



Information provided by Sharon 1/17/79 - phone 108364

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FEDERAL PERSONNEL AND COMPENSATION DIVISION

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The Honorable James T. McIntyre, Jr.
Director, Office of Management and Budget

Dear Mr. McIntyre:

At the request of the House Subcommittee on Compensation and Employee Benefits, Committee on Post Office and Civil Service, the General Accounting Office (GAO) reviewed overtime practices at a number of Federal agencies. The results of this review were presented to the Subcommittee during hearings on this subject on October 26, 1978, (see Appendix I). Several other Federal agencies also testified before the Subcommittee on October 26, and November 3, 1978, regarding their overtime practices.

A number of important management issues needing further attention were brought out in these hearings. For example, testimony has shown a need for management to better monitor the use of overtime, not only for abuse, but for ensuring that work is performed in the most efficient and economical manner. It also high-lighted a need for agencies' internal audit groups to constantly monitor their agencies' payroll systems, as well as their program activities, to ensure that internal controls are in place and properly implemented.

Certain deficiencies in agency control systems which permit overtime abuse to occur appear to be widespread. These include

- improper or missing authorizations for overtime;
- lack of adequate batch controls, record counts, and control totals, which permit unauthorized changes in information affecting employees' pay; and
- failure to provide feedback to supervisors on overtime paid to employees, which allows improper overtime payments to remain undetected.



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Letter REPORT Unrestricted

Such weaknesses contributed to, or permitted, alleged fraudulent claims for overtime payments at the U.S. Forest Service, U.S. Civil Rights Commission, Department of Transportation, Internal Revenue Service, and the Department of Health, Education, and Welfare.

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Information provided to the Subcommittee by several Federal agencies revealed that large amounts of overtime are paid to many employees. For example, information provided by the Department of Justice showed that about 500 employees were paid over \$5 million in 1977 for over 1,000 overtime hours each. Additionally, about 13,000 employees at the Justice Department were paid for between 200 and 500 overtime hours each which totaled over \$43 million. Similarly, about 9,000 Department of Health, Education, and Welfare employees were paid a total of over \$27 million for between 200 and 500 overtime hours each.

Certainly, overtime can be appropriately used to meet temporary needs during emergencies or for special projects which cannot be completed during normal working hours. However, management is responsible for correcting situations which consistently require overtime, by maximizing effectiveness of the work flow and systematically and objectively determining workforce requirements. Alternatives to overtime, such as the use of part-time employees, should be considered and utilized, where appropriate, within the constraints of personnel ceilings.

In a November 16, 1978, Office of Management and Budget (OMB) memorandum to heads of executive departments and establishments, agencies were asked to make sure that overtime is justified, alternatives are considered, and procedures for controlling overtime abuse are adequate. We believe this is a step in the right direction.

In view of the identified weaknesses in agency accounting system controls and the present shortcomings in overtime management, however, we believe that further action is needed. Therefore, we recommend that the Director, OMB

--require agencies to analyze and report to OMB on their use of overtime and their routine procedures and accounting system controls for monitoring overtime usage to avoid abuse,

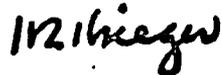
- require agencies to justify overtime in the budget process, which should include justification on whether the work is actually needed and that all reasonable alternatives have been considered, and
- actively pursue the commitment made to the House Subcommittee on Compensation and Employee Benefits to have all unapproved accounting systems submitted to GAO for approval.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires agencies to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chair, House Subcommittee on Compensation and Employee Benefits.

Sincerely yours,



H. L. Krieger
Director

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
THURSDAY, OCTOBER 26, 1978

STATEMENT OF

H. L. KRIEGER, DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION
U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS
OF THE HOUSE POST OFFICE AND
CIVIL SERVICE COMMITTEE

ON

FEDERAL OVERTIME PRACTICES

MADAM CHAIR AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE PLEASED TO BE HERE TODAY TO DISCUSS OUR WORK ON OVERTIME PRACTICES IN FEDERAL AGENCIES. IN FISCAL YEAR 1977, THE EXECUTIVE BRANCH SPENT \$1.5 BILLION IN OVERTIME PAY--AN INCREASE OF \$300 MILLION OVER 1976. AT YOUR REQUEST, WE EXAMINED TIME AND ATTENDANCE PROCEDURES AT FOUR FEDERAL AGENCIES. TWO OF THE AGENCIES--FOREST SERVICE AND CIVIL RIGHTS COMMISSION--WERE INVOLVED IN PUBLICIZED CASES OF POSSIBLE OVERTIME FRAUD. THEREFORE, OUR WORK AT THESE AGENCIES WAS NECESSARILY LIMITED TO IDENTIFYING PAYROLL SYSTEM DEFICIENCIES WHICH COULD PERMIT OVERTIME ABUSES TO OCCUR. AT THE OTHER TWO AGENCIES--THE DEPARTMENT OF TRANSPORTATION AND THE DRUG ENFORCEMENT ADMINISTRATION OF THE JUSTICE DEPARTMENT--WE REVIEWED PAYROLL PROCEDURES AND ALSO EXAMINED PAYROLL RECORDS OF SELECTED INDIVIDUALS TO TEST THE EFFECTIVENESS OF OVERTIME CONTROLS.

AS YOU WELL KNOW, THIS WORK RESULTED IN THE IDENTIFICATION OF THREE POSSIBLE CASES OF FRAUD INVOLVING DEPARTMENT OF TRANSPORTATION EMPLOYEES WHICH AT YOUR DIRECTION HAVE BEEN REFERRED TO THE DEPARTMENT OF JUSTICE. ALSO DURING THIS REVIEW WE LEARNED THAT AT LEAST TWO OTHER AGENCIES--INTERNAL REVENUE SERVICE AND DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE--ARE INVOLVED IN SEVERAL CASES OF POTENTIAL OVERTIME ABUSE.

BEFORE I GET INTO A MORE DETAILED DISCUSSION OF OUR WORK AND THE FUNCTIONS AND RESPONSIBILITIES OF THE GENERAL ACCOUNTING OFFICE WITH REGARD TO FEDERAL AGENCY ACCOUNTING SYSTEMS, I WOULD LIKE TO MENTION SOME OTHER IMPORTANT AND RELATED MATTERS.

MUCH ATTENTION HAS BEEN GIVEN TO THE CURRENT INVESTIGATIONS AT THE GENERAL SERVICES ADMINISTRATION WHICH HIGHLIGHT THE VULNERABILITY OF FEDERAL AGENCIES TO WHITE-COLLAR CRIME. IN A RECENT GAO REPORT, "FEDERAL AGENCIES CAN, AND SHOULD, DO MORE TO COMBAT FRAUD IN GOVERNMENT PROGRAMS," WE STATED THAT FEDERAL AGENCIES HAVE NOT BEEN DOING ENOUGH TO IDENTIFY FRAUD IN THEIR PROGRAMS AND THAT THE DEPARTMENT OF JUSTICE HAS BEEN SLOW IN ASSISTING FEDERAL AGENCIES' ANTI-FRAUD EFFORTS. WE RECOMMENDED, AMONG OTHER THINGS, THAT AGENCIES (1) ELEVATE FRAUD IDENTIFICATION TO A HIGH AGENCY PRIORITY, (2) FIX ORGANIZATION RESPONSIBILITY FOR IDENTIFYING FRAUD, AND (3) PROVIDE AGENCY INVESTIGATORS WITH APPROPRIATE TRAINING IN THE DETECTION OF FRAUD. WE BELIEVE THESE STEPS ARE NECESSARY TO

HELP PRECLUDE NOT ONLY PROGRAM ABUSES, BUT ALSO FEDERAL EMPLOYEES' OVERTIME AND OTHER PAYROLL SYSTEM ABUSES.

IN THIS CONNECTION, GAO HAS ESTABLISHED A SPECIAL TASK FORCE ON THE DETECTION OF FRAUD AND OTHER ABUSES. THE TASK FORCE INTENDS TO CONCENTRATE ON AGENCY CONTROLS OVER CASH AND RECEIVABLES, INVENTORIES AND SUPPLIES, AND ANYTHING ELSE OF VALUE THAT MIGHT BE STOLEN OR MISAPPROPRIATED IF CONTROLS ARE WEAK. THE TASK FORCE WILL IDENTIFY WEAKNESSES IN COMPUTER CONTROLS, ANALYZE INDICATIONS OF FRAUD UNCOVERED BY AGENCY INTERNAL AUDIT STAFFS AND, WHERE THESE REPORTS OR OUR OWN REVIEWS SHOW THAT CONTROLS ARE WEAK, THE TASK FORCE WILL SEARCH FOR POTENTIALLY FRAUDULENT SITUATIONS. AT THE CONCLUSION OF ITS WORK, THE TASK FORCE WILL PREPARE REPORTS TO THE CONGRESS AND THE AGENCIES INVOLVED WITH PARTICULAR EMPHASIS ON WEAKNESSES IN MANAGEMENT CONTROLS THAT WOULD PERMIT FRAUD, THEFT OR ERROR TO OCCUR. THE TASK FORCE WILL ALSO EXPLORE THE POSSIBILITY OF DEVELOPING AN AUDIT PROGRAM FOR USE BY FEDERAL AGENCIES THAT PROVIDES A SYSTEMATIC APPROACH FOR IDENTIFYING AND PREVENTING FRAUD AND ABUSE IN GOVERNMENT PROGRAMS.

OVERTIME SHOULD GENERALLY BE USED TO MEET TEMPORARY NEEDS DURING EMERGENCIES OR FOR CERTAIN SPECIAL PROJECTS WHICH CANNOT BE COMPLETED WITHIN NORMAL WORKING HOURS. WHEN AN AGENCY USES A SIGNIFICANT AMOUNT OF OVERTIME IT RAISES CERTAIN QUESTIONS. WHAT KIND OF ANALYSIS DID MANAGEMENT MAKE IN

DETERMINING OVERTIME WAS NEEDED? FOR EXAMPLE, WAS THERE REALLY A NEED FOR THE OVERTIME WORK? IF IT WAS JUSTIFIED DID MANAGEMENT CONSIDER OTHER ALTERNATIVES SUCH AS HIRING PART-TIME OR TEMPORARY EMPLOYEES?

WHEN A PARTICULAR INDIVIDUAL OR GROUP IS WORKING AN INORDINATE AMOUNT OF OVERTIME, IT MAY INDICATE THAT EITHER THE STAFF IS NOT LARGE ENOUGH OR THAT THE STAFF IS NOT PERFORMING EFFICIENTLY. WHILE WE RECOGNIZE THAT CERTAIN SITUATIONS WILL ARISE FROM TIME TO TIME WHICH REQUIRE OVERTIME, IF SUCH SITUATIONS OCCUR CONSISTENTLY, IT IS MANAGEMENT'S RESPONSIBILITY TO CORRECT THEM.

AT THE TWO AGENCIES WHERE WE EXAMINED EMPLOYEES' OVERTIME RECORDS, WE NOTED SEVERAL INSTANCES WHERE INDIVIDUALS RECEIVED SUBSTANTIAL OVERTIME ALMOST EVERY PAY PERIOD. FOR EXAMPLE, TWO OF THE LARGEST USERS OF OVERTIME AT THE DEPARTMENT OF TRANSPORTATION HAD WORKED OVERTIME ALMOST EVERY WEEKDAY AND MOST SATURDAYS FOR THE PREVIOUS YEAR AND A HALF. ONE OF THEM AVERAGED ABOUT 36 HOURS OF OVERTIME EVERY PAY PERIOD. THIS OVERTIME WAS CONSISTENTLY AUTHORIZED FOR PERFORMANCE OF TYPING AND FILING. WHILE WE WERE FOCUSING ONLY ON THE PROPRIETY OF OVERTIME PAYMENTS, WE BELIEVE THERE MAY ALSO BE A QUESTION ON THE NEED FOR AND APPROPRIATENESS OF SUCH EXTENSIVE OVERTIME.

GAO HAS, OVER THE YEARS, BEEN CRITICAL OF THE WAY SOME FEDERAL AGENCIES DETERMINE THEIR WORKFORCE REQUIREMENTS AND

HAS RECOMMENDED THAT MORE SYSTEMATIC AND OBJECTIVE METHODS AND PROCEDURES BE USED, INCLUDING USE OF WORK MEASUREMENT TECHNIQUES. WE BELIEVE THAT AS AGENCIES MOVE IN THIS DIRECTION, THEY SHOULD BE ABLE TO BETTER MATCH THEIR RESOURCE REQUIREMENTS TO THE WORK TO BE DONE, THEREBY MINIMIZING OVERTIME NEEDS. FURTHER, WE BELIEVE THAT MORE EFFECTIVE MANAGEMENT OF THE AGENCIES' WORK FLOW CAN REDUCE OVERTIME. SUCH CHANGES ARE OF LITTLE VALUE, HOWEVER, WITHOUT THE COMMITMENT OF MANAGEMENT AT ALL LEVELS.

AGENCIES SOMETIMES MUST PAY EMPLOYEES OVERTIME TO ACCOMPLISH PROGRAMS AND FUNCTIONS REQUIRED BY THE PRESIDENT AND CONGRESS BECAUSE PERSONNEL CEILINGS ESTABLISHED BY THE OFFICE OF MANAGEMENT AND BUDGET OR THE CONGRESS RESTRICT THEM FROM INCREASING THE SIZE OF THEIR STAFFS. WHEN WORKLOADS FLUCTUATE SIGNIFICANTLY, USING PART-TIME EMPLOYEES MAY BE THE BEST AND MOST ECONOMICAL WAY OF ACCOMPLISHING NECESSARY WORK. IN THE PAST, HOWEVER, CONSTRAINTS IMPOSED BY RIGID PERSONNEL CEILINGS HAVE ALSO DEPRIVED MANAGEMENT OF THIS FLEXIBILITY. IN A JANUARY 1976 REPORT "PART-TIME EMPLOYMENT IN FEDERAL AGENCIES" WE RECOMMENDED THE REMOVAL OR RELAXATION OF PERSONNEL CEILINGS FOR PART-TIME EMPLOYEES, ON A TEST BASIS, TO ALLOW AGENCIES MORE FLEXIBILITY IN USING THESE EMPLOYEES. THE PART-TIME CAREER EMPLOYMENT ACT OF 1978 PROVIDES THAT A PERSON WHO WORKS PART-TIME WILL BE COUNTED FOR CEILING PURPOSES BASED ON THE NUMBER

OF HOURS WORKED RATHER THAN AS ONE EMPLOYEE AND SHOULD GIVE MANAGEMENT FLEXIBILITY TO USE MORE PART-TIME EMPLOYEES.

WHILE TODAY WE ARE CONCERNED WITH OVERTIME ABUSES, WE THINK IT ONLY FAIR TO POINT OUT THAT IN A RECENT GAO SURVEY MANY FEDERAL EMPLOYEES INFORMED US THAT THEY OFTEN WORK OVERTIME WITHOUT RECEIVING PAY OR COMPENSATORY TIME OFF. ABOUT 29 PERCENT OF 2,351 EMPLOYEES RESPONDING TO OUR QUESTIONNAIRE REPORTED THAT THEY WORK AT LEAST 1 EXTRA HOUR EACH WEEK IN UNCOMPENSATED OVERTIME.

WE IDENTIFIED SOME SYSTEM WEAKNESSES AT EACH AGENCY WE VISITED. WHILE OUR REVIEW WAS SOMEWHAT LIMITED BY THE JUSTICE DEPARTMENT'S INVESTIGATIONS AND THE LIMITED AMOUNT OF TIME AVAILABLE TO US, WE BELIEVE THAT THE SYSTEM WEAKNESSES IDENTIFIED IN OUR WORK SUGGEST THAT SUCH PROBLEMS COULD BE PREVALENT IN OTHER AGENCIES.

DEPARTMENT OF TRANSPORTATION

AT THE NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, WE FOUND THAT OVERTIME AUTHORIZATIONS WERE NOT ALWAYS PROPERLY APPROVED AND CONTAINED ALTERATIONS WITH NO INDICATION THAT THE CHANGES HAD BEEN APPROVED.

FOR EXAMPLE, WE NOTED ONE INSTANCE IN WHICH AN EMPLOYEE APPROVED HIS OWN OVERTIME REQUEST, AND SOME OVERTIME PAYMENTS HAD BEEN MADE EVEN THOUGH THE AUTHORIZATION FORMS HAD NOT BEEN SIGNED.

SIMILARLY, THE NUMBER OF OVERTIME HOURS APPEARED TO HAVE BEEN CHANGED ON SOME TIME AND ATTENDANCE CARDS, AND OVERTIME CLAIMS IN SOME INSTANCES WERE NOT SUPPORTED BY ATTENDANCE LOGS. WE REFERRED THREE SUCH CASES TO THE DEPARTMENT OF JUSTICE FOR INVESTIGATION.

WE ALSO NOTED CERTAIN OTHER WEAKNESSES WITH THE PRESCRIBED TIME AND ATTENDANCE PROCEDURES. FOR EXAMPLE, SUPERVISORS WERE NOT PROVIDED FEEDBACK ON THE NUMBER OF OVERTIME HOURS PAID TO EACH EMPLOYEE. THUS, FALSE OVERTIME CLAIMS WOULD NOT COME TO THE ATTENTION OF THE SUPERVISORS. IN ADDITION, THE PROCEDURES PERMITTED ALTERED TIME AND ATTENDANCE CARDS TO BE PROCESSED WITHOUT QUESTION.

WE ALSO FOUND THAT TIME AND ATTENDANCE AND PAYROLL PROCESSES DID NOT HAVE CONTROLS TO ASSURE THAT DOCUMENTS AND DATA AFFECTING EMPLOYEES' PAY WERE NOT LOST OR ADDED DURING PROCESSING.

DRUG ENFORCEMENT ADMINISTRATION

AT THE DRUG ENFORCEMENT ADMINISTRATION, WE IDENTIFIED PROCEDURAL WEAKNESSES WHICH COULD PERMIT ERRONEOUS OR FRAUDULENT CLAIMS FOR OVERTIME PAYMENT. FOR EXAMPLE, OVERTIME IS NOT ALWAYS AUTHORIZED IN WRITING AND THE AUTHORIZATIONS DO NOT INCLUDE CERTIFICATIONS THAT THE WORK IS ACTUALLY PERFORMED. OVERTIME AUTHORIZATIONS ARE NOT PROPERLY OR CONSISTENTLY COMPLETED, AND THE PAYROLL SECTION DOES NOT CHECK THEM BEFORE PAYMENT. PAYMENTS ARE ROUTINELY MADE FOR REGULAR AND OVERTIME

HOURS SHOWN ON THE CERTIFIED TIME AND ATTENDANCE CARD. IN ADDITION, SUPERVISORS ARE NOT PROVIDED FEEDBACK ON OVERTIME HOURS PAID TO EMPLOYEES.

THE AGENCY MONITORS OVERTIME EXPENDITURES TO SEE THAT EACH ORGANIZATION STAYS WITHIN ITS BUDGET. ACCORDING TO AN AGENCY OFFICIAL, NO ORGANIZATIONAL ELEMENT OR REGION HAS BEEN FOUND TO EXCEED ITS ALLOCATION. HOWEVER, MISSING OR INACCURATE AUTHORIZATIONS WOULD NOT USUALLY COME TO THE AGENCY'S ATTENTION.

ALSO, DATA COULD BE ADDED OR LOST AND NOT BE DETECTED BECAUSE BATCH CONTROLS DO NOT INCLUDE CONTROL TOTALS.

U.S. FOREST SERVICE

AT THE FOREST SERVICE FALSE OVERTIME HOURS WERE APPARENTLY ADDED TO TIME CARDS OF SEVERAL EMPLOYEES. IN A NUMBER OF INSTANCES, A PERSONNEL OFFICE OFFICIAL ADDED FALSE OVERTIME HOURS TO THE TIME CARDS FOR HIMSELF AND OTHERS.

BASED ON OUR DISCUSSIONS WITH FOREST SERVICE OFFICIALS, WEAKNESSES EXISTED IN THEIR TIME AND ATTENDANCE PROCEDURES WHICH COULD PERMIT SUCH FALSIFICATION. FOR EXAMPLE, SUPERVISORS DID NOT CONSISTENTLY RECEIVE AND REVIEW PRINTOUTS OF ACTUAL OVERTIME HOURS PAID THEIR EMPLOYEES, AND SUPERVISORS WERE NOT ALWAYS IN A POSITION TO DETERMINE THE ACCURACY OF SUCH PAYMENTS.

U.S. CIVIL RIGHTS COMMISSION

AT THE CIVIL RIGHTS COMMISSION CERTAIN SYSTEM WEAKNESSES PERMITTED SOME EMPLOYEES TO BE PAID FOR OVERTIME NOT WORKED. IN ONE INSTANCE AN EMPLOYEE, WHO LEARNED THAT OVERTIME AUTHORIZATION FORMS WERE NO LONGER PROVIDED TO THE PAYROLL CONTRACTOR, OBTAINED ACCESS TO THE APPROVED TIME AND ATTENDANCE RECORDS BEFORE THEY WERE SENT TO PAYROLL AND ADDED OVERTIME HOURS. NEITHER BATCH CONTROLS WHICH WOULD INDICATE ADDITIONS OR DELETIONS TO THE RECORDS NOR ROUTINE FEEDBACK TO SUPERVISORS SHOWING HOURS PAID FOR EACH EMPLOYEE WERE IN EFFECT. WE WERE TOLD THAT OTHER SIMILAR CASES HAVE BEEN IDENTIFIED AND ARE BEING INVESTIGATED.

OVERTIME FRAUD IDENTIFIED
IN OTHER AGENCIES

DURING OUR REVIEW WE MET WITH OFFICIALS OF THE INTERNAL REVENUE SERVICE AND THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE TO DISCUSS TIME AND ATTENDANCE PROCEDURES AND OVERTIME ABUSE CASES.

AT THE INTERNAL REVENUE SERVICE WE WERE TOLD THAT THEY EXPECT TO PROSECUTE 13 OF 17 SUSPECTED OVERTIME ABUSE CASES. AT THAT TIME, FIVE ARRESTS HAD BEEN MADE.

HEW OFFICIALS TOLD US THAT FIVE APPARENT OVERTIME FRAUD CASES HAVE BEEN IDENTIFIED. THE CASES ARE NOW BEING INVESTIGATED INTERNALLY, AND THEY EXPECT THESE CASES WILL BE REFERRED TO THE JUSTICE DEPARTMENT. ACCORDING TO HEW OFFICIALS, THESE CASES INVOLVE ABOUT \$75,000.

MOST OF THE CASES AT THE TWO AGENCIES INVOLVED EITHER OVERSTATEMENTS OF OVERTIME OR CHANGES IN TIME AND ATTENDANCE CARDS AFTER CERTIFICATION.

REVIEWS OF INTERNAL
CONTROL SYSTEMS

THE GENERAL ACCOUNTING OFFICE IS CHARGED WITH HELPING FEDERAL AGENCIES DEVELOP ACCOUNTING SYSTEMS THAT MEET THE ACCOUNTING PRINCIPLES AND STANDARDS PRESCRIBED BY THE COMPTROLLER GENERAL. GAO IS ALSO RESPONSIBLE FOR APPROVING SYSTEMS AND REVIEWING APPROVED, AS WELL AS UNAPPROVED, SYSTEMS IN OPERATION. THESE APPROVAL AND REVIEW EFFORTS STRESS THE IMPORTANCE OF CONTROLS TO PREVENT FRAUDULENT OR OTHERWISE IMPROPER PAYMENTS. DURING FISCAL YEAR 1977, THE GROUP RESPONSIBLE FOR REVIEWING SYSTEMS IN OPERATION ISSUED 45 REPORTS ON FEDERAL AGENCIES' ACCOUNTING SYSTEMS AND FINANCIAL MANAGEMENT ACTIVITIES. A NUMBER OF THOSE REPORTS DEALT SPECIFICALLY WITH THE NEED FOR BETTER CONTROL OVER FEDERAL AGENCIES' PAYROLL SYSTEMS.

ONE OF THE LONGSTANDING ELEMENTS OF CONTROL OVER PAYMENTS HAS BEEN THE FUNCTIONS PERFORMED BY AUTHORIZED CERTIFYING OFFICERS IN THE CIVIL AGENCIES AND DISBURSING OFFICERS IN THE MILITARY SERVICES. THESE OFFICERS ARE REQUIRED BY LAW TO ASSURE THAT ALL PAYMENTS ARE LEGAL, PROPER, AND CORRECT, BEFORE MAKING THEM. THE ADVENT OF THE COMPUTER, PARTICULARLY IN PAYROLL SYSTEMS, MADE IT IMPRACTICAL FOR CERTIFYING AND

DISBURSING OFFICERS TO MAKE DETERMINATIONS ON EACH DISBURSEMENT. OUR REPORT TO THE CONGRESS ENTITLED "NEW METHODS NEEDED FOR CHECKING PAYMENTS MADE BY COMPUTERS" POINTED OUT THIS PROBLEM AND DISCUSSED WAYS TO REGAIN CONTROL OVER DISBURSEMENTS. AS AN ALTERNATIVE TO THE TRADITIONAL CERTIFYING OFFICER'S FUNCTION, THE REPORT RECOMMENDED THAT THE CERTIFICATIONS BE BASED ON THE AGENCIES' REVIEWS OF COMPUTERIZED PAYMENT SYSTEMS ESTABLISHING THAT THE SYSTEMS' INTERNAL CONTROLS WERE IN PLACE AND OPERATING EFFECTIVELY.

PAYROLL SYSTEMS MUST RELY PRIMARILY ON INTERNAL CONTROLS FOR ASSURANCE THAT THE DISBURSEMENTS--THE PAYCHECKS--ARE LEGAL, PROPER AND CORRECT. AN EFFECTIVE PAYROLL SYSTEM REQUIRES THAT THE DUTIES OF PAY CLERKS AND OTHER EMPLOYEES ARE SEPARATED; CHECKS AND EDITS ARE PRESENT IN COMPUTER PROGRAMS INCLUDING THOSE TO ESTABLISH ACCURACY AND PROPRIETY OF DATA ENTERING THE SYSTEM; AND EFFECTIVE PHYSICAL CONTROLS ARE ESTABLISHED OVER EQUIPMENT, FILES, AND NEGOTIABLE CHECKS.

WE HAVE ISSUED A NUMBER OF REPORTS IN RECENT YEARS DEALING WITH DEFICIENCIES IN SUCH CONTROLS.

--FOUR REPORTS DISCUSSED SERIOUS WEAKNESSES IN THE INTERNAL CONTROLS OVER THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE'S CENTRALIZED, AUTOMATED PAYROLL SYSTEM. THE REPORTS MENTION MANY CONTROL DEFICIENCIES THAT WOULD ALLOW FRAUDULENT OR OTHERWISE IMPROPER PAYMENTS TO BE MADE. FOR EXAMPLE, ONE REPORT

POINTED OUT THAT LARGE NUMBERS OF TIME AND ATTENDANCE REPORTS WERE NOT PROPERLY APPROVED OR WERE SOMETIMES CHANGED BY CLERKS WITHOUT PROPER APPROVAL. THE REPORTS CONTAINED OVER 50 RECOMMENDATIONS DESIGNED TO EITHER ESTABLISH CONTROLS OR IMPROVE THE CONTROLS OVER THE DEPARTMENT'S SYSTEM WHICH PAYS OVER \$2.2 BILLION TO ABOUT 150,000 EMPLOYEES ANNUALLY. WE BELIEVE THE CONTINUED EXISTENCE OF THE WEAKNESSES IDENTIFIED IN THESE REPORTS WERE CONTRIBUTING FACTORS TO THE APPARENT HEW FRAUD CASES I DISCUSSED EARLIER.

--A REPORT ON THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S PAYROLL SYSTEM POINTED OUT THAT DEFICIENT EDITS AND CHECKS IN ITS COMPUTER PROGRAMS ALLOWED THE DEPARTMENT'S EMPLOYEES TO RECEIVE EXCESSIVE AND EVEN DUPLICATE PAYCHECKS AND TO ACCUMULATE LEAVE AT ERRONEOUS RATES. THE REPORT CITED SPECIFIC INSTANCES IN WHICH THESE CONDITIONS OCCURRED, AND CONTAINED 13 RECOMMENDATIONS FOR STRENGTHENING CONTROLS OVER AUTOMATED PAYROLL PROCESSING. OTHER RECOMMENDATIONS PROVIDE FOR STRENGTHENING EXISTING CONTROLS OVER PAY ENTITLEMENT DATA, SUCH AS TIME AND ATTENDANCE REPORTS, ENTERED INTO THE SYSTEM. WEAKNESSES IDENTIFIED IN THIS PAYROLL SYSTEM WERE THE TYPE THAT GIVE US THE MOST CONCERN. BECAUSE OF THESE WEAKNESSES WE WERE ABLE TO DEMONSTRATE THE EASE WITH WHICH FICTITIOUS EMPLOYEES

COULD BE ADDED TO THE PAYROLL AND PAID EXORBITANT AND ERRONEOUS AMOUNTS. WE BROUGHT THE CONTROL PROBLEMS TO THE ATTENTION OF DEPARTMENT OFFICIALS WHO ASSURED US THAT CORRECTIVE ACTION HAD BEEN TAKEN.

- A REPORT ON THE DEPARTMENT OF COMMERCE'S PAYROLL SYSTEM EMPHASIZED CONTROL DEFICIENCIES IN AN AUTOMATED PAYROLL OPERATION. IT POINTED OUT THAT EDIT CHECKS IN THE DEPARTMENT'S COMPUTER PROGRAM WERE INADEQUATE TO PREVENT UNAUTHORIZED AND IMPROPER PAYMENTS TO CURRENT OR FORMER EMPLOYEES. THE REPORT CITED EXAMPLES OF EMPLOYEES BEING ISSUED INCORRECT AND EVEN DUPLICATE PAYMENTS, AND FORMER EMPLOYEES BEING ISSUED PAYCHECKS. THE REPORT INCLUDED SIX RECOMMENDATIONS TO DEVELOP OR IMPROVE THE BASIC CONTROLS NEEDED IN ANY AUTOMATED PAYROLL OPERATION.
- A REPORT ON THE DEPARTMENT OF DEFENSE'S CIVILIAN PAYROLL SYSTEMS DISCUSSED INTERNAL CONTROL WEAKNESSES AT 66 DEFENSE INSTALLATIONS. THE REPORT CONTAINED SPECIFIC EXAMPLES OF WEAKNESSES THAT OFTEN LEFT THE GOVERNMENT UNPROTECTED AGAINST IMPROPER OR FRAUDULENT PAYMENTS. FOR EXAMPLE, THE MILITARY DISTRICT OF WASHINGTON'S PAYROLL SYSTEM HAD EMPLOYEES' DUTIES INADEQUATELY SEPARATED TO PREVENT COLLUSION; LACKED ESSENTIAL EDITS TO DETECT MISSING OR INVALID DATA PROCESSED BY COMPUTERS; AND DID NOT PROVIDE FOR

REVIEWS TO ESTABLISH PROPRIETY OF OVERTIME PAYMENTS. WE MADE RECOMMENDATIONS TO CORRECT PROBLEMS AT EACH INSTALLATION WE VISITED. HOWEVER, BECAUSE THE PROBLEMS WERE SO SIGNIFICANT AND WIDESPREAD IN SYSTEMS PAYING OVER \$15 BILLION ANNUALLY, WE RECOMMENDED THAT THE SECRETARY OF DEFENSE ENSURE THAT ITS PAYROLL SYSTEMS CONTAINED ADEQUATE CONTROLS FOR MINIMIZING THE POTENTIAL FOR FRAUDULENT PAYMENTS.

--ANOTHER REPORT ON THE DEPARTMENT OF DEFENSE DISCUSSED PROBLEMS WITH THE ARMY'S STANDARD PAYROLL SYSTEM FOR CIVILIAN EMPLOYEES WHICH WAS BEING DEVELOPED FOR POTENTIAL DEFENSE-WIDE USE. THE REPORT SAID THE SYSTEM CONTINUED TO HAVE MANY OF THE SAME BASIC CONTROL DEFICIENCIES WE REPORTED ON THE 66 DIFFERENT SYSTEMS. WE AGAIN RECOMMENDED THAT APPROPRIATE INTERNAL CONTROLS BE INCORPORATED INTO THE ARMY'S STANDARD CIVILIAN PAYROLL SYSTEM.

ALL AGENCIES ON WHICH WE HAVE REPORTED AGREED TO DEVELOP EFFECTIVE SYSTEMS INCLUDING INTERNAL CONTROLS OVER THEIR PAYROLL OPERATIONS. SUCH SYSTEMS CAN REDUCE THE PROBABILITY THAT EMBEZZLEMENT, DEFALCATION, FRAUD OR ERRORS CAN OCCUR. THE MOST RELIABLE SYSTEM IMAGINABLE, HOWEVER, CAN BE COMPROMISED BY COLLUSION AND UNUSUAL EVENTS, OR CAN DETERIORATE OVER A PERIOD OF TIME AND LOSE THE CAPABILITY TO DETECT AND CORRECT ERRORS. THIS POTENTIAL, THEREFORE, REQUIRES CONSTANT VIGILANCE

OVER THE OPERATIONS OF THE SYSTEM BY MANAGERS AND BY EACH AGENCIES' INTERNAL AUDIT STAFF.

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IN SUMMARY, WE BELIEVE THERE IS A NEED FOR MANAGEMENT TO BETTER MONITOR THE USE OF OVERTIME, NOT ONLY FOR DETERMINING ABUSE BUT FOR ENSURING THAT THE GOVERNMENT'S WORK IS PERFORMED IN THE MOST EFFICIENT AND ECONOMICAL MANNER. WE ALSO BELIEVE THERE IS A NEED FOR AGENCIES' INTERNAL AUDIT GROUPS TO CONSTANTLY MONITOR THEIR PAYROLL SYSTEMS, AS WELL AS OTHER ACTIVITIES, TO ENSURE THAT INTERNAL CONTROLS ARE IN PLACE AND PROPERLY IMPLEMENTED.

FOR THESE REASONS WE THINK THE SUBCOMMITTEE'S HEARINGS ARE EXTREMELY IMPORTANT AT THIS TIME AND SHOULD SERVE TO ENCOURAGE AGENCIES TO GIVE GREATER ATTENTION TO THEIR OVERTIME PRACTICES.

THIS CONCLUDES MY STATEMENT, MADAM CHAIR. MY COLLEAGUES AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS.