



United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-285660

August 7, 2000

Mr. Richard Gregg
Commissioner
Financial Management Service
Department of the Treasury

Subject: Internal Controls: Disbursement Processing Controls Need Improvement

Dear Mr. Gregg:

We recently reported on the U.S. government's financial statements for fiscal year 1999.¹ In connection with fulfilling our requirement to audit these statements, we tested certain internal controls over federal disbursements processed by the Department of the Treasury's Financial Management Service (FMS).² With some exceptions (the largest being the Department of Defense), FMS makes disbursements for all federal agencies through its Austin, Chicago, Kansas City, Philadelphia, and San Francisco Regional Financial Centers and the Birmingham Debt Management Operations Center (Centers).³ For fiscal year 1999, the Centers reported processing over 875 million disbursements totaling over \$1.2 trillion.

The Centers generate disbursements via check, electronic fund transfer (EFT), or Fedwire.⁴ These disbursements for fiscal year 1999 were over 280 million checks amounting to over \$260 billion, over 595 million electronic fund transfers amounting to over \$710 billion, and over 50,000 Fedwires amounting to over \$230 billion. Centers also process Automated Standard Application for Payments (ASAP) system

¹*Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000)

²31 U.S.C. 331(e) (1994).

³Beginning October 1, 1999, the Birmingham Financial Center became the Birmingham Debt Management Operations Center and ceased routine disbursing operations. This Center currently only makes residual payments to payees under the Treasury Offset Program.

⁴Fedwire is a telecommunications network that electronically links FMS to the Federal Reserve Bank of New York and handles low-volume, high-dollar value, or same-day payment requests.

enrollments.⁵ The Centers reported that federal agencies authorized payments of over \$239 billion in fiscal year 1999 using the ASAP system. As part of their disbursement processing, Centers also perform claims and various accounting functions. The claims function primarily relates to the crediting back of funds to the requesting agency in cases where disbursements have been canceled or returned.

The purpose of this letter is to provide the results of our work and our recommendations for improvement related to controls over safeguarding of assets and documenting disbursements and reconciliation of reports as well as the results of our follow-up on previously suggested improvements.⁶ Although the internal control matters are not material in relation to the federal government's fiscal year 1999 financial statements, they warrant your attention.

Results in Brief

Our testing of manual controls and procedures indicated weaknesses related to the safeguarding of vulnerable negotiable assets at the Centers that increase the risk of fraud and unauthorized disbursements. Specifically, our testing disclosed the following.

- FMS Centers' employment screening practices are inconsistent among the Centers and less rigorous than those at another federal entity where employees have access to negotiable assets and related records. For example, some Centers do not initiate fingerprint checks of newly hired staff prior to the start of their employment or prohibit new employees' access to sensitive job positions until the results of their fingerprint checks are received and reviewed.
- Some Centers are not following FMS' procedures for control over checks awaiting destruction and issued checks returned for cancellation. For example, we found that two Centers had unused remnants of check webs⁷ awaiting destruction that had not been defaced, and three Centers did not adhere to requirements for processing negotiable returned checks under joint control until the checks were defaced. Additionally, one Center was not performing a required reconciliation of its returned check cancellations.
- FMS did not have its revised ASAP system enrollment processing procedures in place at September 30, 1999, and the three Centers that process ASAP system

⁵The ASAP system, jointly implemented by FMS and the Federal Reserve Bank of Richmond, is an electronic payment and information system. Under this system, once enrolled, an organization can draw federal funds from bank accounts preauthorized by federal agencies. We will separately report the results of our contractor testing of the ASAP and other FMS systems' electronic data processing controls.

⁶*Internal Controls: Matters Related to Disbursements* (GAO/AIMD-99-157R, June 3, 1999).

⁷A web is a large, continual roll of blank check stock that is fed into a check printer. A web may contain either 40,000 or 80,000 blank checks.

enrollments continued to have inadequate segregation of duties related to the bank confirmation process. Subsequently, FMS advised us that as of October 1, 1999, it had implemented its revised procedures.

In addition, testing indicated internal control weaknesses related to documenting the verification of the disbursement authorization process and the reconciliation of certain reports to assure that the disbursements are valid and FMS' financial records are complete and accurate. Specifically, our testing disclosed the following.

- For the date tested, one Center did not document the supervisory or independent review of the agency certifying officer's signature to verify the validity of the disbursement requests.
- For the date tested at another Center, an unauthorized person signed forms crediting funds for a returned Fedwire to the originating agency.
- For the month tested, two Centers had not completely reconciled their monthly outstanding courtesy disbursement reports.⁸

Our fiscal year 1999 testing disclosed that FMS' and the Centers' corrective actions resolved previously reported weaknesses relating to (1) the supervisory review, approval, and documentation of the disbursement processing progress sheets and (2) enrollment processing and supervisory review related to ASAP. This year's recommended improvements include matters we reported on last year for which FMS' corrective actions were not fully implemented as of the end of the fiscal year. Specifically, reconciliation of the returned check cancellations, inadequate segregation of duties in ASAP enrollment processing, verification of the agency certifying officer's signature, and reconciliation of courtesy disbursements. FMS informed us that it had completed corrective actions to address the ASAP segregation of duties and the reconciliation of courtesy disbursement weaknesses during fiscal year 2000. We are also recommending improvements to employment screening practices, controls over checks awaiting destruction and returned checks, and authorizations for crediting returns of canceled Fedwire disbursements. These recommendations are intended to strengthen controls over safeguarding of assets and documentation for disbursements and reconciliation of reports.

In his comments on a draft of this letter, the FMS Commissioner stated that he concurred with our findings and recommendations and that FMS has actions currently in progress or planned to address the issues raised in the letter.

⁸Courtesy disbursements are replacement benefit checks issued at the request of an agency when the intended recipient notifies the agency that the original check was not received. Courtesy disbursements are charged to a special FMS account rather than to the agency. As part of the courtesy disbursement process, the original check is canceled and a special account is credited to offset the original charge. FMS produces a monthly report of outstanding courtesy disbursement balances for the Centers to reconcile.

Scope and Methodology

As part of fulfilling our requirement to audit the U.S. government's financial statements, we performed tests of manual controls and procedures over the delegation and designation of disbursing authority for Certifying Officers; the processing of check, EFT, and Fedwire disbursements; ASAP system enrollments; and examination/observation of selected claims and accounting. We also reviewed certain hiring practices. For fiscal year 1997, the first year we reported on the U.S. government's financial statements, we statistically selected samples of transactions and tested the internal controls relating to delegation and designation controls for Certifying Officers; and check, EFT, and Fedwire disbursements. We also performed nonstatistical internal control tests for ASAP system enrollments and for claims activities and accounting functions that were not susceptible to statistical testing. The internal control matters we found were not material in relation to the U.S. government's financial statements. As a result, for fiscal years 1998 and 1999, testing was primarily limited to follow-up on FMS actions to address the matters identified in our prior reports and to reconfirm the existence and functioning of the manual controls and procedures originally tested.

Thus, for fiscal year 1999, we performed tests to evaluate the corrective actions, if any, on suggestions in our previous report. We used nonstatistical tests and selected specific disbursement processing steps for transactions in a day in, or the month of, September 1999, a date that allowed FMS time to institute corrective actions. Given the nonstatistical manner for selecting items, the results of this work are not projectable. However, in situations where FMS has yet to take or complete corrective actions on previously reported weaknesses and our testing reconfirmed the existence of these weaknesses, we believe such weaknesses require management attention.

To reconfirm the existence and functioning of manual controls and procedures at the five Centers, we also performed nonstatistical testing of transactions on the days that the Centers processed large volumes/dollars of disbursements.⁹ We examined selected documentation, performed physical observations, and held discussions with FMS and Center officials and staff relating to (1) the delegation and designation of Certifying Officers, (2) check, EFT, and Fedwire disbursement transactions at each Center, (3) ASAP system enrollments, (4) various processes related to claims and accounting, and (5) employment screening practices being used at the Centers from October 1, 1998 through August 31, 1999. The results of this testing are also not projectable.

We reviewed FMS' *Field Operations Manual* (FOM), which contains a framework for the operating procedures to be used by the Centers. We also considered the

⁹Because of changes in the nature of operations at the Birmingham Center, we limited our work to follow-up testing, where appropriate, for that Center. In addition, only the Philadelphia and San Francisco Centers process Fedwire disbursements and only the Kansas City, Philadelphia, and San Francisco Centers process ASAP enrollments.

Comptroller General's standards for internal controls in the federal government.¹⁰ This document, issued pursuant to the Federal Managers' Financial Integrity Act, states that internal control is a major part of managing an organization and provides an overall framework for establishing and maintaining such controls. The Standards include the plans, methods, and procedures for organizations to use to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. We performed our audit work in accordance with generally accepted government auditing standards from June 1999 through February 2000. The Commissioner of FMS provided written comments, which are discussed in the "Agency Comments" section of this letter and reprinted in Enclosure I. In addition, FMS provided certain technical comments, which we have incorporated in the letter as necessary.

Controls Over Safeguarding of Assets Need Improvement

We found internal control weaknesses that increase the risk of possible fraud, theft, and misuse of vulnerable negotiable assets and could result in unauthorized disbursements. These weaknesses related to (1) Center employment screening practices, (2) controls over checks awaiting destruction and returned checks, and (3) segregation of duties in ASAP system enrollment processing.

The Comptroller General's Standards state that appropriate hiring practices are a critical factor in an effective control environment. The Standards also require an agency to establish physical control to secure and safeguard vulnerable assets. According to these Standards, access to resources and records should be limited to authorized individuals and accountability for their custody and use should be assigned and maintained. Additionally, the Standards note that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

Employment Screening Practices

For Center employees occupying job positions with access to negotiable assets and related records, our review disclosed that:

- three of the five Centers do not initiate fingerprint check investigations for new employees prior to the employees' start dates, and none of the Centers prohibit new employees from being assigned to positions with such access until the results of fingerprint checks are received and reviewed and
- FMS does not require periodic background investigation updates on all employees with such access.

Effective hiring practices, which can mitigate the risk associated with personnel occupying job positions that an agency considers sensitive, include completion of

¹⁰*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

fingerprint checks on prospective employees prior to their start dates or prohibiting their access to sensitive job positions until the results of fingerprint checks are received and reviewed. We were informed that Center employment is conditional until successful completion of a comprehensive background investigation. However, Centers are not required to, and some do not, initiate fingerprint checks prior to employment, prohibit access to negotiable assets and related records until the fingerprint check results are received and reviewed, and conduct periodic background investigation updates. As a result, the potential risk of employee theft, fraud, and misuse of negotiable assets is increased.

While not required by FMS policy, fingerprint checks on prospective employees before their start dates becomes important considering the length of time involved in completing a comprehensive background investigation. We were informed that completion of a comprehensive background investigation, which is performed by another federal agency, routinely takes 75 to 120 days but could take longer in unusual circumstances. In addition, FMS policy does not prohibit access for new employees to areas with negotiable assets and related records pending the results of their fingerprint checks being received and reviewed. All of the Centers told us that FMS' Security Branch performs local preemployment investigations on prospective employees that can include (1) local police and court checks, (2) inquiries of past employment and personal references, and (3) credit checks. However, such investigations, because they are essentially local in nature, lack the scope of a national fingerprint check. We are aware, as a result of our other work, that the Internal Revenue Service (IRS) recently issued a policy stating that IRS will not employ any applicants in sensitive areas (where cash and negotiable checks are handled) before receiving the results of fingerprint checks.¹¹ These procedures provide IRS with the ability to more quickly identify potential risks with employees rather than waiting until the comprehensive background investigation is completed.

We were told that FMS does perform routine update investigations on its employees designated as high risk.¹² However, there is no requirement to, and FMS does not, perform update investigations on all other employees occupying sensitive positions involving access to negotiable assets and related records. We believe periodic update investigations of such employees would constitute good business practice. Further, we note that IRS and certain other agencies require periodic update investigations for employees based on the agency's risk assessment of the sensitivity of the position. The periodic updates provide agency management with additional information with which to better assess the risks associated with potential changes to employees' financial and/or personal circumstances.

¹¹*Internal Revenue Service: Physical Security Over Taxpayer Receipts and Data Needs Improvement* (GAO/AIMD-99-15, November 30, 1998).

¹²FMS considers high-risk designation to include positions with broad scope of policy or program authority that have the potential for exceptionally serious impact involving duties especially critical to the agency or program mission.

Controls Over Checks Awaiting Destruction and Returned Checks

During the course of our work, we observed a number of negotiable checks awaiting destruction that had not been defaced because some Centers did not adhere to certain FMS policies. Two Centers had not defaced the remaining blank checks at the end of check webs that could no longer be used in the production process, and one Center had not defaced all of its ruined checks as required.¹³ Also, contrary to FOM requirements and similar to what we reported in a previous letter, we observed instances where three Centers had only a single person opening and defacing returned checks. At two of those Centers, the staff processed returned checks at desks that were not clear of extraneous materials. The FOM requires that checks ruined or unused during production processing and issued checks returned for cancellation be promptly defaced. In addition, the FOM requires returned checks to be processed under joint custody and supervisory control in a secured work area clear of extraneous material. Failure to adhere to these FOM requirements increases the risk that these checks could be stolen and fraudulently negotiated.

Finally, in previous years, we reported that several Centers had not completely reconciled their returned check cancellations for the days tested. In our fiscal year 1999 testing, one Center had not performed this reconciliation for the day tested. Reconciliation of the number of returned and other checks available for cancellation¹⁴ to the number of checks canceled is essential to ensure that all returned checks have been canceled or properly accounted for. The importance of this procedure is heightened by the continuing existence of a programming error in the computer-generated automated check reconciliation report. Without this reconciliation, FMS cannot be assured that all returned checks have been fully accounted for.

Segregation of Duties - ASAP

Last year, we reported that the Centers that process ASAP enrollments need to improve segregation of duty controls related to processing ASAP bank confirmations. In fiscal year 1999, FMS informed us it had not yet finalized revisions to the ASAP enrollment procedures. As a result, Center staff who input bank data into the system, including user bank accounts data, could prepare, receive, and reconcile the bank confirmation letters. Segregation of duties in the ASAP bank confirmation process is an essential internal control and, without it, FMS faces increased risk that error or fraud might occur.

During fiscal year 2000, FMS issued its revised ASAP enrollment procedures that if properly implemented, should resolve this issue. We will evaluate the effectiveness of

¹³Ruined checks, which can be negotiable, could include printed checks rejected because of poor print quality, checks mutilated during processing, and mistyped manual checks.

¹⁴“Available” checks for cancellation include checks mailed from the Center but returned to the Center for various reasons, e.g., undeliverable by the U.S. Postal Service, and holds, where the check is pulled for cancellation before it leaves the Center.

these revised procedures as part of our audit of the federal government's fiscal year 2000 financial statements.

**Internal Controls Over Documentation for Disbursements
And Reconciliation of Reports Need to Be Strengthened**

We found internal control weaknesses related to (1) documenting the supervisory or independent review of the agency certifying officer's signature verification, (2) personnel authorizing the crediting of returned canceled Fedwire disbursements, and (3) reconciling courtesy disbursements. If the Centers do not document the performance of their internal control processes and reconciliations, FMS lacks assurance that its disbursements are appropriate and/or that its financial records are complete and accurate.

The Comptroller General's Standards require, in part, the following.

- Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to both managers and employees.
- Qualified and continual supervision should be provided to ensure that internal control objectives are achieved. In addition, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.
- Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination and should appear in management directives, administrative policies, or operating manuals.

Documenting the Agency Certifying Officer's Signature Verification

As in our previous reports, we continue to find a lack of documentation of the supervisory or independent review of the signature verification process on the paper SF 1166 Voucher and Schedule of Payments (SF 1166). This year, we found that one of the Centers did not document the supervisory or independent verification review for all three paper SF 1166s processed on the date tested.¹⁵ Agency Certifying Officers use either an electronic or paper SF 1166 to request that Centers disburse funds on their behalf. FOM Sections 1131 and 4114 require that the Centers verify the Certifying Officers' signatures before processing requested disbursements. Because the verification of the certifying officer's signature is a critical element in ensuring the validity of disbursements, the process should be subject to qualified and continual

¹⁵FMS receives most payment requests via the Treasury Electronic Certification System. In place of a manual signature, this system uses "smartcards" and personal identification numbers to authenticate payment requests based on the encrypted keys assigned to each Certifying Officer and agency Security Administrator.

supervision. Without the appropriate supervisory or independent review, FMS lacks adequate assurance of the validity of the paper SF 1166 disbursement.

Authorized Signature for Return of Canceled Fedwire Disbursements

We found that one Center did not adhere to the requirement that an Accountable Officer, or an authorized designee, sign the SF Form 146, Schedule of Canceled Fedwire Item, to return funds from a canceled Fedwire disbursement to the originating agency. For the day we tested, an unauthorized person signed all three SF Form 146s processed that day. Without an authorized person signing the form, FMS lacks assurance that Fedwire cancellations are properly processed and that credit is properly returned to the original funding agency.

Reconciling Courtesy Disbursements

As reported last year, Centers did not have consistent and uniform policies and procedures for the complete and timely reconciliation of courtesy disbursements. This year, we found that (1) two Centers had not completely reconciled their outstanding courtesy disbursement reports for the month tested and (2) one of these Centers had not received an outstanding courtesy disbursement report for 2 other months during the fiscal year. Without complete and timely reconciliations of courtesy disbursements, FMS does not have adequate assurance that its financial records are complete and accurate and that the special courtesy disbursement account is in balance.

An official at one of the two Centers that had not reconciled their September 1999 outstanding courtesy disbursement reports informed us that the Center did not begin reconciliation of this report until January 2000. An official at the other Center, which had partially reconciled its September report, explained that the Center's policy is to only reconcile outstanding balances over 30 days old because timing differences cause many of the outstanding items and such differences automatically clear when another FMS entity subsequently posts certain data. However, this official stated that the Center more commonly reconciles outstanding balances once they are over 60 days old. While timing differences can be expected, such delay in reconciliation postpones the Centers from being assured that FMS' financial records are as complete and accurate as possible.

In addition, one of the two Centers above did not receive an outstanding courtesy disbursement report for 2 months in fiscal year 1999. This report would enable the reconciliation to be performed. Unless the Centers receive a report each month, even a report indicating no outstanding balances, they will not know if reconciliations are necessary. As a result, neither the Centers nor FMS can be assured that the special FMS courtesy disbursement account is in balance.

During fiscal year 2000, FMS issued guidelines on courtesy disbursement reconciliations. We also understand that these courtesy disbursement procedures and guidelines may be further modified during this fiscal year. We will evaluate the

guidelines as part of our audit of the federal government's fiscal year 2000 financial statements.

Recommendations

We reaffirm our suggestion from our prior year's audit that FMS needs to establish procedures to ensure the documentation of the supervisory or independent review of paper SF 1166 verification processing and the reconciliation of the returned check cancellations.

To address the disbursement internal control weaknesses we identified this year, we recommend that the Commissioner of FMS direct the Assistant Commissioner for Regional Operations to

- develop and implement uniform policies and procedures requiring, at a minimum, initiation of a fingerprint background check prior to the start date of new employees and prohibiting new employees from being assigned with access to negotiable assets and related records until the results of fingerprint checks are received and reviewed;
- develop and implement policies and procedures for periodic background investigation updates for employees who occupy positions with access to vulnerable negotiable assets or related records;
- monitor the Centers' adherence to FMS policies regarding the safeguarding of ruined and returned checks; and
- monitor the consistent implementation of required procedures to ensure that only authorized persons sign the SF 146, Schedule of Canceled Fedwire Item, crediting funds from canceled Fedwires to the originating agency.

Because of the recurring nature of some of the identified weaknesses, we also reaffirm our suggestion from last year that the Commissioner of FMS direct the Assistant Commissioner for Regional Operations to ensure that applicable guidance related to these matters be incorporated in the FOM to ensure consistent and uniform operating procedures among all the Centers.

Agency Comments

In commenting on a draft of this letter, the FMS Commissioner stated he concurred with our findings and recommendations and that FMS has actions currently in progress or planned to address the issues raised in the letter.

This letter contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these

recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform within 60 days of the date of the report. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the letter.

This letter is intended for use by Treasury's management and the Inspector General. We are sending copies of this letter to Senator Fred Thompson, Chairman, and Senator Joseph Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry Waxman, Ranking Minority Member, House Committee on Government Reform; Mr. Donald Hammond, Fiscal Assistant Secretary, Department of the Treasury; Mr. Jeffrey Rush, Jr., Inspector General, Department of the Treasury; and the Honorable Jacob J. Lew, Director, Office of Management and Budget. Copies will also be made available to others upon request.

If you have any questions regarding this report, please contact me at (202) 512-3406. Key contributors to this assignment are listed in enclosure II.

Sincerely yours,



Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

Enclosures

Comments From the Financial Management Service



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

JUL 19 2000

Mr. Jeffrey C. Steinhoff
Assistant Comptroller General for Accounting and Information
Management Issues
United States General Accounting Office
Washington, DC 20548

Dear Mr. Steinhoff:

Thank you for the opportunity to review your draft audit report, **Internal Controls: Disbursement Processing Controls Need Improvement - July 2000**. The Financial Management Service concurs with the recommendations in this report. Following is our response and a general statement of steps we will take to complete needed corrective actions.

GAO Recommendation:

Establish procedures to ensure the documentation of the supervisory or independent review of paper SF 1166 verification processing and the reconciliation of the returned check cancellations:

FMS Response: Concur

FMS agrees with the recommendation to ensure documentation of supervisory or independent review of paper SF 1166 verification at all Regional Financial Centers (RFCs) and will take the necessary corrective actions.

We are in the process of closing the Chicago Financial Center, which is where GAO noted that returned checks are not being properly reconciled. We have moved all returned check processing out of Chicago to other RFCs. Chicago is scheduled to close completely on November 1, 2000. Although no similar problems were reported at the other RFCs, we will issue instructions to reinforce returned check reconciliation.

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GAO Recommendation:

Develop and implement uniform policies and procedures requiring, at a minimum, initiation of a fingerprint background check prior to the start date of new employees and prohibiting new employees from being assigned with access to negotiable assets and related records until the results of fingerprint checks are received and reviewed.

FMS Response: Concur

FMS will research and investigate the best course of action to implement the fingerprint background checks prior to the start date of new employees being assigned access to negotiable assets and related documents. Initial contact has been made with the IRS, OPM, and the FBI to gather information on equipment needed, telecommunication support, processing time and other pertinent facts pertaining to implementation of fingerprint background checks. We anticipate completion of our research efforts and implementation of fingerprint checks in approximately six months.

Currently, the FMS policy and practice is to conduct pre-employment screening investigations of applicants for FMS positions, and similar pre-screening investigations of contractors, prior to their appointment and entry into FMS facilities or access to systems. The investigations follow the submission of completed security questionnaires based on the position and their designated risk. As observed by the GAO auditors, the investigation includes local law enforcement records checks (when available), inquiries into past business and personal references, and credit checks (national in scope) and is routinely completed in 3-5 days. The investigation's scope facilitates controlling and identifying potential risks to FMS, and may be broadened to include scheduling a Special Agreement Check (SAC) by OPM if potentially disqualifying issues are raised.

GAO Recommendation:

Develop and implement policies and procedures for periodic background investigation updates for employees who occupy job positions with access to vulnerable negotiable assets or related records.

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FMS Response: Concur

FMS is aware of this issue and is currently conducting an FMS-wide position risk designation review with the expected outcome of (1) identifying appropriate position risk based on the current FMS mission and environment, and (2) identifying individuals who require investigations or reinvestigation based on the review.

FMS has adopted policy that complies with Federal guidance concerning reinvestigations and will routinely conduct reinvestigations as appropriate for the position risk. Implementation of this policy and action due dates will commence upon the review's completion, which is expected to occur during the fourth quarter of FY 2000.

GAO Recommendation:

Monitor the Centers' adherence to FMS policies regarding the safeguarding of ruined and returned checks.

FMS Response: Concur

FMS will take the necessary steps to ensure full compliance with the procedures for defacing blank checks at the end of the check web, defacing spoiled and returned checks, and observing separation of duties and reconciliation requirements for returned checks.

GAO Recommendation:

Monitor the consistent implementation of required procedures to ensure that only authorized persons sign the SF-146, Schedule of Canceled Fedwire Item, crediting funds from canceled Fedwires to the originating agency.

FMS Response: Concur

FMS will take corrective actions to assure compliance.

In addition, FMS will ensure that applicable guidance related to the above recommendations is incorporated in the Field Operations Manual (FOM), as necessary, to ensure consistent and uniform operating procedures among all Regional Financial Centers.

Enclosure I

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In closing, I wish to emphasize that the Financial Management Service's Regional Financial Centers have comprehensive internal controls covering the disbursement process that have been developed over the course of many years of disbursement experience. The annual GAO audit reviews and recommendations, together with our cooperative efforts, will help ensure continued strong controls over the disbursement processes.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard L. Gregg".

Richard L. Gregg

cc: Donald V. Hammond

Enclosure II

GAO Contact and Staff Acknowledgments

GAO Contact

Brian Huchro, (415) 904-2243

Acknowledgments

In addition to the individual named above, John Lord, John Kennedy, Laurie King, Yola Lewis, and Jon Ling made key contributions to this letter.

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