available to absorb the expenditures represented by uncollectible amounts. DCC's accounting procedures, as well as the agreements which have been reached with agencies such as the Social Security Administration, Internal Revenue Service, and Air Force, do not ensure that the duplicate payments will be accounted for properly because:

--The Treasury has no specific appropriations available to absorb its unrecovered duplicate payments.

--The agreements with the agencies normally apply to only those cases where the agencies have a means of offsetting future amounts due the payee.

--The agencies can charge back the duplicate payments to DCC if they believe the cases are not well documented.

--The accounting practices for the duplicate payments vary among the agencies. According to Social Security and IRS officials, for example, uncollectible duplicate payments are charged to appropriations available for that purpose. The Air Force does not charge appropriations, but increases the accountability of the accountable officers who issue the checks.

Some agencies with which the Treasury has no agreements, such as the Veterans Administration and the Navy, may assist in the collection action, but they make no charges to their appropriations. DCC, therefore, retains the accounting and ultimate collection responsibility for such cases. If any of the duplicate payments are determined to be uncollectible, DCC carries them as accounts receivable indefinitely because it has no appropriations to which to charge the payments.

In a 1976 letter to GAO, Treasury proposed writing off about $272,000 of uncollectible duplicate payments to its appropriation for salaries and expenses. The Comptroller General disagreed with the proposal because there was no evidence that the funds had been appropriated for that purpose. Title 31, section 628 of the U.S. Code, limits the use of appropriations to the purpose for which they were made.

Over the years, the Treasury has maintained no accurate statistics in total or by individual agency on the amount of duplicate payments. It is, therefore, difficult to determine the full extent of the problem and the amounts applicable to each agency. It is clear, however, that the amounts involved are substantial. An average of over $3 million per month was charged to DCC's duplicate payment accounts receivable during the first three quarters of fiscal 1980.

Accounting should relate to collection responsibility

Provided the necessary appropriations were available to create a reserve for unrecovered amounts, it would be acceptable for either the Treasury or the agencies to account for the duplicate payments. However, the question of who should handle the accounting responsibility must be examined in view of which party could best recover the funds. In cases where a payee has benefited from the proceeds of duplicate checks, the agency is normally in a more favorable position for collection because

--the agency can usually locate the payee faster and

--the agency often can offset the overpayment against future amounts due the payee.

Giving the agencies the accounting responsibility should also help to give them greater incentive to collect duplicate payments as well as to prevent them. IRS provides a good illustration. That agency accepts accounting responsibility for certain duplicate payment cases from DCC. In addition, IRS assists DCC in collecting other duplicate payments but does no accounting for them. IRS officials stated that those cases for which accounting responsibility is accepted are given higher collection priority because IRS appropriations must absorb any unrecovered amounts.

Although data on rates of recovery were not available, the agencies we visited that operated under agreements with Treasury estimated that they were able to recover the majority of the duplicate payments. According to Treasury officials, the existing agreements cover a large portion of the duplicate payments. As previously mentioned, however, Treasury does not have agreements with all agencies because some of them have declined to accept the accounting responsibility.

PAYMENTS TO FORGERY VICTIMS SHOULD BE CHARGED TO THE CHECK FORGERY FUND

Current law authorizes the Secretary of the Treasury to make payments from a special fund to individuals whose Government checks were cashed on forged endorsements. Although the Treasury disbursed millions of dollars in such payments over the last several years, they were not charged to the fund as required. The Treasury made the disbursements and simply established accounts receivable in the amount of the payments. Treasury officials stated that these practices were necessary to avoid delaying payments to rightful payees and were disclosed in budget documents.

In 1941, the Congress established the Check Forgery Insurance Fund in the amount of $50,000 (additional sums were authorized to be appropriated as necessary) to issue settlement (replacement) checks to payees who had been issued checks by the Government, but whose checks had been lost or stolen, negotiated, and paid over the payees' forged endorsements (31 U.S.C. 561, et seq.). The Treasurer was directed "to draw on the fund" prior to reclamation to pay those people whenever it appeared reclamation would be delayed or unsuccessful. The purpose of enacting this provision was stated as follows in the report accompanying the legislation (H. Rept. 1113, 77th Cong., 1st sess.):

> "The purpose of this proposed legislation is to relieve the inequitable condition arising when the payee or a special endorsee of a check drawn on the Treasurer of the United States, which has been improperly negotiated through no fault of the payee or special endorsee and paid upon a forgery of his endorsement, is deprived of the amount due him until such indeterminate future time as recovery has been effected from the forger or the bank or other party cashing the check by setting up a small revolving fund (to be composed of $50,000) out of which payment may be made in advance of reclamation.
>
> "This bill in no way affects the duty of the Treasurer of the United States to reclaim, nor the liability of the parties who received the payment on the original check. When recoveries are made from the forger or subsequent transferees of the original check, the amount thereof is deposited back to the credit of the fund of which the advance has been made."

This indicates that the Congress, which increased the fund to $2 million in fiscal 1973, intended that the payments in check forgery cases be made from the fund and that any amount recovered through reclamation proceedings be deposited to the credit of the fund.

Rather than charge the replacement checks to the fund, DCC developed a practice of simply establishing accounts receivable in the amount of the checks issued. All amounts recovered in reclamation actions from the banks were credited to these accounts. According to a DCC official, the appropriated fund was charged only for uncollectible forgery receivables. Any amount recovered on the forgery cases is credited to the accounts receivable. The amounts reported by the Treasury's Bureau of Government Financial Operations for the past few years are shown below.

Fiscal year	Replacement checks for forgeries	Amount
1977	69,370	$19,461,428
1978	41,818	12,820,493
1979	30,877	9,091,464
1980 (note a)	a/ 28,416	a/ 9,346,091
Total	170,481	$50,719,476

a/Through June 1980 only. The projected figures for fiscal 1980 are 37,888 and $12,461,455.

The Treasury has not operated the fund as legally required. These actions reduced the Congress' ability to oversee the expenditures. Annual budget documents report the fund's outlays for uncollectible forgery cases, but no information is provided on the amount of replacement checks issued. The receivables resulting from the forgeries are listed as miscellaneous assets in the Treasury's Combined Statement of Receipts, Expenditures, and Balances of the U.S. Government. According to the Bureau and DCC officials, this practice developed because the fund appropriations and recoveries were not sufficient to absorb all of the replacement checks. By 1972, recoveries were not keeping pace with the amount of claims filed. Thus, replacement checks were delayed several weeks until recoveries could be made to keep the fund's balance positive. While awaiting additional appropriations to be enacted for fiscal 1973, the Treasury developed its current practice of charging only uncollectible forgery cases to the fund rather than all replacement checks. The change was disclosed in the Government's fiscal 1974 budget 1/ as follows:

> "A change in accounting and reporting concepts was instituted late in 1972 which provided for the treatment of forged checks as accountable items of 'Treasury disbursing officers.' This is considered an appropriate change to reflect Treasury's financial responsibility role of making prompt payment to individuals who have suffered loss through the forgery of their Government checks. All payments will become receivables in an unfunded checking account."

1/"Appendix to the Budget for Fiscal Year 1974," p. 760.

Although a change may be necessary, the requirements of the check forgery fund legislation are not being met.

NO APPROPRIATION PROVIDED FOR FORGED CHECKS DISCOVERED AFTER ISSUANCE OF SUBSTITUTE CHECKS

In an undetermined number of duplicate payment cases, Treasury subsequently found that one of the checks was cashed on a forged endorsement. These second disbursements cannot legally be charged to the Check Forgery Insurance Fund or any other existing appropriation.

As previously mentioned, the check forgery fund can be charged only when the forgery is discovered before a replacement check is issued. The primary purpose of the fund is to give Treasury a means of compensating forgery victims who have not received their checks. In duplicate payment cases involving forgery, however, the payee has already received a check and the fund cannot be charged.

Treasury has not obtained a separate appropriation for the payments. Any amounts not recovered have continued to be carried as accounts receivable. One alternative would be to charge each payment to the agency which authorized the initial payment. Because Treasury is responsible for recovering forged amounts from the banks that cashed them, that alternative would not be appropriate. To do so would require the agencies to account for receivables for which they have no control over recovering. A more reasonable alternative under the present circumstances would be to authorize Treasury to charge the payments to the forgery fund. The end result is the same whether the forgery is discovered before or after the replacement check is issued. The payee is compensated and the forged amounts must be recovered. As long as duplicate payments occur, it would be logical to charge the forgeries against one fund.

CONCLUSIONS

The Treasury has not met all legal requirements pertaining to replacement checks and the related expenditures. Duplicate payments were made despite laws prohibiting them, and payments to forgery victims were not charged to the proper fund. Compounding the problem is the fact that the accounting methods for the duplicate payments are inconsistent among the agencies, and there is no assurance that sufficient appropriations will be available to absorb all unrecovered amounts. It is acceptable for either Treasury or the agencies to account for the duplicate payments, provided the necessary appropriations are obtained. In cases where a payee has benefitted from duplicate checks, however, it appears that the agencies have a greater incentive to recover the duplicate payments if they must account for them.

Charging payments to forgery victims to the Check Forgery Insurance Fund and accurately reporting the fund's operations to the Congress is necessary to comply with the law, satisfy congressional intent, and to control those expenditures. As with the duplicate payments, the failure to secure adequate appropriations for the fund's operations resulted in the expenditure of funds and the accumulation of a large receivable balance without congressional knowledge.

Treasury justifies its actions in these matters on the basis of practical considerations. Complying with current laws could inconvenience banks as well as payees entitled to payments. For example, if Treasury returned to its policy of declining payment on checks, protests from the banking community and some corresponding harm to the negotiability of Government checks could result. If Treasury charged all payments to forgery victims to the forgery fund, there would always be a chance that payments would exceed recoveries and thereby delay payments to the payees before additional appropriations could be obtained. A permanent, indefinite appropriation could be provided, but congressional control would be somewhat diminished.

We believe congressional involvement is warranted to address these important policy issues and to make the necessary legislative revisions if Treasury's procedures are found acceptable. Until that time, the Treasury must improve its accounting for the duplicate payments and forgeries and seek the appropriations required to meet the provisions of existing legislation. We acknowledge that the necessary changes represent major departures from long-standing practices and that the appropriation process will require some time.

The problems that have evolved regarding duplicate payments and forgeries are complex. Action is needed to deal with current and future duplicate payments. Further action is needed to resolve the accounting for check forgeries, not all of which can be charged to the Check Forgery Insurance Fund as explained on page 12. Some of these matters can be addressed now, but the situation will not be fully resolved until the Congress acts.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

For those duplicate payments not involving forgery, we recommend that the Secretary of the Treasury

--seek appropriations to cover those receivables on hand which cannot be recovered and

--charge future cases where payees benefit from duplicate checks to the agencies responsible for them if the Congress permits duplicate payments to continue.

To take care of forgery cases, we also recommend that the Secretary charge to the Check Forgery Insurance Fund those payments which the law presently allows. Sufficient appropriations should be sought for that purpose.

RECOMMENDATIONS TO THE CONGRESS

Because the above actions will not solve the problem entirely, congressional involvement is needed. If the Congress decides that Treasury should continue its current practice of issuing and paying substitute checks, we recommend that

--the law (31 U.S.C. 528 (a)) be amended to permit the procedure and

--funds be appropriated to absorb the payments.

We also recommend that the Congress:

--Authorize Treasury to charge <u>all</u> payments resulting from check forgeries to the Check Forgery Insurance Fund.

--Provide the appropriations necessary for the fund's operation. The primary options for providing the resources are to (1) increase the fund's existing appropriation or (2) authorize a permanent indefinite appropriation for the fund.

AGENCY COMMENTS

In commenting on a draft of this report (see app. III), the Treasury agreed with our recommendations that (1) appropriations should be obtained to cover the uncollectible receivables on hand and (2) future cases in which payees benefit from duplicate checks should be charged to the agencies responsible for them. The Treasury offered to work with the Congress to develop any legislation needed to implement the latter procedure. Although the Treasury also agreed with the feasibility of our recommendation that it be authorized to charge all payments resulting from forgeries to the Check Forgery Insurance Fund, the Treasury believes that the payments should instead be charged to the agencies authorizing the initial check. As stated previously, we believe the Treasury should continue to account for such payments because the Treasury has primary responsibility for recovering the forged amounts from the banks that cashed the checks.

The Treasury stated that it must continue to follow its current procedure in issuing replacement checks until the issues we raised have been formally settled. In our opinion, the legal authority cited by the Treasury for doing so is not adequate, but a need exists to avoid inconveniencing rightful payees. Therefore, we do not object to the continued issuance of the checks, provided the problems we cited are resolved within a reasonable time. The Treasury claims that it has authority (31 U.S.C. 82a-2) for issuing checks without appropriations and charging them to the accountability of its disbursing officers. Normally, that statute allows disbursing officers to be relieved of personal liability for unauthorized payments that cannot be recovered, and the payments are charged to some available appropriation. However, the provision (31 U.S.C. 156) under which the Treasurer of the United States (who is held personally accountable for payment of checks) is relieved of liability for duplicate check payments, does not allow such a procedure.

In summary, because Treasury lacks existing appropriations, and because Treasury lacks authority to continue issuing replacement checks without appropriations, it must seek appropriations to cover the payments, seek legislative authority to issue the checks without appropriations, or charge the payments to the responsible agencies with funds available for them.

CHAPTER 3

ACCOUNTING PROCEDURES AND CONTROLS FOR RECEIVABLES ARE INADEQUATE

DCC's failure to effectively account for and control receivables due the Government as a result of duplicate payments and forgeries precludes assurance that millions of dollars will be collected promptly. Specific weaknesses we found were: a lack of written procedures, insufficiently trained accounting personnel, poor recordkeeping and filing of source documents, incorrectly classified and recorded transactions, and a failure to identify and write off uncollectible items. These problems have resulted in a lack of control over financial transactions, to the extent that the exact amount and age of the receivables was not known. The weaknesses have been recognized and a new accounting system has been installed. Still, additional improvements are needed.

ACCOUNTING PROCEDURES AND TRAINING LACKING

Inadequate procedures and insufficient training for accounting personnel were major causes of the failure to accurately account for the receivables. GAO's Policy and Procedures Manual for Guidance of Federal Agencies prescribes Government accounting principles and standards which each executive agency must follow. One of the standards (2 GAO 8.8) states that agency officials should establish a high degree of technical competence in accounting personnel. We found, however, that DCC's accounting personnel were not adequately trained.

There were no written procedures covering all of DCC's accounting functions at the time of our review. Procedures were written at one time, but they became outdated. The primary problem, however, was that many of the accounting personnel appeared to be inadequately trained, lacking a basic knowledge of the nature of the transactions they processed. When questioned about various transactions we examined, the employees frequently did not know why the transactions were being executed and whether they were correct under the circumstances. The lack of procedures worsened the situation because the employees had no written material available to resolve their questions. This created frustration and morale difficulties for some employees.

Further complicating the problem was the fact that most accounting decisions on individual transactions were made outside the accounting unit, usually by persons handling claims in other branches of DCC. The accounting action to be taken was specified on a form which was sent to the accounting unit, the Vouchers and Accounts Branch. Normally, the transaction was executed and the initiating form was sent back to the branch which authorized it.

Without well trained accounting staff there is an increased risk that not all transactions will be processed promptly and correctly, and be properly classified. The absence of written procedures in such situations not only heightens that risk, but increases the margin of inefficiency when errors must be corrected. That is exactly the situation we found in DCC. For example, the Outstanding Check Claims Branch, which determines whether other agencies' individual checks have been paid or are outstanding, had erroneously prepared accounting documents to credit (reduce) one of the receivable accounts for years. The Vouchers and Accounts Branch recorded these transactions unquestioningly. When the problem was discovered, DCC had to research all of the accounting documents covering about $600,000 in transactions and adjust the accounts accordingly.

A DCC official in charge of accounting activities acknowledged the procedures and training problems at the time of our review and said that the division had begun to develop written procedures. Personnel were to be trained after the procedures were completed.

Orderly accounting document files not maintained

Directly related to the deficiencies in training and procedures was the failure to maintain complete accounting records. Another accounting standard prescribed in the GAO manual (2 GAO 8.7) requires financial transactions to be adequately supported in agency files with pertinent documents available for audit. Despite this requirement, DCC's accounting document files were in disarray and some documents were evidently lost.

In an attempt to test the accounting procedures and controls utilized in DCC, we randomly selected about 400 fiscal 1980 transactions to examine. When we began to search for the source documents for those transactions, we found the files to be in extremely poor condition. The documents were scattered in envelopes, boxes, and filing cabinets in no apparent order. DCC accounting personnel helped in searching for the documents but could not locate many of them.

We continued the search on our own. After a few days, we found the majority of the documents. Many of them contained no indication of who outside the accounting unit initiated the transaction, and the accounting personnel could not tell us. More importantly, 17 documents involving about $1.6 million in adjustments to the receivable accounts were among those missing. The general ledger indicated that these adjustments were processed to reflect the payment of uncollected receivables. We could not verify that.

In practically any accounting entity, each transaction must be supported by a source document and any other material necessary to show why the transaction was processed. Well maintained files of such documents are an important part of management control. Without them, there is no way to determine who authorized accounting entries and whether they were correct. Also, any audit effort is seriously hampered because there is no audit trail to locate documents that must be examined.

Given the condition of the accounting files, there was no ready means to verify that all transactions were properly recorded. This also made the accuracy of the reported account balances questionable. The DCC accounting official agreed that the files had been allowed to deteriorate. Plans were made to establish an orderly filing system. The official said that, in addition, an effort would be made to examine all individual receivables in DCC to determine the accuracy of the receivable balances.

TRANSACTIONS NOT PROPERLY RECORDED

Unless accounting data is complete and accurate, its usefulness to management is diminished. To ensure accuracy, the GAO manual (2 GAO 8.9 and 9.1) requires that all financial transactions be recorded as they occur and in a manner that will not produce false or misleading information. We found, however, that DCC had not properly recorded all of its transactions.

In some cases, different types of transactions had been commingled in the same account. For example, an account was established for the recording of payments on accounts receivable from individuals. All such receipts are recorded in that account and held until DCC determines whether to credit the duplicate payment receivable or forgery receivable accounts. In addition, DCC records amounts due other agencies in that account. These amounts involve cases where agencies notify DCC that certain checks should not be paid because of nonentitlement or other reasons. In such situations, DCC will credit the agency for the amount of the checks, provided they have not been cashed. Because of lost or incomplete documents, the agencies entitled to the credit often cannot be immediately identified. These items are also held in the same suspense account until the appropriate agency can be identified and credited, although the items have no relationship to the receivables.

The commingling of dissimilar transactions in the suspense account can obscure the account balances. Normally, it would be proper to offset the receivable account by the amount held in suspense to arrive at the net receivables. This could not be done because of the unrelated transactions that were recorded in the suspense account. By examining individual accounting documents, we identified about $205,000 of such transactions being carried in the suspense account at July 31, 1980.

DCC's failure to properly segregate the transactions resulted in misleading account balances being reported. The inaccuracies hamper management efforts to control the receivables and monitor the progress in collecting them. A DCC official said that the problem has been recognized, but added that there were other higher priority accounting matters that had to be dealt with first.

Not all transactions were recorded

In addition to commingled transactions, we found that some transactions had not been recorded. For example, when duplicate payments are identified by the Bureau's Reconciliation Branch, they are recorded in a "transit" account and DCC is notified. It is then up to DCC to remove the charges in the transit account and record them in the appropriate receivable account. Certain adjustments between the Treasury and the Federal Reserve Banks are also recorded in the transit account. The term "transit" is used to indicate that charges to the account are supposed to be only temporary.

Officials in the Bureau's General Ledger Branch said that after analyzing the transit account, they found that several items in the account had not been removed and recorded by DCC. As a result, DCC's accounts were understated. Some of these items dated back to 1967. It is difficult to determine the exact amount of the understatement because the explanations on many of the documents did not clearly indicate whether they were duplicate payments or other transactions. The DCC accounting official said that the files were in such poor condition that it was difficult to locate all of the documents necessary to determine exactly how the amounts still in the transit account should be handled. When time permits, employees will try to locate all of the documents.

A recurrence of such problems could be avoided if all further charges were made directly to DCC's accounts. Both the Reconciliation Branch and DCC officials said that the transit account was unnecessary as far as DCC was concerned and it would be feasible to make the change. Such a procedure would also eliminate charging both DCC and Federal Reserve Bank items to the same account.

DELINQUENT AND UNCOLLECTIBLE RECEIVABLES NOT IDENTIFIED AND DISCLOSED

Both the GAO Manual and the Treasury Fiscal Requirements Manual, which prescribes accounting procedures for executive agencies, require that receivables be aged and an allowance for uncollectible receivables be established in the accounts. Such techniques are commonly used commercially to identify delinquent accounts and allow the reporting of accounts receivable at the amount actually expected to be collected. When we performed our review, DCC had not complied with either of the requirements.

As individual receivable items were determined to be uncollectible, a form was filled out and inserted in the file. Over the years, these uncollectibles have accumulated with no action being taken on them. We were shown two filing cabinets containing uncollectible items, but DCC officials were not certain what portion of the total uncollectibles in DCC these represented. We found that the files contained 1,453 individual items totaling over $251,800. The checks were dated as far back as 1944, but most were from the early to mid-70s. DCC officials feel that the actual uncollectible amount is much greater because of other uncollectible cases scattered throughout the active files.

DCC officials said that although the problem had been discussed for some time, policies or procedures had not been developed for handling uncollectibles. According to the officials, they are trying now to determine the amount of uncollectibles on hand. In addition, a new accounting system being implemented will provide an aging of the receivables once they are all entered into the system. No decision had been made on what would be done with the uncollectible amounts after they were identified.

CONCLUSIONS

We found that DCC had not effectively accounted for and controlled the duplicate payment and forgery receivables and thus did not know the exact amount and age of the receivables. That information is essential to ensure that millions of dollars due the Government is collected as quickly as possible. The specific weaknesses we identified ranged from inadequately trained accounting personnel to the reporting of inaccurate receivable balances. Another major problem is that although a considerable amount of the receivables are uncollectible and should be written off, no procedures have been developed for that purpose. These problems indicate a need for increased management emphasis on DCC's accounting functions. DCC is completing the development of a new accounting system and training the staff which should improve the situation. Top management's attention is needed to ensure that these efforts are followed through to their completion and that other necessary improvements are made.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

The Secretary of the Treasury should strengthen the accounting for and control over the receivables by

--identifying and aging all receivables on hand,

--recording all receivables and related transactions in the appropriate accounts with proper supporting documents, and

--establishing procedures for writing off uncollectible amounts.

AGENCY COMMENTS

The Treasury stated in its comments on this report that it had recognized the need to strengthen the accounting controls over the receivables and had made several improvements, including

--installing a new computer-based financial accounting and reporting system with the capability of aging the receivables,

--developing a policy and procedures to establish an allowance-for-losses account and to determine uncollectible receivables,

--training and upgrading the professional staff, and

--acquiring microfilm equipment to control accounting documents and files.

These and other actions underway were to have been completed after our review. Thus, we cannot verify the progress on these matters.

CHAPTER 4

ACCOUNTS RECEIVABLE NOT

COLLECTED PROMPTLY

Because of inadequate procedures, DCC delayed its own as well as other agencies' efforts to collect millions of dollars due the Government as a result of duplicate payments and forgeries. Among the problems we found were extensive delays in both obtaining the check copies needed to start collection and acting on suspected forgeries. DCC also failed to follow up on all unanswered requests for repayment and to charge interest on delinquent accounts as required by Federal regulations. These two techniques are generally considered useful in expediting repayment of debts. Delays in collecting the receivables deprive the Government of the use of the funds, contribute to increased losses due to uncollectible debts, and increase administrative work.

DELAYS IN OBTAINING CHECK COPIES

The collection of the receivables has been unnecessarily delayed by DCC's inability to obtain the necessary copies of checks and distribute them to the appropriate DCC units so action can be taken. We found that no action was taken on many of the outstanding cases even though the actual checks needed were on file at DCC.

DCC's Financial Activities Branch has been responsible for processing and taking initial collection action on duplicate payments and forgeries. The processing includes obtaining copies of the checks, and no action is taken until that is done. The copies are necessary so DCC can (1) examine the endorsements and judge whether forgery occurred, (2) determine the agency for which the checks were issued, (3) obtain the payee's name, and (4) provide proof of the payment. The copies are sent to the agency involved if the agency is to participate in the collection. Copies are also sent to the payee if DCC attempts to collect directly from the payee, or if certification on a suspected forgery is needed. The latter involves having the payee of the check complete and sign an affidavit that the payee did or did not sign the check.

As Government checks are negotiated in the commercial banking system, they are returned to the Federal Reserve Banks which act as the Treasury's agents in clearing the checks. Prior to 1978, all the checks were returned to the Treasury for reconciliation, and then shipped to a central storage facility in Pennsylvania. DCC could then retrieve any check within a few days.

In 1978, the Treasury began a check truncation program. Under that program, the Federal Reserve Banks send the Treasury microfilms of the checks, rather than the actual checks themselves which are stored at any one of several regional facilities. Detailed check data is also recorded on magnetic tapes to allow the Treasury to reconcile the checks. The purpose of the program is to speed the data on paid checks to the Treasury to improve the accuracy and timeliness of subsequent claims action.

DCC experienced difficulties under the truncation program from the outset. Rather than working from actual checks, DCC attempted to use reproductions of the checks photocopied from the microfilm. Many of the copies were illegible, so the actual checks had to be retrieved. This involved an additional delay while the location of the checks was determined. When the checks arrived at DCC, photocopies were to be made by the Initial Claims Processing Branch and provided to FAB and other units needing the copies to begin collection. The checks were then to be filed. Although repeated requests for many checks had been made to the Initial Claims Processing Branch, the copies apparently had not been received by FAB. Thousands of cases had not been processed and therefore no collection action had been taken, supposedly because legible copies of the actual checks were not available.

Based on a sampling of uncollected cases, we estimated that collection action could have been started on about $3.9 million in receivables identified during one 13-month period because the necessary checks were on file at DCC. (See app. I for full sample results and corresponding statements of statistical error and confidence levels.) The checks were retrieved from the records centers and filed, but there is no evidence that they were ever copied and used. The records indicated that many of the checks had been on file since September 1979. Our estimate covered only the March 1979 to April 1980 period. DCC estimated that there were another 34,000 cases for an undetermined amount from periods prior to March 1979, primarily 1977 and 1978, which had not been processed because both checks had not been located. According to a FAB official, requests for those checks were made as long ago as February 1980 but had not yet been received.

The problem seems to have been caused by two factors. First, there was no sound system for ensuring that once checks were received, they were copied and promptly used. Second, the facilities where the checks were filed were inadequate and not well organized. About 900,000 checks relating to current cases (1979-80) were filed in a relatively small room containing sorting and copying machines, filing cabinets, and work tables. The room was very disorganized on three separate visits we made. We saw checks scattered on tables, in boxes, and even on the floor. The room was very crowded, with 15 people engaged in check filing, copying, searching, sorting, and other work. The check files were so disorganized at one point that all of the checks received in the file room during 1979 were sent out to a private concern to be placed in the proper sequence. Because of the problems with the microfilm copies, DCC plans to retrieve all actual checks involving duplicate payments. As the additional checks are received the crowded condition will be aggravated. An estimated 4.6 million earlier checks were filed in another room and were also considered to be in disarray--but their order had not yet been checked. We believe that this is one of the primary reasons the checks needed to process duplicate payments identified prior to March 1979 had not been located.

We immediately notified DCC officials of our findings regarding the unprocessed cases for which the checks were on file. Plans were made to compile a list and to search for all the checks needed to process cases from March 1979 forward. DCC officials also said that they planned to have the checks received in 1978 placed in the proper sequence. Additionally, an automated system for recording the receipt of incoming checks was to be implemented so that the various DCC branches can be immediately notified when the checks they need have arrived. If cases for which the checks are available are not processed, they will be listed on exception reports distributed to management. Workspace improvements for the check file room were planned.

ACTION ON SUSPECTED FORGERIES DELAYED

DCC appeared to be taking unnecessary time initiating collection on possible forgeries even after copies of the checks were obtained and the endorsements examined. If it appeared that a forgery occurred, a claim form and a copy of the check were mailed to the payee who was asked to certify whether the endorsement was genuine. DCC waited 60 days for the claims to be returned, and no further action was taken until then.

A DCC official said that although no statistics were maintained on the claim forms, an estimated two-thirds were never returned. Furthermore, when the form was not returned and the case was referred to the administrative agency for collection action, the cases were often returned with the agency's claim form attached indicating that a forgery occurred. Because the claim forms used by other agencies did not contain the information the Secret Service requires, DCC had to again try to find the payee and have the Treasury's claim form executed.

These delays tend to reduce the prospects for collecting the duplicate payments and increase the time that funds due the Government are outstanding. Given the poor rate of return for the claims, it seems that these problems could be resolved or at least minimized by (1) reducing DCC's waiting period for the receipt of the claims and (2) providing the agencies with copies of Treasury's claim form when the cases are referred. A DCC official said that the return rate for the claim forms would have to be studied before the waiting period could be adjusted. As for giving other agencies the Treasury's claim forms, the official said that there was a fear that the agencies would not ensure that the forms were completed fully and correctly. An attempt was made a few years ago to allow the Social Security Administration to use the Treasury claim forms, but many of them were returned to DCC improperly completed, so the effort was abandoned.

NO EFFECTIVE FOLLOWUP TO COLLECT DUPLICATE PAYMENTS

DCC had not acted promptly and aggressively to collect all duplicate payments, and had no system to ensure followup action. Although such a system was in place for collecting forgeries from the banks that cashed the checks, DCC's followup was weak. As a result, millions of dollars due the Federal Government remained outstanding for long periods without any effective collection action. We have reported in the past that the failure to collect accounts receivable is a Government-wide problem and that corrective action is needed. 1/

As specified in the Code of Federal Regulations (4 CFR 101-105), the Joint Standards of the Federal Claims Collection Act of 1966 require the heads of Federal agencies, or their designees, to promptly and aggressively act to collect accounts receivable. The standards further require three written demands at 30-day intervals and other persistent collection actions. DCC had no system for meeting these requirements in duplicate payment cases, and thereby failed to comply with these standards.

When DCC sent a collection letter directly to a recipient of a duplicate payment, or asked the administrative agency to help recover the duplicate payment, the case was placed in a pending file. Procedures called for followup action every 60 days. According to a DCC official, there were an estimated 130,000 duplicate payment cases in the pending file as of July 1980 which had not had followup action. The file had not been reviewed for followup since 1977. As previously mentioned, no detailed records were kept on the number, age, and dollar amount of these items.

DCC officials said that the workload was too heavy to allow time for followups. A reorganization was underway at the time of our review to shift more people to handle the type of work done by FAB, particularly the initial processing of duplicate payments. When the reorganization is complete, a special group will review the pending file and take the necessary followup actions. These followups are expected to take 2 years to complete, a period we believe is too long. The longer a receivable remains outstanding, the less likely it is to be collected. Followup action should, therefore, be started immediately. Also, collection prospects could also improve if procedures were instituted to ensure that subsequent followups are performed every 30 days as required by the Joint Standards.

1/"Unresolved Issues Impede Federal Debt Collection Efforts--A Status Report" (CD-80-1, Jan. 15, 1980).

INTEREST NOT CHARGED ON DELINQUENT DEBTS

In a 1978 report to the Congress, 1/ we recommended that the Director of the Office of Management and Budget and the Secretary of the Treasury issue guidelines providing that agencies charge interest on debts over 30 days past due. This technique can help collect more debts faster and at less cost, based on commercial experience and prior studies. The Code of Federal Regulations (4 CFR 102.2) was revised in 1979 and now requires that demands for payment inform the debtor of the policies for charging interest.

Despite these requirements, DCC has not charged interest on its delinquent receivables. Although an aging was not available for all receivables, a partial aging was available for those from outstanding bank reclamations initiated since August 1978. The reclamations were issued because the banks cashed checks on forged or unauthorized endorsements. In August 1978, DCC implemented an automated reclamation system for forgeries which generates followup letters and also provides an aging, as shown below for amounts outstanding as of June 30, 1980.

Days outstanding	Outstanding bank reclamations (note a)	Amount
30	12,336	$3,689,630
60	6,152	1,824,243
90	5,535	1,776,918
120 or more	8,466	2,500,661
Totals	32,489	$9,791,452

a/Does not include an estimated 45,000 reclamations for $12.5 million issued prior to implementation of the automated system.

Source: Division of Check Claims Bank Followup Report

As the table indicates, there is an obvious problem in collecting these receivables. Although followup letters were to be sent at 30, 60, and 90 days they contained no statement of interest charges or penalties for not paying. According to DCC officials, an interest charge procedure for bank reclamations on forgeries was being considered along with legal action against the banks. However, no consideration was being given to charging interest on delinquent cases where the payee benefited from both checks.

1/"The Government Needs to do a Better Job of Collecting Amounts Owed by the Public" (FGMSD-78-61, Oct. 20, 1978).

CONCLUSIONS

The need to collect amounts due the Government must be emphasized. Until collected, the receivables contribute to deficiencies in the Treasury's funds and losses from uncollectible debts.

DCC's accounts receivable can be reduced if certain operational improvements are made. DCC's planned system for ensuring that action is taken on all cases for which the checks are available is a step in the right direction. While the decision to obtain all of the actual checks for duplicate payments and forgeries also appears sound based on the microfilm problems, DCC's filing facilities cannot handle the additional check volume. Proper filing capability should be provided and the 1977 and 1978 check files should be put in order to help dispose of the 34,000 pre-March 1979 cases still awaiting checks for processing.

The delays in processing suspected forgeries deserve attention as well. We believe it would be a simple task to study the return rate of the claim forms with an eye toward reducing the current 60-day waiting period. Providing the agencies with Treasury's claim forms could also help to further reduce the delays. Instructions and cautions could be provided with the forms to ensure that they are properly completed.

The Treasury will have to act on the uncollected duplicate payments as well as the forgeries. A system to ensure followup as well as the imposition of interest should help to dispose of those items. Interest charges are not only mandatory under Federal regulations, but are also successful in the private sector.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury expedite the collection of accounts receivable by

--locating and processing the checks necessary to collect the 34,000 pre-March 1979 duplicate payment cases,

--implementing a system to insure that checks involving all future duplicate payments are identified and processed promptly,

--shortening the time frame for acting on forgery cases and standardizing the claim forms used to document them,

--requiring regularly scheduled followups on all uncollected receivables, and

--initiating a policy of collecting interest on all delinquent debts.

AGENCY COMMENTS

In commenting on this report, the Treasury cited various changes it has made to improve the effectiveness and timeliness of collection. Among the improvements were development of systems to retrieve and control checks involved in duplicate payment cases, and implementation of a system to charge banks interest on unpaid forgery repayment requests. The Treasury did not comment on our other recommendations, but we believe that implementing them will also improve collection.

CHAPTER 5

ALTERNATIVES FOR REDUCING THE VOLUME OF DUPLICATE PAYMENTS AND FORGERIES

In the first three quarters of fiscal 1980, duplicate payments and forgeries were recorded at a relatively constant rate of about $4 million a month. The volume of future duplicate payments and forgeries could be reduced if certain changes, such as different methods of payment and/or delivery, were made. Among the alternatives available are direct payment to the payee's bank or requiring payees to personally pick up their checks. These methods could be targeted to certain geographical areas or individual payees. The various alternatives would save the Government money through reduced costs for handling claims for replacement checks, recovering duplicate payments and forgeries, and absorbing those that are uncollectible. Unfortunately, some of the alternatives carry drawbacks which could inconvenience payees and/or financial institutions, and possibly increase overall costs. The Treasury, with the cooperation of other affected agencies, needs to develop adequate data for determining whether the costs to the Government warrant such inconveniences and for selecting the alternative best suited for each agency and situation.

DIRECT DEPOSIT/ELECTRONIC FUNDS TRANSFER PROGRAM

The most effective means of reducing duplicate payments and forgeries is to reduce or eliminate the use of checks. Under the Direct Deposit/Electronic Funds Transfer (DD/EFT) program, the Treasury issues payments on magnetic tapes and sends the tapes to financial institutions which make the funds available to the recipients on the payment date. This program, which is entirely voluntary, benefits everyone concerned.

- --Beneficiaries get improved service through the elimination of check loss, theft, and forgery; the elimination of check-cashing problems; and the convenience of regular deposits.
- --The financial community gets reduced operating and forgery costs as well as increased deposits and a more efficient new depositors' system.
- --The Government gets reduced costs in the issuance, mailing, and clearance of checks.

The Treasury's goal is to dramatically increase the number of payments made under the program from 119 million in fiscal 1979 to over 500 million by fiscal 1989. The Treasury's Division of Disbursements is more conservative in its projections, however, as shown below.

	1979 (actual)	1989 (projected)
	(millions)	
Check payments	562	438
DD/EFT payments	119	325
Total	681	763

Source: Bureau of Government Financial Operations

The achievability of the Treasury's goal is, of course, uncertain. In any case, the goal will require several years to accomplish.

The Treasury estimated that DD/EFT will save the Government $25 million annually by the end of fiscal 1981. This program is expected to reduce the number of lost and stolen Government checks, thus reducing the number of check claims. The program should also help decrease the number of substitute checks issued because claims of nonreceipt are easy to investigate through an inquiry to the bank. Whether the program will significantly reduce the number of checks stolen or lost depends on whether those most often victimized--such as people living in areas with high crime rates--participate. These people may not have bank accounts, may not trust banks, and/or would prefer to receive their checks at home.

Use of the program could be expanded by making it mandatory as a condition for receiving recurring Government payments, at least for those with bank accounts. The Treasury has already begun moving in that direction with Federal grants. Under a pilot program begun in 1979, recipients of certain grants from two agencies provide bank account numbers in their grant agreements, and all payments are made by EFT. According to a Treasury official, this arrangement, which will eventually be instituted Government-wide for grant payments, is not being considered for payments to individuals even though it would be useful.

Making DD/EFT mandatory for recurring payments to individuals would not be quite as simple. There has been broad support in the past for preserving individuals' freedom to choose among available payment methods. As already noted, some individuals do not deal with financial institutions for various reasons. There would undoubtedly be some objection from those people, as well as from those who prefer receiving checks.

DIRECT DELIVERY

Another means of ensuring that payees receive their Government payments is to use direct delivery of checks. Under this alternative, payees would pick up their checks at a local financial institution or Government office rather than having them mailed. The alternative carries many of the same advantages as DD/EFT.

Some non-Federal direct delivery systems for certain types of payments have been implemented. In Pennsylvania, for example, public assistance recipients must pick up their checks at local banks. Payees are given photo identification cards to ensure that the checks are given only to authorized persons. The banks, in turn, are paid a handling fee by the State. Pennsylvania reported that the system has resulted in $10 million of net annual recurring savings to the State, primarily from the elimination of fraudulent cashing of lost or stolen checks. Other areas of savings include reduced workload in processing replacement checks and reduced postage costs for mailing checks.

Recipients also could benefit from the direct delivery system. Supposedly, they no longer would have difficulties cashing their checks and no longer would have to pay a fee for that purpose as they have in the past, provided the checks are cashed at a participating bank. In addition, they no longer would have to worry about their checks arriving late in the mail nor worry about their checks being stolen from their mailboxes.

The primary disadvantage of direct delivery is that some recipients are physically or otherwise incapable of getting out to pick up their checks. There is also no assurance that the banks or other facilities chosen to distribute the checks would have the capability or desire to distribute the checks because of the volume, or that these institutions would be convenient for all payees. Moreover, the cost of direct delivery could be prohibitive.

CHECK CYCLING

For many years, the Treasury has been proposing cycling monthly social security and Supplemental Security Income payments. Cycling involves spreading the release of checks over several dates throughout each month. One-half of the 694 million checks issued in fiscal 1979 were for social security and SSI payments; all were mailed out around the first of the month. Attention was focused on cycling social security and SSI checks because they account for a large portion of the nonreceipt claims. Some advantages of cycling are:

--Streamlining the Federal Reserve's and Treasury's check clearing by reducing peak load operations.

--Reducing Government check thefts and forgeries because checks would be reaching individuals at different times of the month making it difficult for a thief to know when a particular person receives a check.

--Alleviating peak check cashing loads for banks which occur at the beginning of each month when social security checks are issued.

The disadvantages of cycling are:

- --There is only one deadline to meet under current procedures, but cycling would involve a deadline for each payment date.

- --Social Security would have the expense of reprogramming its system for the transition into cycling.

According to a Social Security official, other problems confronting the cycling program involve explaining it to recipients without making it seem like a penalty, and deciding whether to issue two checks in the month cycling begins or have the recipient wait an additional period until the first cycled check arrives. Finally, it must be noted that the checks would continue to be mailed, and thus the possibility of thefts and nonreceipt claims would still exist.

SLOWER ISSUANCE OF SUBSTITUTE CHECKS

Over the last few years, the Treasury emphasized quickly processing claims for substitute checks. Slowing the issuance of substitute checks would allow more time for the original check, if cashed, to be returned and recorded in the Treasury's reconciliation system. Thus, there would be fewer substitute checks issued and fewer duplicate payments. Although this would be a simple step to take, it carries the risk of legal action against the Government by payees if the delay is too long.

Treasury officials stated that the issuance of substitute checks has been accelerated without a commensurate acceleration of check payment data to the Treasury. Moreover, this action was taken without knowing the average time it took for a check to return to the Treasury after it had been issued and cashed. Without that information, Treasury did not know if substitute checks were being issued before the originals had time to return through the banking system and be recorded as paid.

The methods to speed the issuance of substitute checks include having some agencies submit claim data on magnetic tape, and issuing substitute checks without determining whether the original has already been paid. Except for SSI substitutes, which are issued within 24 hours after the claim reaches the Treasury, substitute checks are issued in about 7 days. According to a Treasury official, the same process required over 2 weeks in 1977.

Some recipients may be taking advantage of the situation. For example, we found a case where a payee received a $48,000 duplicate payment. The original check, dated May 24, 1979, was authorized by the U.S. Geological Survey. Based on the bank stamp on the check, it was cashed 5 days later. On June 21, 1979, the payee filed a claim of nonreceipt and was issued a substitute check on July 2. When that check was also cashed and DCC requested repayment, the payee informed DCC that the company was undergoing bankruptcy proceedings and would not repay the money.

The actions to speed up substitute checks were taken to provide better service to claimants, and in the SSI procedure, to head off threatened legislation and litigation as previously mentioned. Thus, any attempt to lengthen the time required for a substitute check to be issued, at least in the case of SSI payments, could revive those problems.

DECLINING PAYMENT ON CHECKS

The number of duplicate payments that the Government must recover could be reduced if the Treasury simply declined payment on either the original or substitute check. As mentioned previously, the Treasury followed that practice at one time by declining payment on the second check, either the substitute or original, presented for payment. In 1970, Treasury began paying both checks in response to protests from banks as well as to avoid possible litigation by parties entitled to the proceeds of the check that was declined. These factors must be considered in any evaluation of a possible return to the declination system.

INFORMATION NEEDED TO ASSESS ALTERNATIVES

In selecting a method or methods to reduce the duplicate payment and check forgery volume, information is needed to determine where to target corrective action, which methods would be most feasible, and whether the cost and other negative effects of the corrective action is justified by the benefits expected. At the time of our review, the Treasury did not have the information necessary to make this assessment for the previously discussed alternatives. According to a Treasury official, not all of these alternatives have been fully explored.

The first question to be answered is what savings would result if the volume of duplicate payments and forgeries were reduced or eliminated. The related costs consist primarily of those for

--processing claims for replacement checks, the issuance of which gives rise to duplicate payments;

--collecting receivables from banks and payees;

--absorbing amounts which cannot be collected and must be written off as losses; and

--paying interest on funds that must be borrowed to cover cash shortages created until the receivables are collected.

Because DCC has not properly and expeditiously acted on all duplicate payments and forgeries over the last couple of years, it is difficult to determine what normal or average costs to expect, to develop cost trends, and to analyze the trends. Some of the cost information will have to be developed over time after DCC's operations return to normal, and some can be approximated. For example, DCC estimated that the cost to process a nonreceipt claim was about $4 in 1979.

Secondly, the types of payments which result in the most problems, both in number and value, must be identified. This is necessary because some of the methods for reducing duplicate payments and forgeries, such as check cycling, may not be appropriate or warranted for all payments. No accurate statistics have been maintained over the years, but through experience DCC has found that the following checks cause the most problems:

--SSI and social security benefits,

--Federal tax refunds,

--veterans' benefits, and

--military pay and benefits.

Although SSI and social security were judged to account for a large number of duplicate payments, DCC estimated that they accounted for less than half of the total dollar amount backlogged in DCC in 1979. Furthermore, a study of duplicate payments identified during a 4-month period in 1979 showed that over 26 percent of the dollar amount consisted of checks for $2,000 or more, far more than the average SSI or social security check. The agencies themselves cannot provide accurate statistical data because they do not know how many of the cases in DCC's backlog are theirs, and not all of the agencies record the number of cases referred to them by DCC.

The third major area to be examined is the feasibility of the various alternatives. As already mentioned, some of the methods are untried, and their effects are not known. From an economic standpoint, expanded participation in the DD/EFT program would be the most desirable because it would not only reduce duplicate payments and forgeries but would also produce other savings. On the other hand, the difficulty in having some payees convert to the program cannot be foreseen. Extending the interval between the time nonreceipt claims are filed and substitute checks are issued would be one of the simplest techniques to implement. Again, the lack of information as to what that interval should be to have an impact on duplicate payments and forgeries and still provide reasonable service to claimants prevents an assessment of that method. Treasury's check claims oversight group performed some analyses in that regard, but additional work is needed.

CONCLUSIONS

With the advancement of the Direct Deposit/Electronic Funds Transfer program, it is possible that the volume of duplicate payments and forgeries will diminish. As long as participation in the program remains voluntary, however, the decrease will probably be slow. One reason is that individuals without bank accounts are among those who file frequent claims for replacement checks. The problem will, therefore, probably continue for the foreseeable future.

The list of options presented for reducing the volume of future duplicate payments and forgeries is not exhaustive but represents some of the major methods discussed by agency officials. Because each alternative has potential drawbacks, the agencies involved have been reluctant to initiate action on their own. Contributing to the reluctance has been the lack of information to pinpoint problem areas and related costs and to weigh the costs and benefits of the various means of attacking them. The Treasury, which serves as the clearinghouse for duplicate payments and forgeries, is in the best position to assemble that information and provide the necessary leadership. If necessary, pilot programs could be initiated to select the best alternative.

RECOMMENDATION TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury, in cooperation with the affected agencies, consider various alternatives for reducing the number of future duplicate payments and forgeries.

AGENCY COMMENTS

The Treasury agreed that the Direct Deposit/Electronic Funds Transfer program is the most effective means of reducing duplicate payments and forgeries. The Treasury also supported spreading out the release dates of monthly social security and Supplemental Security Income checks, and stated that other alternatives discussed in the report, such as slower issuance of substitute checks and different payment delivery methods, are being explored. The Treasury did not report on progress in examining alternatives.

ESTIMATES MADE FROM

DUPLICATE PAYMENT SAMPLE RESULTS (note a)

(MARCH 1979 - APRIL 1980)

	Estimate	Statistical error	Low	High
Duplicate payments with no initial action taken	57,854 worth $12,431,854	5,744 worth $1,630,594	52,110 worth $10,801,260	63,598 worth $14,062,448
Duplicate payments where action could have been taken (both checks on file)	18,756 worth $3,884,008	4,041 worth $1,035,767	14,715 worth $2,848,241	22,797 worth $4,919,774

a/Based on DCC's records, about 132,000 individual duplicate payment cases were identified between March 1979 and April 1980. A sample of 500 cases was selected using a systematic random sampling technique, the simplest and most efficient method given the nature of DCC's files. The sample size was chosen to provide a 95 percent confidence level in making estimates. Although the records showed that no collection action had been taken on 219 of the cases sampled because the checks involved had not been obtained, the checks for 71 (32 percent) of those cases were actually in DCC's files. These results were used to develop the above estimates and corresponding ranges for statistical error.

THOMAS B. EVANS, JR.
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September 18, 1979

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

It has recently been brought to my attention that the Department of Treasury's Division of Check Claims has a 300,000 case backlog that dates back as far as 1972.

An investigative report of the Division of Check Claims recently prepared by the United States Secret Service reveals that as of April 30, 1979, estimates as high as $58.9 million have been paid by Treasury in doublepayments and have been charged to a non-appropriated account.

The report further indicates that such overpayments have gone uncollected because apparently, the 300,000 case backlog is contributing to a breakdown of the claims processing system. Such cases involve claims of nonreceipt, loss, theft or mutilation. Where a substitute check is issued as a result of the claim, it would appear that in some instances the claimant is cashing both checks. However, because of many operational problems, in addition to the backlog, the Division of Check Claims is unable to rectify such cases of doublepayments in order to reclaim the amounts due the Treasury. These amounts are then charged to a doublepayment account which is reportedly a non-appropriated account.

I request that your office obtain a copy of the U.S. Secret Service report in question and that a complete analysis follow. More importantly, I hereby request a complete on-site audit and evaluation of the operations of the Division of Check Claims, including specifically, the 300,000 case backlog and the double-payment account.

 APPENDIX II

Please feel free to contact me if you should have any questions about this request. Thank you for your assistance and cooperation in this matter.

With best regards,

Sincerely,

Tom Evans

Thomas B. Evans, Jr., M.C.

TBE/fm:c

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
WASHINGTON, D.C. 20220

OFFICE OF
FISCAL ASSISTANT SECRETARY

JUN 26 1981

Mr. Wilbur D. Campbell, Acting Director
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Campbell:

The Treasury Department appreciates the opportunity to review and comment upon the draft of a proposed report of the General Accounting Office entitled "The Treasury's Accounting and Collection Procedures for Duplicate Payments and Forgeries: Improvements Needed to Prevent Government Losses and Meet Legal Requirements."

We have some general observations regarding the check claims program and GAO's findings, plus comments on certain of the recommendations to the Secretary. The Treasury Department agrees with GAO's conclusion in the report that the problems currently existing regarding duplicate payments and forgeries are complex. These problems have evolved over a long period of time and are the consequence of various pressures, including greatly increased workloads as the number of checks issued expanded and increases in urgent requests from various sources for faster replacement of checks to payees. In carrying out its check claims program, Treasury is faced with the dilemma of providing the fastest possible service to payees who are often in great need, while trying to insure that only entitled persons receive substitute or settlement payments--and that funds are quickly collected from responsible banks when checks are cashed on forged endorsements. To accomplish these objectives effectively, Treasury is largely dependent on the program agencies which authorized the issuance of the original checks. To date, however, Treasury has borne the primary responsibility for accomplishing these objectives.

Treasury believes that the long-term solution to the problems lies in the gradual elimination of payment to payees by check. Treasury's major effort in this direction is the Direct Deposit/Electronic Funds Transfer Program, which meets the multiple objectives of quick, dependable, economical, and efficient delivery of payments, while dramatically reducing the number and complexity of claims due to real or alleged loss and/or theft. However, short of making Direct Deposit mandatory for all repetitive payment programs, many of the problems outlined in the report with regard to duplicate payments, check forgeries, and the collection of accounts receivable for claims payments are likely to continue.

The Treasury Department agrees with GAO that responsibility for meeting the objectives of the check claims program must be shared by the program agencies. Treasury endorses GAO's concept that the program agencies which authorize the issuance of the original checks should be solely responsible for the cost of duplicate payments when the payees benefit from both the original and the substitute checks. Moreover, we believe that responsibility for the cost of all second payments, including when forgery is involved, should be with the program agency. Recognizing that such procedures may require legislative action and changes in regulations and will not be quickly installed, Treasury has acted to strengthen its accounting controls over receivables resulting from duplicate payments and settlement of check forgery claims. Other operational improvements, coupled with regulatory changes, will result in more effective and more timely collection of receivables. In addition, Treasury is exploring other alternatives for reducing double payments and related workload.

Comments on certain of the recommendations follow.

DUPLICATE PAYMENTS NOT INVOLVING FORGERY

The Treasury Department agrees with GAO's recommendation to the Secretary in Chapter 2 of the report that program agencies should be responsible for the accounting and funding for duplicate payments not involving forgery.

Although we recognize that 31 USC 528, which provides for the issuance of substitute checks, does not specifically authorize charging second payments to the program agency, Treasury is of the opinion that the statute does not prohibit the procedure. In recent years, Treasury has not exercised this authority unilaterally, but, as the report notes, "charge-back" agreements have been made with some agencies. We have felt for some time, however, that the program agency authorizing the original check properly has the responsibility for absorbing the cost when duplicate payment situations arise, as well as the responsibility for collection of the proceeds of the second payment. As the GAO report notes, the program agency can usually locate the payee more quickly and effectively than Treasury, and the program agency usually can offset the overpayment against future payments due the payee if repayment is refused. If agencies cannot charge second payments to their accounts under existing law, Treasury will work with the Congress in the development of legislation that would: (1) specifically authorize charging the amount of duplicate payments against the appropriations of the program agencies authorizing the issuance of the original check; and (2) specifically assign the responsibility for collecting the proceeds of such duplicate payments to the program agencies (except where forgery is involved).

FORGERY CASES

With regard to forgery cases, the GAO report recommends in Chapter 2 that all second payments be charged to the Check Forgery Insurance Fund (CFIF). The report notes that the law authorizes Treasury to charge the fund only in cases where settlement payments have been made following a determination by Treasury that a forgery has occurred. To charge second payments to the CFIF in cases where the forgery is discovered after the second payment is issued would probably require an amendment to the existing statute.

Although we agree that such a solution is feasible if adequate appropriations for the CFIF are provided, Treasury believes forgery cases could be handled more effectively by an alternative method. As with duplicate payments not involving forgeries, we feel that the program agency which authorized the issuance of the original check should have the responsibility for absorbing the cost of the second payments in forgery cases. Treasury provides the service of disbursing payments for the program agencies. Whether Treasury--in assisting an agency carrying out its program responsibilities--is disbursing an original payment to a payee or a second payment required because the original check was lost or stolen, the burden of absorbing the cost of unrecovered amounts properly belongs to the program agency. In addition, if program agencies were responsible for accounting and funding, it would provide them with a tangible incentive to develop and support effective policies to reduce the number of duplicate payments and forgeries--such as increased participation in the Direct Deposit Program.

Treasury believes that collection responsibility in forgery cases must be shared with the agencies. While the program agency would have overall accounting responsibility, Treasury would function as the prime agent for collection on behalf of the program agency. Such an arrangement already exists with regard to Treasury collections from banks which have cashed checks drawn to non-entitled payees, and operational improvements currently being implemented are designed to improve the effectiveness and promptness of bank refunds, regardless of whether the receivable accounts are held by Treasury or the agency. Banks which cash forged checks are liable to the Government for the amounts of those checks, and Treasury is in the best position to recover those amounts from the banks. Under this method, Treasury would transfer the amounts collected to the appropriate agencies. Treasury recognizes that such a process for forgery cases may require changes in the law and/or agreements with program agencies to determine how best to develop procedures that will make the program agencies responsible for funding of all second payment situations.

TREASURY ACTION PENDING RESOLUTION OF RECEIVABLES ISSUES

Treasury believes that it must continue to use current procedures for issuing substitute and settlement checks until the issues raised by Chapter 2 of the GAO report have been formally settled. Treasury interprets 31 USC 82a-2 as providing the legal authority to issue such checks, without requiring appropriations, by charging such payments to the accountability of its own disbursing officers. It is by this authority that Treasury has issued checks in the past. The alternative would be to discontinue immediately the issuance of both substitute checks (which may become duplicate payments) and settlement checks (for forgeries) until a determination is made as to the proper procedures for handling these payments and any required appropriations or amendments to the law have been passed by Congress. Treasury believes that such a discontinuation of payments to rightful payees would be impractical and unconscionable.

Actions currently being taken pending resolution of these matters include exploration of ways in which agencies can take on a larger share of the administrative processing functions associated with claims, including recertification of replacement payments and increased collection responsibility. Treasury is also in the process of developing a request for an appropriation to cover accounts receivable deemed uncollectible.

ACCOUNTING AND COLLECTION PROCEDURES FOR RECEIVABLES

In regard to recommendations to the Secretary in Chapters 3 and 4 of the report, Treasury has recognized the need to strengthen the accounting controls over receivables resulting from duplicate payments and settlement payments. Between April and October 1980 a computer based financial accounting and reporting system was installed in the Division of Check Claims (DCC) to establish financial control over DCC accounts receivable and other accounting functions. A user's manual for the system provides comprehensive documentation of all procedures for recording and reporting accounting transactions. The user's manual has been distributed, and accounting personnel are now fully familiar with processing requirements. Significant emphasis has been placed on increasing technical accounting competence. In conjunction with establishing improved control, a significant increase was made in the number of professionally trained accountants employed in DCC to manage accounting operations. Intensive training, both formal and on-the-job, has been given to accounting personnel on the details of the financial transactions being processed. Computer assisted microfilm equipment has been obtained to control accounting documents and files. All accounting documents from October 1979 onward are being microfilmed and are under control.

The DCC financial accounting and reporting system noted above has the capability of aging individual accounts receivable and an account has been established in the system to record an allowance for uncollectible accounts. Treasury's Bureau of Government Financial Operations (BGFO) is pursuing the development of a policy and procedures to : (1) determine uncollectible receivables; (2) transfer uncollectibles to an Administrative Relief Account; and (3) establish an Allowance for Losses Account. These procedures should be implemented in FY 1982. The Bureau is also developing an appropriation request for funding to cover amounts deemed to be uncollectible.

Treasury considers collection effectiveness and timeliness a prime objective in the claims area and has an ongoing program which includes operational improvements and necessary regulation changes. In addition to the system to control accounting operations, other operational improvements have been implemented. One system controls paid check requests from Regional Federal Records Centers. Another system provides effective retrieval and control of checks involved in duplicate payment receivable cases. These systems have significantly improved the control and timeliness for obtaining checks needed to pursue collection actions. In addition to these initiatives, management changes, improved facilities for storage, procedural improvements, productivity monitoring systems, and other internal controls are all contributing to improved effectiveness.

As noted earlier, Treasury agrees that program agencies should be responsible for collection of accounts receivable resulting from duplicate payments. However, to improve the responsiveness of banks to BGFO requests for refunds involving check forgeries, regulations have been implemented authorizing the charging of interest. A system to bill for the interest and follow-up on the refund requests has been implemented. This interest system recently was integrated with a pre-existing automated billing procedure which has been operational since 1978. Banks now receive follow-ups reflecting outstanding refunds requests and interest due every 30 days. BGFO is also developing regulations providing for offsets of overdue refunds from banks through financial transactions in the Federal Reserve System. Other efforts include potential litigation against recalcitrant banks.

ALTERNATIVES FOR REDUCING VOLUME OF OVERPAYMENTS

In regard to alternatives discussed in Chapter 5 of the report, Treasury agrees that the Direct Deposit/Electronic Funds Transfer Program is the most effective means of reducing overpayments and is the major long-term solution to problems associated with claims. Under this Program, Treasury issues payments by electronic means to financial institutions which make the funds available to the recipients on the payment date. The program benefits not only the Government by reducing the number of lost or stolen checks, but also benefits beneficiaries through improved service and the financial community through reduced costs and increased deposits. A prime Treasury goal is to expand the program, which is still entirely voluntary at the present time.

An alternative that Treasury has been proposing for many years is spreading the release of Social Security and Supplemental Security Income checks over several dates throughout each month. Cycling the release dates should reduce Government check thefts and forgeries because checks would be reaching individuals at different times of the month making it difficult for thieves to know when a particular person receives his check. Additional benefits to the financial community would accrue from smoothing out and streamlining the check clearing and reconciling workload.

Treasury is exploring other possible alternatives for reducing duplicate payments and other claims, including declination of payment on certain large items, alternative check delivery methods, and possibly slowing issuance of substitute checks until we can determine whether the original check has been cashed. Treasury is convinced that, working with Congress and the program agencies involved, solutions to the check claims problems can be found.

Sincerely,

Paul H. Taylor

Paul H. Taylor

(905014)

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