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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Administrator Of General Services

General Services Administration Needs To Improve Its Internal Controls To Prevent Duplicate Payments

GAO found that the General Services Administration had authorized at least 32 duplicate payments totaling about $1.3 million at one of its nine payment centers during fiscal year 1984. Almost all of that amount had been returned by the vendors involved. The main reasons for these improper payments were:

--Automated payment system features and manual controls were not adequate to ensure that goods or services received were paid for only once.

--Administrative practices at the payment center GAO reviewed decreased the effectiveness of existing automated controls.

The payment center did not know how many duplicate payments were returned by vendors. Also, claims for identified duplicate payments were not aggressively pursued.

GAO recommends several improvements to the automated internal controls and administrative operations which should reduce duplicate payments and lessen administrative workload.

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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-219535

The Honorable Terence C. Golden
Administrator of General Services

Dear Mr. Golden:

Representative Jack Brooks, Chairman of the Subcommittee on Legislation and National Security, House Committee on Government Operations, asked us to examine the issue of duplicate payments by the federal government. Much of the interest in this matter stemmed from reports during the summer of 1984 that several agencies had paid a Maryland firm more than once for the same services. In response, we have surveyed payment procedures at selected federal payment centers which process large numbers of invoices, including the General Services Administration's (GSA's) National Capital Region (NCR) finance center in Washington, D.C. The results of our work at the other agencies are presented in separate reports.[1]

During our survey, GSA's nine regional finance centers were using two automated payment systems--the Daily Accounting Cycle (DAC) and the National Electronic Accounting and Reporting (NEAR) systems. Over 2 million payments amounting to over $5 billion had been processed through these systems during fiscal year 1984. The DAC system was used primarily for processing low-dollar-value items. However, GSA was in the process of transferring all its payment activities to the NEAR system and expected to complete this changeover by October 1985. Therefore, we concentrated most of our efforts on the NEAR system.

Our key objectives were to determine if NCR was paying more than once for the same goods and services and, if so, to identify

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[1]We also completed surveys at a payment center for the Department of Defense's Defense Logistic Agency (GAO/AFMD-85-71) and one for the Department of Justice (GAO/AFMD-85-72).

the principal causes for such duplicate payments. An additional objective was to assess NCR's efforts to recover duplicate payments from vendors.

In summary, our work related to the NEAR system at the National Capital Region finance center revealed the following:

--We confirmed 32 duplicate payments amounting to almost $1.3 million. Most of these had been identified and returned to the agency by the vendors. Further, based on the internal control weaknesses and the problems in payment center operating conditions discussed below, it is likely that additional duplicate payments were made.

--Private vendors were refunding duplicate payments made through the NEAR system, but NCR officials had not summarized that information or attempted to identify the reasons for the duplicate payments.

--Some of the system's automated internal controls to prevent duplicate payments needed to be upgraded. Also, no control techniques were used to prevent payment technicians from circumventing existing automated control procedures.

--The center relied heavily on manual controls which were not always effective because they were not consistently performed.

--As of January 31, 1985, over $47.6 million in manually processed payments during fiscal year 1985 and almost $8 million processed during fiscal year 1984, had not been entered in the automated system files. Therefore, in addition to bypassing automated controls when payment was made, these manual payments could not be accessed for computer comparisons to prevent future duplicate payments.

--The center lacked adequate physical control over documents used to justify payments.

In regard to our review of NCR's efforts to recover duplicate payments made through the DAC system, we found that they were not pursued promptly or vigorously and that interest was not charged regardless of how long a claim had been outstanding.

GSA headquarters and NCR officials told us that they had not been aware that system weaknesses were allowing duplicate payments to be processed through the NEAR system. They did, however, acknowledge making some duplicate payments through the DAC system and told us that they had attempted to compensate for known internal control weaknesses by establishing post-payment techniques to detect duplicate payments made through that system.

We do not have any information about duplicate payments at the other GSA payment centers. However because all centers used the same payment systems, we believe there is a risk that they also had made duplicate payments. Combined with the transfer of all payment activities to the NEAR system, implementing our recommendations, which appear on page 18, should strengthen GSA's internal controls to prevent duplicate payments. Further, in some instances the improvements could create opportunities to reduce administrative requirements associated with current practices to prevent duplicate payments.

PAYMENT CENTER OPERATIONS

The primary role of the GSA payment centers is to process payments on behalf of other agency offices and to make sure payments are proper. GSA offices forward procurement documents, such as contracts or purchase orders, and receiving reports to the payment centers. Using information from these documents and from invoices forwarded by vendors, payment clerks at centers verify the propriety of individual payments. If a payment is proper, it is processed either on GSA's automated system or manually. Automated processing generates a disbursement order on computer tape which is forwarded to a Department of the Treasury disbursement center. Treasury issues and sends the checks to vendors as indicated on the payment tape. The result of processing a payment manually is a typewritten document containing the same kind of information which Treasury also uses to issue checks. During fiscal year 1984, the NCR payment center processed about 250,000 payments.

GSA's payment centers process payments for varying types of goods or services, and the controls to prevent duplicate payments vary with the type of payment processed. For example, payments for recurring services where the amount of the periodic payment varies--such as utilities--are commonly controlled by monthly billing periods. Under such circumstances, the intent of one of GSA's automated controls is to prevent making more than one payment per month on each account.

There are a number of guidelines that apply to GSA's payment center operations. GSA's Accounting Operations Voucher Examination Payment Handbook establishes guidelines on how to process the agency's payments. In addition, title 7 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies and the Department of the Treasury's Treasury Financial Manual for Guidance of Departments and Agencies require that agencies' controls over disbursements include the necessary safeguards to prevent duplicate payments.

SCOPE AND METHODOLOGY

We conducted audit work at GSA because the agency has a comparatively high volume of contract activities and because all nine GSA payment centers used the same two automated payment systems, NEAR and DAC. Automated system weaknesses identified at one payment center, therefore, would apply throughout GSA. In recognition of the impending phaseout of the DAC system, we concentrated on the NEAR system.

Shortly after we began our work, the Office of Management and Budget (OMB) directed federal agencies to conduct comprehensive reviews of the adequacy of internal controls in their payment systems, including those for preventing duplicate payments. To avoid possibly duplicating GSA's work to satisfy that requirement, we did not perform a detailed system review. Instead, we concentrated on independent testing of NCR's fiscal year 1984 payments made through the NEAR system to identify duplicate payments and determine why they had occurred. In the course of our field work conducted between January and April 1985, we interviewed payment center and accounting system officials to obtain an overview of payment operations and to identify the automated and manual internal controls used to prevent duplicate payments. We requested any documentation describing the features and operations of those control functions.

Our work centered on reviewing payment transactions to determine if duplicate payments were made through the NEAR system and to identify both the automated and manual control weaknesses that allowed the duplications to occur. We obtained automated records of selected payments NCR had made on the NEAR system during fiscal year 1984 for GSA's Region XI[2] and performed tests to identify potential duplicate payments. We excluded all automatically programmed, recurring, fixed-amount payments to private businesses, such as rent for office space, and analyzed the remaining 86,000 transactions to identify those with the same vendor identification number, same invoice number and amount, and the same document identification number used by GSA.

Excluding internal agency payments, this analysis identified 502 potential duplicate payments--generally involving two payments each--for which the payment data mentioned above were identical. We selected the 82 potential duplicate payments of $500 or more and reviewed the available documentation such as vendor invoices used to support the individual payments. We requested assistance from agency officials in locating documents we could not find. Based on our review of the supporting documents, research in pertinent vendor payment history files, and discussion with NCR staff, we determined if a payment had been made twice.

A second matching process in which we deleted the criterion that the invoice number be the same resulted in 1,864 additional potential duplicate payments. We judgmentally selected seven where it appeared that the invoice number on one of the otherwise identical payments had been altered. We used the same approach as

[2]GSA's Region XI covers the Washington, D.C., metropolitan area.

described above to determine if a duplicate payment had been made. We provided the listing of the remaining potential duplicate payments to NCR officials for their use.

We reviewed letters accompanying checks returned to GSA by vendors to determine the reasons for the returns. Where possible, we examined the circumstances that led to each of the duplicate payments confirmed, and we identified the control weaknesses at the payment center--automated and manual--that contributed to or allowed the duplicate payments to occur. We did not examine any control activities of the purchaser, vendor, or activity receiving or using the goods or services. In addition, we assessed the overall adequacy of NCR's efforts to (1) collect and use information relating to duplicate payments returned by vendors and (2) collect identified duplicate payments made to vendors on the DAC system.

Also, we looked at the volume of payments processed manually rather than through the automated system. We determined the reasons for these instances and how promptly such payments were recorded in the automated files.

Our audit was performed in accordance with generally accepted government auditing standards except that we did not perform a reliability test on the fiscal year 1984 automated payment data provided by the agency for our analyses in identifying potential duplicate payments. Also, we did not ask for official agency comments on a draft of this report.

RESULTS OF OUR TESTING FOR DUPLICATE PAYMENTS

We found that NCR had made 32 duplicate payments totaling about $1.3 million through the NEAR system. We identified 25 of these through our independent testing of NCR's fiscal year 1984 payment transactions, 4 by reviewing company letters which transmitted refunds for duplicate payments, and 3 by chance as we searched for the supporting documents for the potential duplicate payments identified through our automated testing.

Most of the dollar value of the 25 duplicate payments confirmed through independent testing was attributable to one improper utility payment of $1.1 million. The other 24 ranged from $500 to $59,600. NCR officials recovered 21 of these 25 duplicate payments principally because the vendors had identified and refunded the improper payments. However, NCR could not confirm whether another duplicate payment for about $3,500 had been repaid but promised to follow up and take collection action if it had not been collected. The remaining 3 which we brought to regional officials' attention had been outstanding about 14 months. NCR officials initiated collection action during our survey for the $2,200 involved. The remaining 7 of the 32 duplicate payments involved $22,000 which had been returned by the vendors.

Strong probability that other duplicate payments were made

Various internal control weaknesses and other operational problems discussed in the following sections make it very likely that NCR made additional duplicate payments through the NEAR system. Some of the specific reasons we believe other duplicate payments were made but did not surface in our tests include:

--The fiscal year 1984 automated payment data was incomplete because numerous manual payments totaling about $8 million had not been entered in the system files. Thus, any duplicate payments included in that amount would not have been identified during our matching process.

--Most of the potential duplicate payments we identified through our matching process were for amounts less than $500. However, we only analyzed potential duplicate payments involving $500 or more.

--Having multiple identification numbers for the same vendor and other inappropriate administrative practices as discussed later in this letter also would have prevented identifying some duplicate payments through matching of the automated files.

Also, NCR had not captured information related to duplicate payments which were being returned by vendors. Our review of NCR's control logs showed that vendors had returned 745 government checks for payments made during fiscal year 1984. We noted that 103 of the checks had been returned because of an insufficient address and were told that a letter explaining the reason had probably accompanied most of the other checks returned. Correspondence that NCR received during our fieldwork showed that several companies had returned duplicate payments. However, NCR routinely discarded letters without summarizing any information on why checks had been returned. Consequently, NCR officials did not know nor could we determine how many checks were returned because of duplicate payments or other reasons.

We also found that some recipients of duplicate payments did not return government checks but instead refunded the improper payment with their own checks or gave credits on subsequent invoices submitted to GSA. We were unable to determine how frequently this occurred because NCR also did not summarize that information. Taking advantage of such information by summarizing the incidences and identifying causes could be a very valuable tool for managers in identifying and correcting problems in the payment process.

INTERNAL CONTROLS TO PREVENT DUPLICATE PAYMENTS SHOULD BE IMPROVED

We could not identify the reasons for each of the duplicate payments we identified because NCR could not provide us with documents supporting some of the payments involved. However, through our analysis of the available documentation and assessment of selected features of the NEAR system, we determined that the combination of automated and manual system controls used to prevent duplicate payments in the NEAR system was not adequate. The automated internal controls did not cover enough phases of the payment process and in two instances were accomplished too late to be as effective as possible. Also, manual controls used to compensate for weaknesses in the automated system sometimes failed, principally because they were not consistently applied or because the payment center relied on assistance from the Department of the Treasury (which is not routinely provided) to avoid duplicate payments. In addition, GSA needed to issue additional instructions and follow up to prevent clerical practices which defeated the purposes of some automated system controls.

The GAO policies and procedures manual and the Treasury financial manual require that agencies' controls over disbursements include necessary safeguards to prevent duplicate payments. GSA's NEAR system did include some automated controls to identify duplicate payments. However, GSA could not provide us with adequate documentation on how the system operated, including a description of the existing automated controls or their sequence within the payment process.

As GSA noted in its Federal Managers' Financial Integrity Act report for fiscal year 1984, lack of documentation adversely affects productivity when dealing with systems-related issues and hinders evaluations by external sources. According to the Director of GSA's Office of Finance, the agency is continuing efforts to document how the system operates.

Automated and manual controls did not prevent duplicate payments which were processed simultaneously

GSA's basic automated control procedure for preventing duplicate payments compares payments in process only with those previously made and recorded in the NEAR system's automated files. Because payments are not recorded in these files until after the computer tape--used by Treasury to issue the checks--has been completed, payments in process concurrently are not compared with each other to identify any potential duplicates. For example, we found that six duplicate payments totaling $4,000 had been made under these circumstances. The Director of GSA's Office of Finance said he was aware of this situation and that his office would explore the possibility of expanding the comparison function to cover payments in process.

GSA has a manual control procedure that could compensate for this and other gaps in the automated controls. GSA procedures require the payment center to compare each payment listed on a preliminary disbursement report with the documents--such as an invoice and receiving report--that support each payment. If an improper payment--caused by an incorrect address, inaccurate payment amount, or duplication--is identified by reviewing the preliminary disbursement report which lists payments in process, it can be deleted before the computer tape is prepared for Treasury. NCR officials acknowledged that in the past they frequently had not completed their review during the preliminary report phase and had instead concentrated on reviewing a final disbursement report. However, if a duplicate payment is identified on a final report which is a copy of the payment tape, the only way GSA can avoid the duplicate payment is to send a written form with the tape requesting Treasury not to mail that specific check.

This manual process and the separate requests for Treasury's assistance were not always effective. During reviews of preliminary and final disbursement reports, the region did not delete the six duplicate payments totaling $4,000 as noted above. In five other instances, NCR officials had identified duplicate payments on the final report and had asked Treasury not to mail the improper payments. However, these five duplicate payments totaling about $38,000 had been forwarded to the vendors.

We obtained Treasury's view on its responsibility to help agencies avoid improper payments. The deputy director of Treasury's Washington disbursement center told us that he and others in the disbursement center have advised all the agencies they serve, including GSA, that they may not rely on Treasury to intercept payments authorized for distribution on their payment tapes. He said they sometimes honored written requests to withhold payments, but because such requests can get separated from the accompanying tapes, and more importantly, due to staff reductions, Treasury could not guarantee improper payments would not be mailed as stipulated on the tapes. He also noted that manually searching for the checks in Treasury's automated check preparation and mailing process was disruptive to their operations. Accordingly, he said that to be sure an improper payment is not made, agencies must remove from their computer tapes any orders for payments that they do not want disbursed before sending the tapes to Treasury.

According to the chief of NCR's accounts payable branch, the region has greatly increased its reviews of the preliminary disbursement report since August 1984. However, additional efforts may be needed to make sure that this internal control procedure is accomplished before the payment tape is prepared. For example, we found that between October 1 and November 1, 1984, NCR requested Treasury on four occasions to withhold 13, 14, 29, and 49 checks included on its payment tapes.

Automated internal control is accomplished too late

Another NEAR system automated control feature is used to prevent duplicate payments for certain types of small dollar value purchases.[3] For these transactions, an automated internal control procedure compares the unique document control number that GSA assigns to each procurement transaction. However, this comparison is accomplished after the payment tape for Treasury has been completed and as discussed in the preceding section, no opportunity exists to remove any confirmed duplicate payments from the tape. As a result, the only way GSA can avoid a duplicate payment is to request Treasury not to issue the check.

In light of GSA's own policies requiring that improper payments be canceled before the payment tape is prepared and Treasury's stated policy that agencies should provide them accurate payment tapes, GSA must accomplish this automated control procedure in time to make these corrections. As currently used, the control feature has only a very limited value.

We discussed this issue with GSA officials responsible for operating the NEAR system. The Director of GSA's Office of Finance said that they would first have to study the feasibility of eliminating the delay in accomplishing this control procedure before promising that corrective actions will be accomplished.

Certain recurring payments can be paid twice

The system's automated internal control procedure to prevent paying the same bill for utilities or other similar recurring services more than once is based on a billing period.[4] The system is programmed to reject all but one payment per account for each billing period. However, the control for rejecting additional payments does not function until after the end of the month during which a payment has been applied to a particular billing period. For example, if a payment for the billing period of February is made on April 4, the system will reject a duplicate payment only if it is made after April 30. To be totally effective, such an automated control feature should immediately reject any payments after the first payment for each period.

We found that this weakness had allowed six duplicate payments amounting to about $28,000 to be processed during the same month as

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[3]This applies to one-time purchases of less than $1,000 and goods and services purchased under a blanket purchase agreement. A blanket purchase agreement is basically a charge account arrangement between GSA and a vendor where unit prices are established. One objective of such an agreement is to reduce the government's administrative costs by minimizing paperwork for repetitive purchases of small dollar value items from the same vendor.

[4]This automated internal control procedure applies to recurring <u>variable</u> price services where the periodic, generally monthly, payment fluctuates with usage levels. Examples would include natural gas, electricity, and water billings.

the corresponding proper payments. The utility companies had discovered the duplicates and in four instances had given NCR a credit on subsequent bills. In the remaining two cases, the companies had returned the checks to NCR. The length of time the duplicate payments were outstanding ranged from 9 to 56 days.

NCR was aware that the delay in operation of this automated control feature is a weakness and required that payment clerks keep a manual record of each payment they process for utilities and other recurring services involving different amounts from month to month. Manually recording thousands of such payments monthly is an extensive administrative task, and we found that it was not always effectively performed. We reviewed the manual records related to 13 duplicate utility payments we confirmed and found that payment clerks

--could not provide us the manual records in three instances,

--had recorded only one of the two identical payments in seven instances and none in another case, and

--had entered both of the identical payments on the manual records for the remaining two cases.

GSA headquarters officials responsible for system operations agreed that the automated control based on the billing period should be improved. They told us that they have started developing a control procedure which would reject all but one payment for a particular billing period. Improving this automated control technique would also offer GSA an opportunity to examine the need for continuing the manual recordkeeping requirement and possibly save staff resources.

Each payment must be applied to the appropriate billing period

The NEAR system automated control feature to prevent duplicate payments described in the preceding section requires that each payment be applied to the period for which services were rendered--the proper billing period. We found that in some instances payment clerks had combined payments for two billing periods and applied those payments to only one such period, thus eliminating the intended benefit of the automated control. For example, NCR paid a utility bill for February 1984 after its due date. As a result, the invoice the company submitted for March also included the amount billed for February. When this bill was paid, the NCR payment clerk combined the amounts billed for February and March and applied the total to March. If the clerk had applied the amount applicable to February to February--as should have been done--the automated system should have rejected the duplicate payment.

We found three duplicate payments for utility services had occurred--including one for $1.1 million--when payment clerks included unpaid balances from prior periods in payments for current periods and applied the total amount to only one billing period. Not even an improved automated control procedure as discussed in the preceding section of this report could have identified these duplicate payments because as stated above all payments must be applied to their appropriate billing periods for this control feature to function effectively.

We do not know if this problem is widespread. However, in reviewing selected utility payments processed during 2 days, we found six other instances where charges for different periods had been combined and applied to one billing period. NCR did not have any way to determine if these practices resulted in duplicate payments. In fact, because our systematic test to identify duplicate payments keyed on payments of the same amount to the same business, it was coincidental that we identified the three duplicate utility payments mentioned above.

GSA did not have written procedures instructing payment clerks to process charges for each billing period separately and to apply them to the appropriate months. The chief of NCR's accounts payable branch told us that such verbal instructions had been given to payment clerks in this region. Although this is important, we believe explicit written guidelines would help ensure that the automated control procedure based on the billing period is effective. Further, adherence to these guidelines could be checked during the reviews of preliminary disbursement reports discussed earlier.

NCR SHOULD OPERATE THE AUTOMATED SYSTEM AT ITS FULL CAPABILITY

NCR processed over 250,000 payment transactions during fiscal year 1984. In our view, the only practical way to gain reasonable assurance against duplicate payments in a large operation such as NCR's is by relying to the greatest extent possible on automated system controls. Improvements along the lines discussed previously would strengthen the basic capabilities of the preventive controls; however, NCR officials also needed to take steps to improve the environment in which those controls operate. We found several activities that were undermining the controls' effectiveness. For example, the region

--processed large numbers of payments manually rather than through the automated system and did not promptly record many of these payments in the system's files,

--assigned more than one identification number to some vendors, and

--did not effectively control circumvention of existing automated controls.

Processing payments manually increases the risk of duplicate payments

Of the 86,000 fiscal year 1984 payment transactions we tested to identify potential duplicate payments, about 4,500 or over 5 percent had been processed manually. As a result, they may not have been subject to the automated controls to prevent duplicate payments at the time they were authorized to be paid by Treasury.

We also found that long delays occurred before many of the manual payments were recorded in the automated files of the NEAR system. For example, as of January 31, 1985, $47.6 million in payments processed manually during fiscal year 1985 and almost $8 million in payments processed manually during fiscal year 1984 had not been recorded. Because the automated system compares payments being processed with prior payments, unless manual payments are promptly recorded in the system's automated files, future duplicate payments may not be identified.

The chief of NCR's accounts payable branch told us that the major reason for processing payments manually was to pay vendors on time. He noted that this was particularly true in cases involving a small business or when a caller had convinced NCR that delaying payment would create a severe financial hardship for the vendor. According to the same official, NCR had improved the timeliness of its payments since August 1984 primarily by redistributing the workload among its 47 payment technicians. However, he noted that because of staff shortages, late payments and delays in recording manual payments were still a problem.

We found that some payments were processed manually even though they had previously been processed on the automated system. NCR officials told us that they sometimes had to do this if it took longer than anticipated to complete a payment tape. In such instances, some payments processed on the automated system would be made late. Thus, to avoid late payments and the associated interest penalties, those payments would be processed manually.

According to the chief of the accounts payable branch, such payments should be deleted from the automated system before payment is made manually. Of the 32 duplicate payments we confirmed, six totaling about $100,000 had been processed both on the automated system and manually. Because payment clerks had not removed the first payment made from the automated system, Treasury issued and forwarded both payments to the vendors.

In addition to increasing the risk of duplicating payments, NCR magnifies its workload by manually processing large numbers of payments. Manual payments must be handled at least twice by payment center personnel--once when payment is processed for issuance of the check and again when the payment is recorded in the automated files. Processing some payments manually after they have already been processed on the automated system is even more labor-intensive. In addition to processing such payments twice for check issuance--once on the automated system and once manually--payment clerks must initially delete them from the automated system and after payment has been made, again record them in the automated files.

We recognize that NCR's major reason for processing payments manually is to avoid late payments caused in part by delays in completing the payment tape. If NCR made fewer manual payments, the staff resources conserved could be used to concentrate on timely completion of the payment tapes. Such a shift in emphasis to concentrate on completing payment tapes on time might temporarily result in some payments being made later than if they had been processed manually, but overall, such an initiative to catch up could allow the payment center to avoid the continual demand for manual payments. Such an initiative also should generate a more productive payment process and reduce the risk of paying for the same items twice.

Multiple vendor numbers frustrate the intent of automated controls

The NEAR system's automated controls to prevent duplicate payments are based on the vendor identification number which is supposed to be unique for each vendor. All payments with the same number are compared to reject potential duplicate payments. Thus, assigning more than one identifying number to the same company reduces the controls' effectiveness, thereby increasing the risk of duplicate payments.

By reviewing letters accompanying checks returned by vendors, we identified a $2,600 duplicate payment caused in part because a vendor had multiple identification numbers. We noted two additional cases where a vendor had been assigned more than one identification number. In such cases, duplicate payments made to the same company but recorded under different numbers would not be routinely detected by NCR, nor was it possible for us to identify such duplicate payments through our automated matching process which was also based on the vendor number.

Regional officials had been aware of multiple vendor numbers for several years. A central office report based on a July 1981 internal review also had identified this problem. It stated that "multiple vendor numbers for one vendor is very common" in NCR and recommended that they be eliminated. The report also recommended improving controls over new vendor number requests to avoid increasing the extent of this problem. The chief of NCR's accounts payable branch told us that the second recommendation had been implemented by delegating the number request function to a specific section of his branch and by requiring a thorough search of the existing vendor file before assigning new numbers. However, he told us that lack of staff resources had precluded them from reviewing the current vendor file to identify and eliminate existing multiple numbers. In our view, unless NCR accomplishes this task, the automated controls to prevent duplicate payments cannot function as effectively as they should.

Region needs to monitor payments which are authorized by bypassing automated internal controls

Three of the 32 duplicate payments we confirmed occurred because payment clerks had bypassed automated system controls. In two of those cases, clerks had changed the invoice number by adding a letter, thus purposely overriding the automated control which compared payments in process with those made previously. This resulted in two duplicate payments totaling over $6,000. In the other instance, a clerk reopened a billing period for a recurring utility payment to pay $3,000 although it had been paid 6 months earlier.

The Director of NCR's finance center told us that it was his policy to require supervisory approval when payment clerks bypassed automated controls designed to prevent duplicate payments. However, the payment clerks we interviewed and their supervisor told us that they were not aware of and had not followed such procedures. The supervisor also said that no control logs were kept on this matter. Thus, there was no way of knowing how often and for what reasons the payment clerks were overriding the automated controls.

GSA headquarters and NCR officials agreed that on some occasions automated controls must be circumvented to allow processing a proper payment on the automated system. For example, NCR sometimes receives bills for late payment penalties from utility companies that did not receive their payments by the due date. When such charges are paid, they must be applied to the correct billing period. To do so, a payment clerk must occasionally reopen a billing period because unless the additional payment will occur in the same month as the initial payment, existing system controls will reject a second payment for the same period.

We noted, however, that GSA does not have written procedures to specify under what circumstances automated controls may be circumvented and the level of supervisory approval required. We believe such written procedures are necessary to help ensure that payment clerks bypass the controls only when appropriate, and to allow managers to monitor the frequency and propriety of such practices. This is particularly important because all GSA payment centers use the same procedures.

Propriety of documents used to support payments was sometimes questionable and others could not be located

GSA has written procedures which require that any document used in lieu of an original invoice must be annotated to show why it is used and the steps that have been taken to prevent a duplicate payment. We found that NCR payment clerks were not always following these procedures and that 3 of the 32 duplicate payments we identified were supported by copies of invoices and 4 by statements or reminders rather than an actual invoice. None had been annotated to explain why it was being used instead of an original invoice and to indicate what research had been accomplished to prevent a duplicate payment.

In addition, our policy and procedures guidance on fiscal matters states that federal agencies should retain for audit the basic documents that support their payments. NCR could not provide these documents for all the payments we reviewed. Although we were able to access other data to determine whether these were duplicate payments, our analysis of why they had occurred was limited.

We requested the supporting documents for 89 potential duplicate payments which involved more than 180 individual transactions. NCR was unable to provide us documents supporting 55 of the payment transactions involved. For the 25 duplicate payments we confirmed through our automated testing, supporting documents for either one or both of the payments involved were missing in 15 instances. Similar problems had been identified in GSA's 1981 internal review.

While we were at NCR, no one was solely responsible for safeguarding the documents supporting prior payments and for assuring that any documents borrowed were returned so that payment files were complete. The chief of the region's accounts payable branch said he was aware that some documents were missing and agreed that someone should be specifically assigned to oversee the physical security of those documents. However, he said that NCR did not have enough staff to assign someone to maintain physical control over payment documents.

IDENTIFIED DUPLICATE PAYMENTS SHOULD BE COLLECTED MORE QUICKLY, AND COLLECTION RECORDS SHOULD BE COMPLETE

We also looked at NCR's procedures for collecting duplicate payments, particularly since NCR and GSA headquarters officials had acknowledged making some duplicate payments through their Daily Accounting Cycle (DAC) system. Our analysis of the collections function showed that some of the claims against vendors arising from duplicate payments made on the DAC system had remained in an open status for several years. A more aggressive approach would, in our view, substantially decrease outstanding claims. Progress in this area accompanied by recording all returned payments from vendors in the vendor history files would contribute to improved debt collection.

Collection of identified duplicate payments should be accelerated

As of March 1985, the unpaid balance for 216 identified duplicate payments for fiscal years 1981 through 1985 was about $51,000 with approximately $41,000 attributable to claims set up in 1984 or earlier. Ten of the claims, ranging from $1,033 to $15,399 were for $1,000 or more.

To get some idea of NCR's practices for pursuing duplicate payment claims, we randomly selected 11 of the 216 outstanding claims for review. The amounts of these claims ranged from about $11 to about $800. We found (1) delays in sending letters requesting repayment, (2) time periods greatly exceeding legislatively established 30-day intervals for demand letters, (3) few reductions of current payments to offset prior duplicate payments, and (4) failure to charge interest regardless of the length of time since the claim had been established. For the 11 duplicate payments, the average length of time between the duplicate payment and the first repayment request was 4 to 5 months. Similar time intervals existed between the first letter and follow-up letters. An NCR official acknowledged such delays and attributed them to staffing shortages.

Federal legislation requires agencies to levy certain charges against those who pay late or default on the amount owed. As specified in the Debt Collection Act of 1982, 31 U.S.C. 3717, unless there are overriding considerations, agencies are to charge interest on accounts outstanding at least 30 days after the date of the notice mailed by the agency to inform the debtor of the amount due. Also, the law provides for penalty fees on late payments as well as processing and handling fees to reimburse the government for the costs of pursuing amounts in default.

An NCR official told us that they were aware they could charge interest and were considering including that requirement in another follow-up letter. They said that they did not believe that there were any contractual or regulatory provisions that would have precluded assessing interest penalties for unreasonable delays in reimbursing NCR for the erroneous payments. They also told us that they occasionally reduced payment to a company for current services if the company had not reimbursed NCR for a previous duplicate payment. However, NCR generally preferred to obtain voluntary repayments.

Undue delays in repayment is costing the government money--both to carry the receivables and to continue pursuing payment. Consequently, companies should be informed in the first and any subsequent follow-up collection letters that interest will be charged if payment is not received within 30 days. Unless companies are charged interest for excessive delays in making reimbursement, they will have in effect converted an account payable into an interest-free loan financed by the Treasury. Also, charging interest would be in accord with the intent of prompt payment legislation which, unless otherwise specified, generally requires the government to pay its bills within 30 days and pay interest on any late payments.

Accounting records incomplete

We also noted that NCR used varying procedures when accounting for duplicate and other improper payments returned by vendors. As a result, some returned payments are not reflected in NCR's vendor payment history files. In these instances, determining whether or not NCR has recovered a particular duplicate or otherwise improper payment is very labor-intensive.

For example, in three instances where the vendor history files did not show if NCR had recovered the duplicate payments we had identified, an official from the accounts payable branch did not attempt to do the necessary research. Instead, she called the vendors and asked if they had returned the duplicate amounts. The official said that because it was not known when the companies might have returned the duplicate payments, the branch may have had to review all collections deposited during the past year and, based on her experience, still may not have found them. NCR deposits several thousand payments each month and, consequently, in the absence of accurate records, determining if a specific duplicate payment has been returned could be extremely time-consuming.

CONCLUSIONS

The scope of our audit work does not allow any projections regarding the extent of duplicate payments made by GSA; however, the control weaknesses in the NEAR system and the dependency on accurate and timely administrative practices create risks of paying for goods or services more than once. In fact, our assessment of the system's automated controls, our confirmation of duplicate payments at NCR, and our evaluation of administrative practices indicates that other GSA regions may be making duplicate payments and that it is very likely that NCR made more duplicate payments than we were able to identify during our survey.

The NEAR system automated controls contained several fundamental weaknesses which substantially reduce their effectiveness. Upgrading these controls would increase the number of payments covered by automated controls, identify potential duplicate payments earlier in the payment process, and provide more confidence that payments for certain recurring expenses were not paid twice. Accomplishing these system improvements would have the added benefit of offering opportunities to increase productivity by reducing the need for manual records maintained for several types of payments. Moreover, this would reduce the chances of making duplicate payments at all of GSA's regional payment centers since they all use the NEAR payment system.

The problems in NCR payment operations including not recording manual payments promptly, circumventing automated controls, and having more than one identification number for the same vendor decreased the effectiveness of the existing automated controls to prevent duplicate payments. Correcting these problems will require clearly spelling out procedural requirements and ensuring that they are strictly observed. In addition, identified duplicate payments should be collected and accounted for in a more effective and efficient manner.

RECOMMENDATIONS

To strengthen GSA's payment operations and particularly to prevent duplicate payments, we recommend that you take the following actions:

--Increase the capability of automated controls in the NEAR system so that

* duplicate payments processed concurrently on the automated system are detected and rejected,

* all payments for recurring services are rejected if there has been a previous payment for the same billing period, and

* comparisons of the unique document control numbers are accomplished in time to remove any duplicate payments from the automated system before the payment tapes are generated.

--Develop and implement written procedures which specify under what circumstances the NEAR system automated controls to prevent duplicate payments may be circumvented and the level of supervisory approval required to override them.

We also recommend that you consider the internal control weaknesses discussed in this report during your comprehensive payment system review as required by OMB and that you direct the Administrator of your National Capital Region to:

--Control the bypassing of automated internal control features.

--Monitor payment practices to ensure that payment clerks

* record separately the charges for different billing periods when processing payments for recurring services such as utilities,

* perform the required research to prevent duplicate payments when using a document other than an original invoice as support for a payment. The reason that document was used and the steps taken to prevent duplicating a prior payment should be noted on that document.

--Process payments manually only as a last resort and record any manually processed payments promptly in the automated files of the NEAR system.

--Summarize, analyze, and use information regarding duplicate payments that vendors return to identify and correct problems in the payment process including weaknesses in internal controls which allow duplicate payments to occur.

--Strengthen the physical controls over documents used to support payments to provide complete documentation regarding the propriety of each payment.

--Review the identification numbers for each vendor in the NEAR system files and eliminate any multiple numbers for the same company.

--Strengthen procedures for collecting identified duplicate payments. Among the specific required actions are pursuing amounts owed promptly, charging interest on claims outstanding at least 30 days after the date the notice is mailed to the debtor, and assessing other charges such as penalties and processing and handling fees, as appropriate, for late or defaulted repayments.

--Record all returned payments in the vendor payment history files.

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

We are sending copies of this report to the Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations, and to the committees mentioned above. In addition, copies are being sent to the Director, Office of Management and Budget, the Regional Administrator of GSA's National Capital Region, and other interested parties.

Sincerely yours,

Frederick D. Wolf
Director

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