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New Methods Needed for Checking Payments Made by Computers.
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The Federal Government disburses \$700 billion annually, largely through huge, decentralized, computerized, cashless systems. The law requires those who approve individual payments--certifying and disbursing officers--to assure that payments are legal, proper, and correct. Under the current system it is often impossible for the responsible persons to examine the basic documents previously used to determine that payments were proper. Recommendations: The Director of the Office of Management and Budget should issue guidelines requiring department and agency heads to: designate an operating official at the assistant secretary or comparable level to review each automated payment system and the controls built into it to determine whether they are operating effectively and can be relied on to compute payments that are accurate and legal; direct that such reviews be made at least annually, supplemented by interim checks of major system changes; direct the certifying or disbursing officer to certify or disburse automated payments only when notified by the designated operating official that the automated system and the controls built into it are operating effectively; require a written statement from the designated operating official if the official determines that the system is not operating effectively and that corrective action could not be taken before the next voucher preparation; and provide that, when significant system deficiencies are identified, the designated operating official must assume responsibility for subsequent certification that the payments are otherwise proper. (Author/SC)

REPORT TO THE CONGRESS



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

New Methods Needed For Checking Payments Made By Computers

The Federal Government disburses \$700 billion annually--largely through huge, decentralized, computerized, cashless systems. The law requires those who approve individual payments--certifying and disbursing officers--to assure that payments are legal, proper, and correct.

In the days before the computer and today's large volume of transactions, certifying and disbursing officers could physically examine each supplier's invoice and the supporting documentation before payment. Today such an examination is virtually impossible for many of the disbursing systems that use computers extensively. To adapt to this change in operating procedures without losing essential controls over disbursements, agencies need to review periodically the details of how these systems operate so that certifying and disbursing officers will have assurance that internal controls reasonably protect against theft and error.

The Office of Management and Budget and the other departments that commented agreed that such reviews are needed and offered various suggestions for improving the procedures.



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20545

B-101081

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

The age of the computer calls for a change in the approach to determining whether payments are accurate and legal. While the verification of transactions, performed by certifying and disbursing officers for the past 200 years, is a valuable function, the methods employed need to be revised to deal with automated payment systems. In this report we recommend that the Director, Office of Management and Budget, direct Federal agencies to review annually whether each automated payment system and its related controls are operating effectively and can be relied on to compute payments that are accurate and legal.

The Office of Management and Budget and the five departments that commented on our proposed report agreed that such reviews are needed and offered various suggestions for improving the procedures.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and the heads of Federal departments and agencies.

R. F. K. 1/14
ACTING Comptroller General
of the United States

D I G E S T

The system of accounting, auditing, and control used in the Federal Government has evolved from the small, totally centralized "quill pen and money chest" system established in 1789 to the huge, decentralized, computerized, largely cashless system used today.

EFFECT OF AUTOMATED DATA PROCESSING SYSTEMS

It has long been Government policy that those who approve payment of Federal funds take personal responsibility for the accuracy and legality of payments made. Before the advent of mechanized tabulating equipment and ultimately the computer, when payments were processed by manual methods, the persons having this responsibility could readily examine documents that enabled them to make such a determination.

For example, the responsible person could examine an order for purchase of an item, a document showing receipt of this item, and an invoice from the supplier showing his charge for the item. Thereby he could reach a conclusion that the payments were properly authorized, the amount was accurate, the goods or services had been received, and the Federal Government had incurred a legal obligation.

Since the 1940s the situation has changed considerably and the responsible person (called a certifying officer in civilian agencies and a disbursing officer in defense agencies) often is required to approve payments for large amounts as being legal, proper, and correct without examining the basic documents on which the determination was previously made.

This change is largely attributable to the great volume of Federal payments being made today and the use of the computer to make them.

Currently, the Federal Government disburses about \$700 billion annually. Most of these payments are processed through computer systems, which often do not provide the kind of data the certifying or disbursing officer can readily examine. Amounts due employees for salary payments are calculated inside the computer system. The factors used to make these computations are rarely checked by the certifying or disbursing officer. The process of matching an order for an item with receiving documents and a vendor's invoice, is often performed by computer at locations far removed from the paper documents involved. Again, the certifying or disbursing officer has little opportunity to examine the documents supporting the payments.

In some instances, certifying officers are presented with computer tapes evidencing payrolls involving millions of dollars. There is virtually no practical way they can satisfy themselves by examining supporting documents that the payments being made are, in fact, accurate and legal since they cannot read the tapes or check the computer computations. Regardless of this situation, they are asked to certify that these payrolls (usually a grand total) are accurately and legally computed and to take personal financial responsibility for any errors.

NEW METHODS NEEDED
TO ASSURE ACCURATE PAYMENTS

The age of the computer calls for a change in the approach to determining whether payments are accurate and legal. Verification of transactions by certifying and disbursing officers is a valuable task, but the methods employed need to be revised to conform to modern technology. (See ch. 3.)

This revision can best be accomplished by informing the certifying officer or disbursing officer whether or not the network of computer system controls is functioning properly. With this information, they would have a reasonable basis for attesting to the legality and accuracy of payments made.

The Director, Office of Management and Budget, is responsible for assisting in the development and effective management of Federal programs. The Director's responsibilities include identifying outmoded programs and prescribing Government-wide policies for financial management systems improvement. The Director also is required, on a continuing basis, to issue and administer regulations concerning the systematic review by agencies of their operations.

RECOMMENDATIONS

GAO recommends that the Director, Office of Management and Budget, issue guidelines requiring department and agency heads to:

- Designate an operating official at the assistant secretary or comparable level to review each automated payment system and the controls built into it to determine whether they are operating effectively and can be relied on to compute payments that are accurate and legal.
- Direct that such reviews be made at least annually, supplemented by interim checks of major system changes.
- Direct the certifying or disbursing officer to certify or disburse automated payments only when notified by the designated operating official that the automated system and the controls built into it are operating effectively.
- Require a written statement from the designated operating official if the official determines that the system is not operating effectively and that corrective action could not be taken before the next voucher preparation. This statement should enumerate the steps planned to accomplish adequate system controls and to recoup erroneous payments that may result before corrective action can be taken. A copy of this statement should be provided to GAO for its consideration in reviewing agency systems and accountable officer activities and in subsequently considering any accountable officer

requests for relief from liability for illegal or inaccurate payments made by automated payment systems.

--Provide that, when significant system deficiencies are identified, the designated operating official must assume responsibility for subsequent certification that, on the basis of available evidence, the payments are otherwise proper. The official should continue to certify payments until he or she informs the head of the agency in writing that the system is operating effectively.

GAO also will require certifying or disbursing officers who request relief from illegal or inaccurate payments made by automated systems, including operating officials designated to certify payments, when system deficiencies are noted, to show that they could not reasonably have known that the payment was illegal, improper, or incorrect. In reviewing requests for relief, consideration will be given to whether or not the officer possessed evidence at the time payment was approved that the system could be relied on to produce accurate and legal payments. (See pp. 16 to 18.)

AGENCY COMMENTS

The Office of Management and Budget and five departments which commented on this report generally agreed that automated payment systems should be reviewed periodically to assure their reliability. They also raised some related issues. (See ch. 4.) GAO is sending copies of this report to all departments and agencies for their information, use, and guidance pending issuance of guidelines by the Office of Management and Budget.

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
OMB	Office of Management and Budget
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Automated systems are used to process billions of dollars of Federal disbursements. These include

- most civilian and military payrolls;
- most benefit payments, including those administered by the Civil Service Commission, Railroad Retirement Board, Social Security Administration, and the Veterans Administration (VA);
- income tax refunds;
- public debt redemptions and interest payments;
- revenue sharing payments;
- many grant, loan, and contract disbursements;
- reimbursements to the Federal Reserve System for Government checks paid by the System; and
- many payments for equipment, supplies, services, rents, and utilities.

The Department of Agriculture and VA are in the process of centralizing and automating all types of payments. If the payment centers prove advantageous, other agencies can be expected to follow suit.

RESPONSIBILITY FOR LEGALITY AND ACCURACY OF PAYMENTS

Payments made by the Government must be legal and accurate to prevent losses to the Government and to avoid unjustly enriching payees who are overpaid or imposing hardships on payees who are underpaid.

To help insure that payments are legal and correct, the Budget and Accounting Procedures Act of 1950 and related laws place responsibility on:

- The Director, Office of Management and Budget (OMB), to issue and administer regulations concerning the

systematic review by agencies of their operations on a continuing basis.

- Executive agency heads to establish and maintain systems of accounting and internal control designed to provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit.
- The Comptroller General to prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency.
- The heads of civil executive agencies to designate employees to certify all payments and be personally accountable therefor (certifying officers).
- The heads of other executive agencies (principally the military departments) to designate employees to disburse payments and be personally accountable therefor (disbursing officers).

The Comptroller General's principles and standards relating to control over disbursements require each payment voucher to be:

- Approved by an official cognizant of the facts.
- Audited by the agency prior to certification to determine that the goods or services have been received; the quantities, prices, and computations are accurate; the payments are properly authorized, approved, and documented and are permitted by law, are in accordance with applicable agreements, and have not previously been made; the appropriation from which the payment will be made is available for that purpose; and all applicable discounts and deductions have been taken.
- Certified as required by law.

PURPOSE OF REVIEW

We reviewed the processing of various kinds of payments, with emphasis on computerized payments, in 25 activities in 22 executive departments and agencies. Our intent was to determine how well certifying and disbursing officers could ascertain the accuracy and legality of payments and to

determine what should be done in instances in which it was found that they could not. The scope of our review and the locations visited are shown in chapter 5.

RECENT REPORTS ON RELATED MATTERS

We have recently reported to the Congress on the need for improved procedures and controls in automated systems, including payment systems. Some of these reports are:

- "Improvements Needed In Managing Automated Decision-making By Computers Throughout The Federal Government" (FGMSD-76-5, Apr. 23, 1976).
- "Computer-Related Crimes In Federal Programs" (FGMSD-76-27, Apr. 27, 1976).
- "Managers Need To Provide Better Protection For Federal Automatic Data Processing Facilities" (FGMSD-76-40, May 10, 1976).
- "Supplemental Security Income Payment Errors Can Be Reduced" (HRD-76-159, Nov. 18, 1976).
- "Need To Apply Adequate Controls In The Army Standard Payroll System Prior To Implementation Defense-Wide" (FGMSD-77-4, July 5, 1977).
- "Computer Auditing In The Executive Departments: Not Enough Is Being Done" (FGMSD-77-82, Sept. 29, 1977).

CHAPTER 2

METHODS USED TO EXAMINE,

CERTIFY, AND DISBURSE PAYMENTS

Our review showed there were wide variations in the methods used to examine and certify payments. These variations related largely to whether manual or computer data processing systems were used.

MANUAL SYSTEMS

In manual data processing systems, the certifying or disbursing officers usually supervised the pay clerks, voucher examiners, and similar employees who computed and/or verified the correctness of transactions. These employees examined the source documents supporting payments and made sure that

- each transaction was supported by proper documentation and was not obviously improper or incorrect;
- each document had been properly approved and processed through all the required steps and was complete;
- the data in the various documents was consistent;
- all computations were correct; and
- the transactions complied with the laws, rules, and regulations which they were responsible for enforcing.

The key employees who processed transactions signed or initialed the source documents and, in effect, certified to the certifying or disbursing officers that the transactions were legal and accurate. These documents were then presented, or were readily available, to these officers and constituted the basis for certification or disbursement.

AUTOMATED SYSTEMS

In automated systems, certifying or disbursing officers do not directly supervise the entire process of preparing basic input data, computing payment amounts, and maintaining records of payments made. They must rely on those who

originate transactions and on the computer systems and the controls over computer operations to a great extent in certifying that payments are proper, legal, and accurate.

To appreciate the degree of this dependency, the development of automated systems should be taken into account. Automated systems grew in stages from the rudimentary punched card systems of the 1950s to the high-speed, self-controlled third-generation computers of today. While few Federal agencies still use punched card equipment, many are still using relatively simple second-generation computer systems for processing payments.

Punched card equipment eliminated many manually prepared and maintained paper records and replaced them with machine-prepared punched cards. Punched card systems still provided accountable officers with physical records (print-outs) that they could rely on as evidence to support payments. The cards, like documents, could be counted, tabulated, stored, and retrieved as needed.

With the advent of the first- and second-generation electronic computers, many of the punched card records and files were replaced with magnetic tape. The problems of accountable officers were compounded in that they no longer had tangible records they could see and use, except when intermediate hard-copy printouts were prepared. These printouts showed how the data was processed, and the reels of magnetic tape could be stored and printed at a later date as the need arose.

In current third-generation computers information is volatile, especially in real-time systems; old information ceases to exist as soon as new data is created and recorded unless special steps are taken to save the old data. Consequently, accountable officers no longer have tangible evidence showing how data was processed and payments calculated.

Certifying or disbursing officers have always had the responsibility to satisfy themselves that payments are proper, legal, and accurate. In manual, punched card, and early first- and second-generation computer systems, accountable officers could, to some degree, independently investigate the propriety of payments by reviewing documents, punched card files, and related tabulations, or intermediate computer printouts reflecting how data was processed. However, in modern computer systems, accountable officers have no way of independently investigating the propriety of

computer-generated payments. Instead, they must rely almost solely on the computer systems.

The automated systems we reviewed processed large volumes of payments. The data in the source documents was entered in the computers, and the data, rather than the documents, was then processed. The functions of the payroll clerks and voucher examiners were performed by the employees who prepared, transmitted, transcribed, and controlled the data entered into the computer system and by computer programs, equipment, and operators.

Payment vouchers were prepared from computer-produced totals and usually showed only the totals of large groups of payments, with individual payments being contained on an attached magnetic tape. Most of the certifying officers, personally or through employees reporting to them, compared the vouchers to some sort of overall control total. Most of the certifying or disbursing officers said they had to rely on the system for assurance of the correctness of the payments.

Some examples of the automated payment systems we observed are listed below.

Annuity payment systems

We observed the certification of monthly annuity payments made by the Air Force, the Civil Service Commission, and the Railroad Retirement Board.

In all of these systems, records of annuitants' entitlements, payments, and deductions were maintained by computer. Changes of entitlements, deductions, and other data such as mailing addresses were processed into the computer files throughout or at the end of the month. Once a month the files were processed to produce magnetic tapes containing control totals and the data needed to write and mail checks to recipients. Payment vouchers were prepared from the control totals.

The vouchers, which were certified (by the certifying officers) and disbursed (by disbursing officers), showed only the totals of the payments. The individual payments were contained in tapes which were used to write and mail the checks.

Air Force retired pay system

As of June 30, 1975, the Air Force retired pay system paid about 363,000 retired military personnel whose annual annuities totaled about \$2 billion. The data for these payments was compiled by the fiscal branch, support division, directorate of reserve and retired pay, Air Force Finance Center. The fiscal branch prepared a monthly voucher for the total monthly payment from control totals which were prepared and reconciled by other organizations. The branch supervisor, a GS-7, also checked the totals of the checks written against the voucher. The amounts paid to individual retirees were determined and verified elsewhere. The disbursing officer who was accountable for these and all the other payments made by the Finance Center was an Air Force captain who was chief of the accounting and finance division of the directorate of resource management. His division maintained accounts for and disbursed about \$7 billion annually, but took no part in determining the legality or accuracy of the amounts paid to retirees.

Civil Service retirement system

The Civil Service Commission paid about \$7 billion to about 1.3 million retired civil service employees or their survivors during fiscal year 1975. These payments were certified by the GS-11 chief (or the GS-7 or GS-9 assistants) of the review and control unit of the fiscal division of the Bureau of Retirement, Insurance, and Occupational Health. Additions, deletions, and changes to the master file were verified and transcribed from source documents onto computer input forms by other organizational units. The computer input forms were sent to the review and control unit, which established controls over them and sent them to the data processing unit for input into the computer.

Once a month the computer processed the updated master file to produce control totals of payments and deductions from which the payment voucher was prepared and certified. The voucher and a magnetic tape containing all the changes made to the master file during the month were sent to a Treasury disbursing office, which used the tape to update a duplicate master file it maintained and used to write the checks. The chief of the review and control unit said that she relied on the other organizational units to provide reliable data.

Railroad retirement pay system

The Railroad Retirement Board's automated system paid about \$3 billion to 1 million retired railroad workers or their survivors during fiscal year 1975. Most of these payments were certified by the GS-7 supervisor of the payment and notification unit, payment records section, division of special services and payment records, Bureau of Retirement Claims. The unit receives adjudicated changes that require manual computation (such as retroactive changes), makes the computations, transmits them for input into the computer, and checks computer outputs to see that the data has been properly entered in the computer. All other changes are transmitted directly to the computer input unit by the adjudicators, bypassing the payment and notification unit.

The computer master file is updated once a month and control totals and payment tapes are produced. The control totals and payment tape totals are balanced by another unit and are sent to the payment and notification unit, which prepares and certifies the payment voucher from the control totals. The only payments that the certifying officer controls or has knowledge of are those requiring manual computation. The responsibility for determining the legality of all payments and the accuracy of the mechanically computed payments is shared by many employees, and the certifying officer does not have the documentation necessary to make such determinations.

Payroll systems

Today nearly all Federal payrolls are computerized and involve millions of people and billions of dollars.

We observed the certification of payrolls in several locations, the largest being in the Air Force and VA.

All of the automated payroll systems that we observed operate in basically the same way. The computer maintains a file containing a pay record for each employee. Each pay record contains all the information (except the hours worked) needed to compute each employee's gross pay and deductions; to prepare checks for employees and recipients of deductions; and to prepare reports of earnings, deductions, and payments at yearend.

During each pay period records are added, deleted, or changed to reflect hires, separations, promotions, etc. At

the end of each pay period, the hours worked by each civilian employee are entered in the system and the computer processes the records to produce the listings and reports needed to prepare pay checks, savings bonds, tax payments, and so forth, and control totals for accounting purposes.

Air Force military pay system

The Air Force military pay system is centralized at the Air Force Finance Center in Denver, Colorado. As of June 30, 1975, the system paid about 600,000 Air Force personnel whose gross pay totaled about \$4.4 billion annually. These payments were checked by the GS-11 chief, disbursement branch, accounting division, Directorate of Military Pay Operations. The accountable officer for (1) pay deposited in banks (about half of the total net pay) and (2) deductions from pay was the Air Force captain previously mentioned (see p. 7) in connection with the retired pay system. The accountable officers for the rest of the net pay were the disbursing officers at various Air Force bases who, on the basis of data electronically transmitted to them from the Finance Center, wrote checks payable to individual airmen.

Routine pay change data was entered in computers at about 275 Air Force field offices and transmitted electronically to the central computer at the Finance Center. Non-routine changes were entered by the Center. The Center's computer processed the changes and prepared the monthly payroll, check listings, and related control totals. A voucher was then prepared from the control totals. The GS-11 branch chief who compared and balanced certain control totals had no way to verify the accuracy of the individual payments because he saw no source documents and the volume of changes (1.3 million in June 1975) made such verification impossible.

The disbursing officer said he relied fully on his employees to control the check-issue and accounting functions, and he had no way to determine the reliability of the employees and systems not supervised by him that prepared and processed the payments to retired and active Air Force military personnel.

VA pay system

The VA pay system is centralized at its Data Processing Center in Austin, Texas. During fiscal year 1975 the system paid about \$2.9 billion to 200,000 employees. These payments were certified by a GS-9 supervisor in the payroll account-

ing unit, finance division. The division is responsible to the VA Controller to maintain certain accounting controls over the data processed by the 500 or more employees of the department of data management at the Center. Changes to the pay records and hours worked were transmitted in coded form by 233 field stations to the Center, controlled by the analysis and control division, and processed by computer in the operations division. The payroll accounting unit compared control totals maintained by other ongoing stations and, on this basis, certified the payroll voucher prepared by the computer. The individual payments were listed on magnetic tapes which were sent to a Treasury disbursing office for disbursement. The certifying officer had no way to check the legality or accuracy of the individual payments since the substantiating documents were retained at the field stations. She said she relied on her experience with the system for assurance that the employees, controls, and system were reliable.

Purchase systems

The centralization and automation of payments for purchases of supplies and equipment is a developing trend. We reviewed the systems used by the General Services Administration and VA.

General Services system

The system processed the payments for warehouse replenishment purchases made by the 10 regional offices. During fiscal year 1975 the system processed about 178,000 payments totaling about \$768 million. These payments were certified by a GS-13 chief of accounts payable.

Prices, quantities, and other information pertaining to goods ordered and received were electronically transmitted by the regional offices to the computer site where they were entered in the computer. The vendors submitted their invoices to the computer site, which also entered them into the computer. The computer then compared the order/receiving data with the invoice data and scheduled those that matched, prepared a check-issue tape and listing, and prepared a covering payment voucher. The payment voucher was checked manually against the invoices for correct name, address, and amount, and on this basis the certifying officer certified the covering voucher.

The certifying officer said the only documents he saw were the check-issue listing and the covering voucher and that he depended on other employees and the system to assure

the legality and accuracy of the individual payments.

VA purchases system

This system paid the invoices for purchases and administrative expenses (except payrolls) of 82 of VA's 233 field stations. The system, which is expected eventually to service all field stations, processed about 1.7 million payments totaling about \$271 million during fiscal year 1975. These payments were certified by a GS-13 section chief or his assistants in the Finance Division.

Some field stations sent the original purchase orders, receiving reports, and invoices to the data processing center, but others electronically transmitted only the data and retained the supporting documents. In either case, the data was entered in the computer system, which compared it and, if the data all matched, prepared payment schedules. The certifying officer certified computer-prepared vouchers showing the total of large numbers of payments which were included in accompanying computer-prepared listings or magnetic tapes. The certifying officer's section was responsible primarily for reconciling control totals prepared and checked elsewhere. The certifying officer had no way to assure himself that each payment was legal and accurate. He relied upon the system, including the employees and procedures at the field stations.

SOME SYSTEMS NOT RELIABLE

We have observed several instances in which payments which have been processed by systems that could not be relied on to assure accuracy and legality were nonetheless certified and disbursed. Examples follow:

1. The Department of Health, Education, and Welfare (HEW) centralized and automated its employee payroll in 1965. In 1968 we tested the system and found that, although internal auditors and study groups as far back as 1964 had found inadequacies in the system, effective corrective action had not been taken and errors continued to be made. We found that paychecks totaling \$288,000 had been returned because they were erroneous. By our estimate, in the entire payroll for 1964, errors of about \$900,000 in gross earnings, \$3.1 million in leave balances, and \$7.1 million in the earnings and tax deductions shown on employees' annual withholding statements had been made. HEW subsequently redesigned its system to improve its accuracy (B-164031, Jan. 17, 1969).

We are following up on the actions taken by HEW. In the first of a series of planned reports on this new payroll system, we estimated that for calendar year 1975 about 7,200 payroll checks issued were later canceled because the payees were not entitled to the proceeds. We also estimated that wage and tax statements contained overstatements of gross pay amounting to \$738,000 and the pay records contained erroneous gross pay amounts of \$1.1 million (FGMSD-76-68, Aug. 24, 1976).

In the second report, we brought to HEW's attention the need to follow required procedures for billing and collecting thousands of dollars in salary overpayments (FGMSD-76-96, Jan. 5, 1977).

In the third report, we brought to HEW's attention the need to improve its payroll system for the Commissioned Corps of the Public Health Service. We recommended that HEW (1) provide adequate controls to help insure that only authorized and accurate payments are made, (2) fully implement controls to prevent unauthorized payments under automatic check processing procedures, (3) pay housing and other living allowances on the basis of current rates, (4) collect debts due from Corps officers promptly, and (5) evaluate eligibility of officers to receive special retention bonuses (FGMSD-77-23, May 3, 1977).

2. In 1975 we reported to the Congress on deficiencies observed in a review of 66 automated payroll activities in the Department of Defense. The deficiencies included inadequate separation of duties to preclude fraud, inadequate physical control over equipment, records, and computer programs to prevent unauthorized changes, and inadequate procedures to assure that all documents affecting pay were promptly processed. We also noted that only 25 of the 66 activities had been reviewed by internal auditors within 2 years before our visits. Defense planned to correct the deficiencies we reported in a standard, Defense-wide payroll system it was developing (FGMSD-75-15, Mar. 24, 1975).

We recently reported to the Congress that the Army's standard civilian payroll system, the model developed for the computerized system which may replace all Defense payroll systems, did not contain adequate procedures and controls to prevent erroneous or fraudulent payments. Many weaknesses were the same as we reported to the Congress on March 24, 1975. The Army has taken or plans to take action to eliminate most of the weaknesses in the system before it is used Defense-wide (FGMSD-77-4, July 5, 1977).

3. The Social Security Administration uses a highly automated system to compute the monthly Supplemental Security Income payments for about 4 million recipients. Social Security estimates that fiscal year 1977 payments will total about \$7 billion of Federal and State funds. Social Security also estimates that over \$1 billion was erroneously paid to recipients during the period from January 1974 to December 1975. A large number of these overpayments were caused by incomplete, untested, or uncontrolled automatic data processing systems. For instance:

--We reported to the Congress that overpayments could be reduced \$60 million a year if the system received accurate and timely information on benefits paid to Supplemental Security Income recipients by the Railroad Retirement Board and VA. Social Security said it is taking steps to obtain such information automatically from VA, the Railroad Retirement Board, and the Civil Service Commission's automated systems (HRD-76-159, Nov. 18, 1976).

--We observed that Social Security's quality assurance sample of payments during July to December 1975 showed total projected errors of about \$425 million, of which about 5 percent (\$23 million) was attributed to the data processing system. We are continuing to independently review this system to determine how reliable it is in producing accurate and legal payments.

4. The Department of Commerce paid \$82.5 million in salaries in 1974 to its 4,500 employees through use of a computerized payroll system. Because of weaknesses in internal controls, the computerized payroll system could not be relied upon to insure an accurate payroll or to protect the Government from improper payments. Commerce has taken actions to help insure that the payroll system includes adequate internal controls (FGMSD-76-3, Nov. 10, 1975).

5. The Department of Housing and Urban Development processes its payroll for about 17,000 employees on a central computer system. A number of errors and overpayments identified by both GAO and the Department showed a basic need for additional internal controls to safeguard the proper disbursement of money. Department officials corrected the design errors in the payroll system (FGMSD-75-31, June 18, 1975).

CHAPTER 3

NEW METHODS NEEDED FOR CHECKING

PAYMENTS MADE BY COMPUTERS

In manual systems, certifications or disbursements are based on evidence provided by source documents and the attestations of the employees who processed and examined the source documents. In automated systems, this is not feasible; it would take too long and would duplicate much of the work done by the computer and the employees who processed the inputs. It is also infeasible to provide the certifying or disbursing officer with a chain of signatures attesting to the correctness of each transaction because transactions are not processed individually, source documents are not readily available, and many operations are invisibly performed by computers.

We believe the certification or disbursement of payments, regardless of how processed, should be based on evidence that the payments are accurate and legal. In automated systems such evidence must relate to the system rather than to individual transactions. Instead of certifying and disbursing officers being expected to be responsible for examining individual payments, they should be provided with information showing that the system on which they are largely compelled to rely is functioning properly. With this information they would have a reasonable basis for attesting to the legality and accuracy of the payments made.

To assist agencies in evaluating automated systems, we have recently prepared four review guides: "Guide for Reliability Assessment of Controls in Computerized Systems (Financial Management Audits)," "Guide for Reliability Assessment of Computer Produced Data," "Guide for Evaluating Automated Systems," and "Auditing Computers With a Test Deck." These guides are designed to help (1) find out whether controls over computer operations can be relied on, (2) measure the risks in relying on computer-produced information, (3) identify weaknesses in controls over computer operations and develop recommendations for improving controls, and (4) test the adequacy of controls included in computer programs.

An evaluation of computer operations performed in accordance with these guides should (1) provide certifying and disbursing officers with evidence of the extent to which

computer-produced data can meet requirements for assuring the legality, propriety, and correctness of payments and (2) identify ways to improve controls over computerized payment systems so that the accuracy of the computer-produced data is more fully assured.

CONCLUSIONS

The agencies that operate automated payment systems should designate an operating official at the assistant secretary or comparable level to review such systems periodically to determine whether they can be relied on to produce legal and accurate payments. Such reviews should be made at least annually and supplemented by interim checks of major system changes. They should be performed for the designated official by an agency component not involved in operation of the system.

The designated assistant secretary or comparable official in each agency should be responsible for advising the certifying or disbursing officer that the system is reliable. If the automated payment system is determined to be deficient, we believe the designated official should (1) determine whether payments must be made before the deficiencies can be corrected and (2) become responsible for certifying that the payments are otherwise proper if they must be made before system revision.

The certification in these circumstances should be to the effect that, on the basis of the evidence available to the designated official at the time payments must be made, they appear proper, notwithstanding the fact that the uncorrected system deficiencies have been noted. We recognize that the certification in these circumstances may result in erroneous payments. However, where urgency requires payment prior to correction of system deficiencies and where the designated official takes all reasonable steps to assure the correctness of payments within the time available, in our opinion the reasonable diligence and inquiry legally required will have been satisfied.

We believe that as a general rule the reviews of computerized payment systems should be performed by an operating organization rather than internal audit. We view these reviews as part of an agency's system of internal accounting controls. The internal audit function, on the other hand, acts as a separate, higher, and broader level of control responsible to top management. Accordingly, all certifying and disbursing functions, including the periodic computer

system reviews, would be subject to evaluation by the internal audit staff. We would not object, however, to agencies assigning the computer system reviews to the internal audit staff, provided the staff does them regularly and unfailingly.

We recognize that, initially, the computer system reviews will be a sizable undertaking for the agencies. However, we are convinced they are needed. Also, once the initial review is completed and identified system weaknesses are corrected, subsequent reviews could be more limited in scope.

OMB's responsibilities and its relationships with the executive agencies make it the most logical focal point for directing the implementation of the new methods needed for checking payments made by computers. OMB is responsible for assisting the President in the development and effective management of Federal programs. The Director's responsibilities include identifying outmoded programs and prescribing Government-wide policies in the area of financial management systems improvement. The Director also is required to issue guidance concerning the systematic review by agencies of their operations on a continuing basis. Generally, OMB prescribes these Government-wide financial management policies by issuing directives.

RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, issue guidelines requiring department and agency heads to:

- Designate an operating official at the assistant secretary or comparable level to review each automated payment system and the controls built into it to determine whether they are operating effectively and can be relied on to compute payments that are accurate and legal.
- Direct that such reviews be made at least annually, supplemented by interim checks of major system changes.
- Direct the certifying or disbursing officer to certify or disburse automated payments only when notified by the designated operating official that the automated system and the controls built into it are operating effectively.

--Require a written statement from the designated operating official if the official determines that the system is not operating effectively and that corrective action could not be taken before the next voucher preparation. This statement should enumerate the steps planned to accomplish adequate system controls and to recoup erroneous payments that may result before corrective action can be taken. A copy of this statement should be provided to GAO for its consideration in reviewing agency systems and accountable officer activities and in subsequently considering any accountable officer requests for relief from liability for illegal or inaccurate payments made by automated payment systems.

--Provide that, when significant system deficiencies are identified, the designated operating official must assume responsibility for subsequent certification that, on the basis of available evidence, the payments are otherwise proper. The official should continue to certify payments until he or she informs the head of the agency in writing that the system is operating effectively.

After some experience has been gained in doing the annual reviews, we will incorporate appropriate standards, procedures, and related requirements into the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

FUTURE REQUESTS FOR RELIEF OF CERTIFYING OR DISBURSING OFFICERS

In general, certifying or disbursing officers are legally liable for illegal and inaccurate payments, but may be relieved of their liability at the discretion of the Comptroller General. The Comptroller General's policy has been to grant relief if the officers were not personally negligent and could not, with reasonable diligence, have determined that the payments were improper. Since the officers were not required to possess evidence of the reliability of automated systems, even though this was the only practical way they could assure themselves that the payments produced by such systems were legal and accurate, the officers were virtually assured of being relieved of liability if any such payments were erroneous.

In the future, when a certifying or disbursing officer requests relief from an illegal, improper, or incorrect payment made using an automated system, GAO will continue to

require the officer to show that he or she was not negligent in certifying payments later determined to be illegal or inaccurate. However, consideration will be given to whether or not the officer possessed evidence at the time of the payment approval that the system could be relied on to produce accurate and legal payments. In cases in which the designated assistant secretary or comparable official provides the agency head and GAO with a written statement that effective system controls could not be implemented prior to voucher preparation and certifies that the payments are otherwise proper, GAO will not consider the absence of such controls as evidence of negligence in determining whether the certifying official should be held liable for any erroneous payment prior to receipt of an advance decision. Of course, the traditional requirements that due care be exercised in making the payments and that diligent effort be made to recoup any erroneous payments will still be considered in any requests for waiver of liability. Also, should the certifying official fail to take reasonable steps to establish adequate controls for future payments, the reasons for such failure will be taken into account in any requests for waiver of liability concerning such future payments.

CHAPTER 4

AGENCY COMMENTS AND OUR EVALUATION

In March 1977 we sent our proposed report to the heads of six agencies and requested their written comments.

<u>Agency</u>	<u>Date comments were received</u>
Office of Management and Budget	June 2, 1977
Department of Agriculture	May 24, 1977
Department of Commerce	June 23, 1977
Department of Defense	June 3, 1977
Department of Health, Education, and Welfare	May 19, 1977
Department of the Treasury	May 18, 1977

(See app. 1.) The following sections (1) summarize the agencies' comments on our proposed recommendations and the general functions and responsibilities of certifying and disbursing officers and (2) present our evaluation and final position after consideration of the comments. Not all agencies commented on all recommendations.

NEED FOR REVIEW OF AUTOMATED PAYMENT SYSTEMS

Proposed recommendation:

--We recommend that the Director, Office of Management and Budget, issue a directive providing for agency heads to designate an operating official or organization to review each automated payment system to determine whether the system and the controls built into it are operating effectively and can be relied on to compute payments that are accurate and legal.

Agencies' comments

OMB agreed with our recommendation that computer systems should be reviewed periodically by operating personnel, as well as by agency auditors, to assure their reliability and integrity. Since computer system review and certification are only one part of the automated payment process, OMB pointed out the need to address the broader perspective of quality control throughout the overall system, including the steps of data acquisition, establishment of payment criteria, voucher examination, and data input. It pointed out that

these controls probably vary among the agencies as to their effectiveness, sophistication, and formalization.

Treasury also agreed that automated payment systems should be reviewed periodically by operating personnel, as well as internal auditors, to provide assurance regarding the reliability of the systems. It too perceived that the overall certification problem is broader than quality control over computer-generated data. The sheer volume and complexity of transactions make it extremely difficult for one individual to verify that every item he signs is proper in every respect.

Commerce agreed with our conclusion that the verification methods now employed by certifying and disbursing officers should be revised to better cope with computerized payment systems and suggested that our report give recognition to (1) the existence of current reviews of systems, (2) all existing internal controls, and (3) the National Bureau of Standards' responsibilities for Federal agencies' information standards.

Defense agreed that the shift from manual to computer-supported financial systems requires new methods for checking payments, and that the evidence of accuracy and legality of payments must relate to the system rather than to individual transactions; it also agreed that accountable officers must receive assurance of proper functioning of the automated system. It emphasized that the basis for assuring proper systems functioning is laid in the design, development, and testing of the systems, as well as proper systems maintenance during operation. In this connection, it stated that the certifying or disbursing officer should have appropriate internal review resources and should continuously exercise techniques to insure quality control over operating systems.

Agriculture agreed with the basic concept that the certifying officer must rely on the automated system and related procedures to provide reasonable assurance that payments are proper.

HEW agreed with our conclusion that, if the certifying officer were provided with information that the system is functioning properly, there would be a reasonable basis for attesting to the legality and accuracy of the payments made.

While all six agencies agreed with the need to review each automated payments system to determine whether it can be relied on, there was some disagreement on whether a separate organization needs to be designated to perform this function.

In this regard:

- Treasury and HEW stated, respectively, that (1) the systems should remain subject to independent audits by internal auditors and (2) internal auditors should not be ruled out of the review responsibility since they seem to be one of the several logical choices to assist in the review.
- OMB believes the quality control responsibility should rest squarely on agency managers and is developing a program which will require agencies to certify their computer systems as to reliability. OMB also stated that independent audits and management reviews should continue to be made as necessary.
- Agriculture did not agree that a separate organization was needed to perform these reviews. It stated that it involves the certifying officers in the systems design and development process to assure that proper controls are included and the certifying officer determines that proper audit standards are used. Also, once the system is in operation, it is continually monitored by the accounting units through its outputs and sampling of transactions, and major changes to the system are validated through the use of test data.

Our evaluation

As noted above, the six agencies generally agreed that automated payment systems should be reviewed periodically to determine whether they can be relied on to produce legal and accurate payments.

It is true that the quality control responsibility rests with agency managers, and it appears logical that they should use their internal audit staffs to make the reviews. Our proposed recommendation in the draft report calling for a designated separate official or organization to conduct reviews was made on the assumption that most of the departments and agencies either did not have adequate internal audit staffs to perform this function or the staffs did not have adequate expertise to make systems reviews. In our report to the Congress, "An Overview of Federal Internal Audit, Office of Management and Budget and Other Federal Departments and Agencies" (FGMSD-76-50, Nov. 29, 1976), we pointed out (p. 15) that the complete or partial absence of internal audit capability

means that the Federal expenditures are not being subjected to the important internal control provided by auditors, especially in those agencies in which internal audit staffs were required to spend as much as 60 to 80 percent of their time on audits of grants. Also, as stated on page 15 of this report, the internal reviews of the automated payment systems will be a sizable undertaking, and therefore will require substantial resources, at least initially.

We of course encourage agency heads to designate the internal audit staff to review automated payment systems in operation, as well as participate in the development of designs of new systems to help insure that adequate controls and audit trails are provided. We have therefore revised our recommendations (see p. 16) to provide the agency head the alternative of using the agency's internal audit staff to make the system reviews when adequate staff (both in expertise and numbers) is available. If the system reviews are conducted by a separate organization, they should be subject to evaluation by the internal audit staff, along with the functions of the certifying and disbursing officers. In addition, as indicated by OMB (see p. 19), there is a continuous need to assure that adequate quality controls have been established and are effectively operating from data acquisition to output.

As Commerce suggests, the scope of separate organization or internal audit reviews should be formulated after the effectiveness of the existing systems of internal controls is considered and after it is determined whether National Bureau of Standards guidelines are being met.

With respect to Defense's view that the certifying or disbursing officer should have appropriate internal resources, our revised recommendations should alleviate or minimize the need for such an arrangement. As discussed on page 16, we are recommending that the certifying or disbursing officer approve payments only when notified by a designated official at the assistant secretary or comparable level that the automated system is reliable. If the designated official determines through a periodic review that the system is deficient, we believe the designated official should be responsible for effecting corrective action and certifying subsequent payments if the system cannot be corrected before payments must be made.

We also agree with Agriculture that accountable officers, as users of the system, should be involved in the system design

and development process. In this connection, an August 2, 1976, booklet issued by the Comptroller General, "Lessons Learned About Acquiring Financial Management & Other Information Systems," should be helpful.

HOW FREQUENTLY SHOULD REVIEWS BE MADE?

Proposed recommendations:

--We recommend that the Director, Office of Management and Budget, issue a directive providing for agency heads to require reviews of each automated payment system to be made at least quarterly and the results to be furnished to the appropriate certifying and disbursing officers.

Agencies' comments

Commerce pointed out that its internal audit staff is heavily involved in helping to develop effective system controls. In addition, (1) the bureau and departmental systems staffs work closely with our office in designing and implementing accounting controls, (2) internal audits of operating financial systems include review of accounting controls, and (3) changes to automatic data processing systems are also reviewed by systems staffs. Thus, Commerce takes the position that our proposed recommendation that each automated payment system be reviewed at least quarterly would result in excessive reviews. Commerce recommended that reviews be made whenever there is a significant change to systems, and at least yearly.

HEW also believed that the reviews should be less than quarterly--preferably on an annual basis. HEW also suggested that we assess the staffing resources needed to make the required reviews, and expressed its concern for the additional staffing needed to review HEW's numerous payment systems.

Agriculture stated that certifying officers should be empowered to demand special reviews whenever they believe that the system is not operating as designed or is operating in a deficient manner. This demand, Agriculture states, should be in the form of a letter to the agency head, who would provide interim payment instructions and a time frame for completion of the review.

The other agencies did not comment on the proposed quarterly frequency of the reviews.

Our evaluation

The frequency and intensity of reviews of automated payment systems should, of course, be determined after consideration of a number of key factors--degree of participation of review staffs in the design and development of systems; adequacy of internal controls; frequency and adequacy of existing reviews; number, size, and complexity of systems; volume and amount of transactions; availability and capability of review staff, etc. The circumstances at each of the departments and agencies are no doubt different and will warrant reviews at different intervals and with varying intensity, and require different-sized staffs. We do not believe, therefore, that it is feasible for us to review and determine the staffing resources needed at each agency to review the automated payment systems.

We have revised the recommended frequency of reviews from quarterly to annually (see p. 16), recognizing that quarterly reviews could be excessive, especially when systems are maintained and operated effectively. However, in so doing, we include the caveat that interim checking be undertaken when significant changes are made to the system between annual reviews.

We concur in Agriculture's suggestion that certifying officers should request special reviews whenever they suspect system deficiencies. These requests, however, should be based on evidence of the suspected deficiency. Also, these requests should be made to a designated official at the assistant secretary or comparable level who, as recommended on page 16, should be responsible for assuring that automated payment systems are functioning properly.

WHEN SHOULD ACCOUNTABLE OFFICERS CERTIFY AND/OR DISBURSE AUTOMATED PAYMENTS?

Proposed recommendations:

We recommend that the Director, Office of Management and Budget, issue a directive providing for agency heads to:

- Direct certifying or disbursing officers to certify or disburse automated payments only when they have been provided with the results of system reviews or disbursement has been authorized by the agency head.

--Require agency heads, when significant systems deficiencies are identified, to provide the certifying or disbursing officer with a written statement that effective system controls could not be implemented prior to voucher preparation. A copy of this statement should also be provided to GAO.

Agencies' comments

Commerce commented that the most important legal impact of the report is the question of what happens if the head of the agency receives a report that a computer system does not support the payment of a payroll. Presumably, Commerce states, (1) the Secretary must authorize the disbursement directly or merely pass the problem on to the certifying officer and (2) under existing legislation governing payment accountability, the Secretary or the certifying officer would still be personally liable for the amount of any payment authorized.

Commerce further states that in situations in which the certifying officer is notified that the system either can or cannot be relied on, the Comptroller General's decisions as well as our recommendation provide no assurance that the certifying officer can rely on either of these notices. To support this, Commerce states that 49 Comp. Gen. 38, 55 Comp. Gen. 297, and precedent Comptroller General decisions established clearly that the certifying officer must seek a Comptroller General's decision in order to be sure of financial protection. In the case of a report that the system cannot be relied upon, Commerce believes no alternative action is possible; the payroll must be sent to the Comptroller General for a decision regardless of the exigencies of timely payment.

In the opinion of Agriculture, automated payments should be interrupted only as a last resort. It also suggests that specific guidelines should be provided on what documentation must accompany relief requests made by accountable officers.

The other four agencies did not provide specific comments on the above proposed recommendation.

Our evaluation

The Comptroller General has traditionally considered relief proper when erroneous payments have been made under

conditions when certifications of bulky payrolls or vouchers were based on computations and audits by others on which the accountable officer relied. In accordance with this long-standing standard of care, when an accountable officer is formally notified by the designated operating official that he or she can rely on the determination that the computerized system controls are operating effectively and erroneous payments are nevertheless made as a result of inadequate computerized system controls, we will consider him or her to have exercised due care and therefore not to be personally liable for the erroneous payments.

In a case in which the computerized system cannot be relied on, our recommendation (see p. 17) states that the agency head should elevate certifying officer authority to the assistant secretary or comparable official responsible for automated payment system review so that the designated official may certify that, on the basis of available evidence, payments were otherwise proper and that urgency precludes correction of system deficiencies before payment. As stated on page 18, the intent of this recommendation is that when it is determined that a payroll or other payment must be made prior to correction of system deficiencies, and that payments otherwise appear proper, we will not regard the absence of such controls as evidence of negligence in determining whether the certifying official should be held personally liable for any erroneous payments made prior to the receipt of a formal advance decision (prior to payment) from the Comptroller General. The notification to GAO suggested in the recommendation should enumerate the steps proposed to accomplish adequate system controls and to recoup erroneous payments. However, the practical realities of a situation, in which time exigencies preclude correction of system deficiencies prior to payment, will be given great weight in any requests for waiver of liability.

Although the two cases cited by Commerce may reasonably be interpreted as standing for the proposition that the only way for a certifying officer to be sure of financial protection is to seek an advance decision, they also recognize that relief is authorized when the accountable officer is without fault or negligence. The first case cited (49 Comp. Gen. 38) involved a situation in which an Air Force disbursing officer had sufficient doubt about the legality of certain per diem payments to request advice from higher authority within his organization, but did not request an advance decision from the Comptroller General. The decision stated that the urgency of the payments involved was not apparent and concluded that substituting guidance from

higher authority for the requirement that doubtful payments be submitted to the Comptroller General for advance decision "would in effect give the department power to render our audit process fruitless * * *." The cited case deals with a type of payment previously determined by the Comptroller to be unauthorized. However, we do not believe that this decision would preclude relief for erroneous payments when a certifying or disbursing officer relies in good faith on a computerized system which he has been informed has appropriate safeguards to guarantee the accuracy of facts necessary to support an otherwise legal payment.

Likewise, this case and similar cases would not be applied to situations in which the agency head determines that urgency requires voucher preparation and it is known that adequate computerized safeguards do not exist because the urgency which impels the agency head to direct payment without requesting an advance decision from GAO will be considered as justification for failure to follow the traditional requirement that doubtful payments be submitted in advance to GAO. Where feasible, we assume the agency head would secure the informal concurrence of an appropriate GAO official that urgency precludes seeking a formal decision.

The second case (55 Comp. Gen. 297) was in the nature of an advisory opinion since it did not involve legal questions arising in a specific voucher presented for certification. The case nevertheless summarized the statutory authority and precedent decisions concerning advance decisions and waiver of accountable officer liability. Of particular relevance to the question of the acceptability of a computerized system, the following statement is made:

"We have never undertaken to formulate any general rule declaring what acts may carry exemption from liability for certification of incorrect facts. Rather, we have sought to apply the relief provisions by considering the practical conditions and procedures under which certifications of fact are made. Consequently, the diligence to be required of a certifying officer before requests for relief under the act will be considered favorably is a matter of degree dependent upon the practical conditions prevailing at the time of certification, the sufficiency of the administrative procedures protecting the interest of the Government, and the apparency of the error." (Underscoring supplied.)

We believe that the flexibility indicated by this statement provides adequate basis for implementation of our recommendations on pages 16 and 17.

Agriculture's position that automated payments should be interrupted only as a last resort appears reasonable. However, the decision as to appropriate action needed, in cases in which the accountable officers receive a written statement that effective controls could not be implemented prior to voucher preparation, rests with the head of the agency.

As stated on page 17, after some experience has been obtained with the recommended procedures, we will provide agencies with detailed guidelines, including a description of the documentation which should accompany relief requests, as suggested by Agriculture.

AGENCIES' COMMENTS ON OTHER MATTERS RELATED TO
ACCOUNTABLE OFFICERS' PERSONAL FINANCIAL
ACCOUNTABILITY AND RESPONSIBILITY

The agencies, in addition to commenting on the recommendations in the proposed report, commented on the certifying and disbursing officers' personal financial accountability and other matters relating to accountable officers' functions and responsibilities.

Personal financial responsibility

Treasury stated there is a pressing need for modernizing the whole concept of personal financial responsibility of accountable officers--not only for those officials responsible for approving the payment of Federal funds, but also for those collecting and disbursing the funds. Treasury feels that a comprehensive interagency study should be made of the "archaic laws and procedures" governing the personal financial responsibility of accountable officers for the purpose of (1) modernizing the laws and simplifying related procedures and (2) developing reasonable and equitable standards of accountability for accountable officers in light of current conditions. Treasury recommended that the Joint Financial Management Improvement Program Steering Committee be requested to initiate the interagency study. OMB believes Treasury's suggested study has merit and would support the study.

Defense, on the other hand, stated that despite continual changes in methods and increasing complexity, the principles of personal responsibility must be retained.

Defense is concerned with the trend toward diffusion of responsibility of overall systems in relation to certifying and disbursing officers' responsibilities.

Our evaluation

On several occasions in recent years we have considered the possible need for revising the basic concepts related to the principle of personal financial accountability of accountable officers as provided by the law. After receiving the agencies' comments, and after further consideration of whether present-day conditions warrant revision of the personal financial responsibility of accountable officers for illegal, improper, and incorrect payments, we again concluded that the concept of personal financial liability is sound and essential. We believe this liability is necessary to deter knowing and willful wrongdoing and negligence, to provide a financial penalty without the necessity for civil suit or criminal prosecution, and to provide GAO with a means to enforce its decisions through the exception process.

The Comptroller General has traditionally regarded the liability of accountable officers as applicable immediately upon the making of an erroneous payment, with waiver of liability being granted after the fact by the Comptroller General following consideration of the circumstances of each individual case. The possibility that a third party--the Comptroller General--might be called upon to make an after-the-fact judgment as to the accountable officer's negligence, and therefore his financial liability in the case of an erroneous payment, provides a degree of control over accountable officers which would otherwise be lacking. The continued receipt in GAO of formal and informal requests for advance decisions indicates the seriousness with which accountable officers regard the independence and impartial support of this Comptroller General authority.

Because of the concerns expressed by OMB and the Treasury, however, we intend to continue to study the concept of personal accountability in our ongoing audit work.

Is the concept of certifying officers outdated?

OMB believes it is time to review and update, consistent with modern management techniques, the concept of certifying officers. The problem of the sheer size of large-scale operating, accounting, and information systems and the dispersion of the systems is further complicated by organizational alignments. Also, the wide application of letter-of-credit procedures and electronic-transfer-of-funds techniques will further complicate the true roles of certifying

officers. In view of this, OMB believes the whole concept of certifying officers should be reexamined and recommendations made to change existing legislation to accommodate modern methods of management and current information processing technology. In this connection, the Department of Commerce pointed out that all of the legislation and regulatory requirements and computer reliability problems require comprehensive organization of files of original records to support payments.

HEW suggested that the systems reviews be expanded to cover certification of payments made through letters of credit.

Our evaluation

The agencies' basic reasons for suggesting that a review be made of the concept of certifying officers are to (1) make the concept consistent with modern management techniques and (2) accommodate the use of letter-of-credit procedures and electronic transfer of funds. Our recommendations are specifically directed to making the concept of certifying officers consistent with management's increased use of computers.

Generally, the use of letters of credit, which involve obligation and recipient drawdown of funds prior to receipt of the normal support that payments are proper, appears to be similar to the use of interim payments under cost-type contracts. In this regard, the Comptroller General approved (B-180264, Mar. 11, 1974) certification and payment of interim payment vouchers without audit since a detailed audit prior to final contract settlement would reveal any erroneous interim payments. In the case of letters of credit, similar assurances that erroneous payments will be adjusted by means of later audit would provide an accountable officer with adequate information to certify payments made under letters of credit without prior audit of the propriety of such payments.

With regard to electronic funds transfers, we believe our recommendations will cover this type of disbursement adequately. Stripped down to essentials the basic difference between an electronic funds transfer and a check prepared by computer is the check itself. The electronic funds transfer system uses a computer in the same way as if a check were to be prepared, but instead of preparing a check it transmits the payment to the payee via electronic impulse. The type of checking of computer systems we have recommended should be as beneficial for an electronic funds transfer system as it would be for a system in which a check is physically prepared.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the laws, policies, and procedures applicable to certifying and disbursing officers. We observed the examination, certification, and disbursement of selected kinds of payments at 25 activities in 22 executive departments and agencies. In addition, we interviewed responsible personnel at field and headquarters locations. These locations were primarily large, centralized, highly computerized payment centers using extensive automated processes. Some field stations using manual data processing methods were included. The places we visited are shown below:

Certifying Officers

1. Department of Agriculture
Food and Nutrition Service
Washington, D.C.
2. Civil Service Commission
Bureau of Retirement, Insurance, and
Occupational Health
Washington, D.C.
3. Department of Commerce
National Oceanic and Atmospheric
Administration
Field Finance Office
Kansas City, Missouri
4. Energy Research and Development Administration
Chicago Operations Office
Chicago, Illinois
5. Environmental Protection Agency
Accounting Operations Office
Cincinnati, Ohio
6. General Services Administration
Region 6
Kansas City, Missouri
7. General Services Administration
Region 7
Fort Worth, Texas

8. Department of Health, Education, and Welfare
National Institutes of Health
Federal Assistance Financing System
Bethesda, Maryland
9. Department of Housing and Urban Development
Region 7
Kansas City, Missouri
10. Department of Justice
Drug Enforcement Administration
Region 10
Kansas City, Missouri
11. Department of Labor
Region 5
Chicago, Illinois
12. National Aeronautics and Space Administration
L.B. Johnson Space Center
Houston, Texas
13. National Science Foundation
Washington, D.C.
14. Railroad Retirement Board
Chicago, Illinois
15. Department of State
Washington, D.C.
16. Department of Transportation
Federal Highway Administration
Region 8
Denver, Colorado
17. U.S. Information Agency
Washington, D.C.
18. Veterans Administration
Data Processing Center
Austin, Texas

Disbursing Officers

1. Department of the Air Force
Accounting and Finance Center
Denver, Colorado
2. Department of the Air Force
Wright-Patterson Air Force Base
Dayton, Ohio
3. Department of the Army
Fort Knox, Kentucky
4. Defense Supply Agency
Defense Contract Administration
Services Region
Dallas, Texas
5. Department of the Navy
Regional Finance Center
Norfolk, Virginia
6. Department of the Navy
USS Guadalcanal
Norfolk, Virginia
7. Department of the Treasury
Regional Disbursement Center
Chicago, Illinois



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 2 1977

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in reply to your draft report entitled "New Methods Needed for Checking Payments Made by Computers." We read the report with great interest and share your concern that certifying officers who are legally accountable for payments generally do not have a systematic way of knowing whether such payments are legal and accurate.

We agree that the advances in information processing technology have affected the methods established for certifying whether payments are accurate and legal. We also agree, as a matter of good management, that computer systems should be reviewed periodically by operating personnel as well as by agency auditors to assure their reliability and integrity. However, there is an implication throughout this report that the certification of a computer system as operating properly will guarantee payments that are accurate and legal. This implication can be misleading. In any automated payment system, the computer is only one element in the process. For that reason, we believe it would be beneficial for this report to address the broader perspective of quality control throughout the overall system, including the steps of data acquisition, establishment of payment criteria, voucher examination and data input.

We have been informed by the agencies that certain controls now exist. Some agencies use "test decks," statistical sampling techniques, management reviews, and audits by internal auditors. These controls probably vary among agencies as to their effectiveness, sophistication and formalization. Your draft report will undoubtedly

encourage agencies to improve the applications of these and other quality control techniques as part of the overall management control systems. We believe the quality control responsibility should rest squarely on agency managers. We are already developing a program which will require agencies to certify their computer systems as to reliability. While such a certification will not guarantee accurate and legal payments, it will provide a measure of systems reliability. Independent audits and management reviews should, of course, continue to be made, as appropriate and necessary.

This report also raises serious questions as to whether or not the concept of the certifying officer is outdated as a result of technological advances. We believe that it is time to review and update this concept to be consistent with modern management techniques. As you suggest in the draft report, the advent of modern computers and other technological advances have given birth to large-scale operating, accounting, and information systems. Oftentimes, these systems are geographically dispersed throughout the country, feeding information to a central computer either directly or indirectly from a multitude of locations and offices.

The problem of sheer size and dispersion of the systems is further complicated by organizational alignments. Frequently, so-called certifying officers do not have organizational and operational responsibilities over all people and offices feeding and handling information. Also in many instances, the certifying officers do not even have operating controls over the computers that are processing the information that they are required to certify. Moreover, the wider application of letter-of-credit procedures and the electronic transfer of funds techniques will further complicate the true roles of the certifying officers as we know them now. We, therefore, believe that the whole concept of fiscal accountability and certifying officers should be reexamined, and recommendations made to change existing legislation to accommodate modern methods of management and the current state of the art in information processing technology.

We understand that the Treasury Department has in the past suggested a study of the laws and procedures governing

the personal financial responsibility of certifying officers by the Joint Financial Management Improvement Program. We believe this suggestion has merit, and we would support such a study.

Sincerely,

A handwritten signature in cursive script that reads "Jim McIntyre".

James T. McIntyre, Jr.
Deputy Director



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

May 2, 1977

Mr. D.L. Scantlebury
Director
Division of Financial and
General Management Studies
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Scantlebury:

Your letter of March 17, 1977 requested our comments on your draft report entitled "New Methods Needed for Checking Payments Made by Computers." The report documents what financial managers have perceived for some time, i.e., the role of the certifying officer has changed drastically in the advent of large scale computer processing of payments. We wholeheartedly agree with the basic concept that the certifying officer must rely on the automated system and related procedures to provide reasonable assurance that payments are proper.

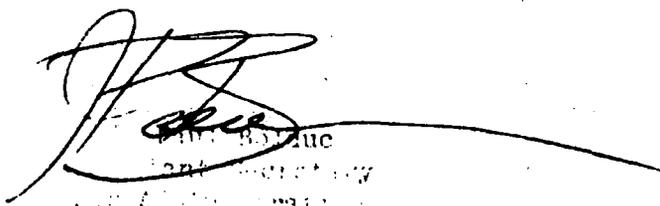
We do not agree that a separate organization is needed to review systems in each agency. Rather, we involve the certifying officer in the systems development process to assure himself that proper controls are included in the system design. The certifying officer determines that proper audit standards are used and that proper statistical sampling criteria are applied. Once the system is in operation, it is continually monitored, by the accounting units, through its outputs and an occasional sampling of transactions to assure the system is operating as designed. Test data is used to validate major changes to the system. We do not believe that quarterly reviews will serve any purpose other than consuming paper and human resources needlessly. We believe that our system design procedures described above and normal internal audits would provide sufficient review procedures.

Certifying officers should be empowered to demand special reviews whenever they believe that the system is not operating as designed or is operating in a deficient manner. This demand should be in the form of a letter to the agency head who in turn would provide interim payment instructions and a time-frame for completion of the review. Automated payments should be interrupted only as a last resort.

We have no conceptual problem with your relief provisions regarding certifying officers; however, specific guidelines will have to be provided on what documentation must accompany relief requests from certifying officers. Furthermore, we believe that the new procedures could be further strengthened by calling for certification of security factors in the ADP and telecommunications environment. Physical, procedural and personnel security should be considered, in addition to hardware/software evaluation.

We appreciate the opportunity to comment on the proposed procedures.

Sincerely,



The signature is a stylized, cursive script. Below the signature, there is a horizontal line that extends to the right. Faint, illegible text is visible beneath the signature.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

JUN 23 1977

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in response to your request of March 17, 1977, for comments on the draft report to the Congress on "New Methods Needed for Checking Payments Made by Computers."

We agree with your draft report's conclusion that the verification methods now employed by certifying and disbursing officers should be revised to better cope with computerized payments systems. However, we feel that your report would be strengthened and better accepted if certain changes were made. First, it should recognize the existence of systems reviews now in place. Second, it should demonstrate that all existing internal controls were adequately considered. Third, the draft should evidence consideration of existing laws regarding the legal responsibilities of agency heads and certifying officers. And finally, the final report should point out the National Bureau of Standards' responsibilities, under the Brooks Act, for Federal information processing standards. These standards would be basic to implementation of the report's recommended course of action. We suggest consultation with NBS' Institute for Computer Sciences and Technology concerning their capabilities relevant to your proposals.

EXISTING REVIEWS OF SYSTEMS

With respect to the laws requiring establishment and maintenance of effective accounting systems and internal controls, we feel that we are complying with these requirements through implementation of our Comptroller General approved accounting principles and standards.

As you know, this approval was granted after a complete review of the automatic data processing features of our system. Page 15 of your draft gives the Department of Commerce as an example where payments were made in error because of problems in computerized payroll systems. We are moving to solve these problems, because in a November 10, 1975 report (FGMSD) 76-3) you recommended that we:

"Make sure that the internal auditors
(1) become actively involved in designing and developing automated systems, and
(2) continually review these systems after they become operational."

As a point of information, our internal audit staff is heavily involved in helping to develop sound controls for the system. Also, our Bureau and Departmental systems staffs work closely with your staff in designing and implementing accounting controls to meet the Comptroller General's requirements. Our audits of operating financial systems include review of accounting controls. Changes to ADP systems are also under review by our systems staffs. Hence, as far as the Department of Commerce is concerned, we believe your recommendation that each automated payments system be reviewed at least quarterly would require reviews that would be excessive. We suggest that it would be more practical to have reviews made whenever there is a significant change to systems and at least annually.

CONSIDERATION OF ALL EXISTING INTERNAL CONTROLS

Your report is presented under the assumption that the total internal control of the computerized systems you reviewed are part and parcel of the computer programs. We have points of financial controls other than those built into the computer programs. Certifying officers review the necessary documents, such as receiving reports, audit reports, personnel and other actions to assure the propriety of payments. Even though the certifying officer is ultimately responsible, he also relies on other responsible persons' actions and evaluations. It is not apparent that the report takes into consideration (1) other laws and regulations pertaining to Federal records, which we believe provide adequate protection; and (2) the Comptroller General's decisions relating to certifying officers' reliance on internal control.

CONSIDERATION OF EXISTING LAWS

The problem of accessibility of records for administrative review (preaudit) is the same as the problem of retaining records for internal audit and your audit. In other words, we must retain accounting records to meet your requirements for audit. Therefore, they must be available for review by those responsible for certifications. 31 U.S.C. 200, for example, requires that no amount shall be recorded as an obligation of the Government unless it is supported by prescribed documentary evidence. 44 U.S.C. 3301 requires us to retain our records in prescribed format, and Title 8 of the GAO policy manual places restrictions on our disposal authority with respect to financial records. We comply with all of these laws and regulations. Our original documents are retained and are available for supporting payments, facilitating audits, and adjudication of legal issues.

All of these legislative and regulatory requirements and computer reliability problems require comprehensive organization of files of original records to support our payments. Compliance with 31 U.S.C. 200, for example, requires an ongoing system of accounts payable files to meet the documentation requirements for obligations.

The need for records management systems to support these requirements is the reason for the following in the Department of Commerce Accounting Principles and Standards approved by the Comptroller General in 1969.

- o The procedures covering the input of data to an automated system must provide for manual extraction of necessary data and preparation of reports in the case of equipment failure.
- o Computer programs used in automated accounting systems must provide for an audit trail which *** provides for and facilitates application of financial auditing techniques.

We apply these standards to all of our financial systems. The records are filed in an orderly manner for review by anyone entitled to look at them. We do not rely solely on computer controls to support our expenditures.

Rather, our total system of internal control includes both computer and manual safeguards.

Perhaps, the most important legal impact of the report is the question of what happens if the head of the agency (in our case the Secretary of Commerce) receives a report that a computer system does not support the payment of a payroll. Presumably, the Secretary must authorize the disbursement directly or merely pass the problem on to the certifying officer. Under existing legislation governing payment accountability, the Secretary (agency head) would become personally liable for the amount of any payment she authorizes. We believe that the published report should address this situation.

In the situation where the certifying officer is notified either (1) that the officer can rely on the system, or (2) that the officer cannot rely on the system, the body of Comptroller General's decisions, as well as your draft recommendation, provides no assurance that the officer can rely on either of these notices. Currently, the Comptroller General's decisions, 55 Comp. Gen. 297; 49 Comp. Gen. 38, and precedent decisions, established clearly that the certifying officer must seek a Comptroller General's decision in order to be sure of financial protection. In the case of an adverse report, no alternative action is possible; the payroll must be sent to the Comptroller General for a decision, regardless of the exigencies of timely payment.

As stated at the beginning of this letter, we certainly agree with the proposition that ADP systems should be checked periodically to ensure reliability. However, we feel very strongly that quarterly reviews of each automated payment is excessive to the requirements of prudent management.

Sincerely,

Elsa A. Porter
Assistant Secretary
for Administration



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

3 JUN 1977

Mr. D. L. Scantlebury
Director, Division of Financial
& General Management Studies
General Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in reply to your letter, March 17, 1977 to the Secretary of Defense regarding GAO Draft Report "New Methods Needed for Checking Payments Made by Computers," FGMSD-76-82, (OSD Case #4580).

We agree: (1) that the shift from manual to computer supported financial systems requires new methods for checking payments; (2) that the evidence of accuracy and legality of payments must relate to the system rather than to individual transactions; and (3) that as part of this evidence certifying and disbursing officers must receive assurance that the automated system is functioning properly.

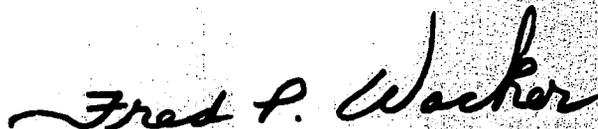
Technology continues to make ADP more effective albeit more complex. Therefore, the development of new methods is an evolutionary process. This process involves broad participation in the design, development, testing, operation, and maintenance of such highly complex systems. The basis for assuring proper function must be laid in design, development, and testing; and it must be maintained throughout operation.

Despite continual changes in methods and increasing complexity of participation, the principle of personal responsibility for certification and disbursement must be retained. Our efforts at readjustment of techniques ought to be focused upon overcoming the trend toward diffusion of responsibility for the overall system without clear cognizance by the certifying or disbursing officer over the information and resources necessary to take reasonable and prudent action.

We believe that: (1) the chief accounting official of the agency should be responsible for system design; (2) the internal audit organization of the agency should be consulted in system design; (3) the internal audit organization should participate in the system prototype test and in occasional operational review; (4) the certifying or disbursing officer should have a reasonable degree of cognizance over the manual and automated aspects of system operation and over the quality control techniques which monitor both aspects; and (5) the certifying or disbursing officer should have appropriate internal review resources and should continuously exercise tools and techniques to ensure quality control. The last of these, in isolation, particularly on a quarterly cycle for complete reassessment, would not produce credible results.

Finally, we need to be careful that the policies and procedures which are ultimately settled upon are technically adequate and are feasible of implementation since they must be carried out in a constrained resource environment.

Sincerely,



Fred P. Wacker
Assistant Secretary



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

MAY 19 1977

Mr. Donald L. Scantlebury
Director, Division of Financial
and General Management Studies
United States General Accounting Office
Washington, D.C. 20548

Dear Don:

In reply to your letter dated March 17 to the Secretary regarding the GAO draft report, "New Methods Needed for Checking Payments Made by Computers," we agree that new methods for checking payments are necessary. We also agree with the conclusion that the certification of payments, regardless of how processed, should be based upon evidence that the payments are accurate and legal. If the certifying officer were provided with information that the system is functioning properly, he would have a reasonable basis for attesting to the legality and accuracy of the payments made.

The draft report recommends that each organization establish a review capability to attest to the reliability of systems and states that "such reviews should be made at least quarterly and should be performed by an operating rather than an internal audit organization." We believe that the reviews should be less than quarterly--preferably on an annual basis--and that the only restriction on "who reviews" should be to exclude individuals responsible for the design and programming of the system being reviewed. We should not rule out internal auditors since they seem to be one of several logical choices to assist in the review.

While we are generally in agreement with the concepts proposed in your draft report, we suggest that "systems review" be expanded to cover certification of payments made through letters of credit.

We also suggest strongly that you make a review of the staffing resources needed to implement your proposed requirements. Your report draft does not provide sufficient detail to permit us to make an assessment. Accounting and auditing resources are scarce in HEW. Additional staffing would be needed to establish review capabilities for HEW's numerous payment systems. This is a hurdle that will be difficult to overcome.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Tom".

Thomas D. Morris
Inspector General



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

FISCAL ASSISTANT SECRETARY

Mr. Donald L. Scantlebury
Director, Division of Financial
and General Management Studies
U. S. General Accounting Office
Washington, D. C. 20548

Dear Don:

This is in response to your letter of March 17, 1977 to the Secretary of the Treasury with which you transmitted your draft report entitled "New Methods Needed for Checking Payments Made by Computers". As you requested, we are furnishing our views on the report from the standpoint of the Treasury's role as a central fiscal agency.

As a matter of good management, we agree that automated payment systems should be reviewed periodically by operating personnel to provide assurance regarding the reliability of the systems. We also feel that it is important that such systems and related processes remain subject to independent audits by internal auditors. We doubt, however, that the specific recommendations in your report will really solve the problem. We perceive the overall problem as being somewhat broader than quality control over computer-generated data and feel that further study would be desirable before a final report is issued.

In this present day and age, large-scale accounting systems exist in almost every agency. Computer processing may complicate the problems of an accountable officer, but they exist with or without the computer. The sheer volume and complexity of transactions makes it extremely difficult for one individual to verify that every item he signs is proper in every respect. At the same time, however, he is still personally liable for losses under a law designed years ago to fit a much different environment.

We have long been convinced that there is a pressing need for modernizing the whole concept of personal financial accountability of accountable officers--not only for those officials responsible for approving the payment of Federal funds, but also for those collecting and disbursing such funds. Attached are copies of pertinent letters on this subject dated September 6, 1968 and September 17, 1969 from the

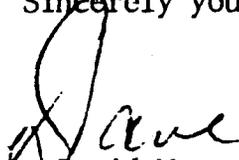
Treasury's then Acting Secretary Barr and Secretary Kennedy, respectively, to Comptroller General Staats, outlining the accountability problem and strongly recommending an inter-agency study of the matter. The proposed study was deferred in each case at the request of the Comptroller General, so as to assess the effects of certain actions planned or taken by the General Accounting Office to ease the situation. While some improvement did result from GAO's delegation of authority permitting the administrative resolution of certain irregularities under specified amounts, the basic accountability problem still exists.

As indicated in your report, the system of accounting, auditing, and control used in the Federal Government has evolved into a huge, decentralized, computerized, largely cashless system today. In line with these fundamental changes, we feel that a comprehensive, inter-agency study should be made of the archaic laws and procedures governing the personal financial responsibility of accountable officers for the purpose of (1) modernizing the laws and simplifying related procedures, and (2) developing reasonable and equitable standards of accountability for accountable officers in light of current conditions.

We believe that such a study would be an appropriate project under the Joint Financial Management Improvement Program, in line with its primary mission of improving financial management activities throughout the Government. We therefore recommend that the JFMIP Steering Committee be requested to initiate an inter-agency study of the entire matter of personal financial accountability of accountable officers as soon as possible.

We would appreciate hearing from you further regarding this matter.

Sincerely yours,



David Mosso

Attachments

GAO note: Since these attachments deal with the same concerns expressed in Treasury's and OMB's responses to our draft report, they were not included in this final report.

(90108)