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

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ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

B-210015

DECEMBER 3, 1982

The Honorable Robert P. Nimmo
Administrator of Veterans Affairs

Dear Mr. Nimmo:

Subject: Internal Control Weaknesses at the Veterans Administration (GAO/AFMD-83-25)

This report contains the results of our survey of internal controls at 14 Veterans Administration (VA) accounting stations. Included in the survey were seven medical centers, five regional offices, an insurance center, and one supply depot. The survey identified weaknesses in internal controls over receivables, collections, disbursements, and imprest funds. In addition, we noted a lack of corrective action on weaknesses identified in audits by your Inspector General at some facilities.

We are informing you of these weaknesses to help you in discharging your legal responsibilities for operating effective systems of internal control within your agency, as required by the Accounting and Auditing Act of 1950.

This requirement was strengthened in September 1982, when the Federal Managers' Financial Integrity Act of 1982 was signed into law. The new law amends the 1950 Act by establishing a number of requirements to help ensure that adequate systems of control are in fact developed and used by Federal agencies. One is that Federal agencies must conduct ongoing evaluations of the adequacy of their systems of internal control. Another is that, beginning in December 1983, the head of each executive agency must make an annual report to the Congress certifying to the effectiveness of the agency's internal controls including, if necessary, a schedule for strengthening any weak areas identified in those controls.

We base our survey on audit guidelines designed to identify potential internal control problems, and on interviews and discussions with fiscal office personnel. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish their extent or the precise corrective actions needed. The weaknesses we identified are discussed in enclosure I and their

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locations are shown in enclosure II. Our work was performed in accordance with our generally accepted Government audit standards.

We believe the weaknesses identified in this survey are not unique to the sites visited; the more than 200 medical centers and regional offices not visited probably share many of them. Weaknesses resulting from deficiencies in VA's written procedures can be expected at most or all locations, and other internal control deficiencies have frequently been noted during inspector general audits.

We discussed our survey results with responsible accounting station and headquarters personnel. In most instances they initiated or promised corrective action. However, because we noted some weaknesses at each location we visited, we recommend that you follow up to ensure that the weaknesses we have identified are corrected, and revise VA's accounting procedures manuals to incorporate all needed controls.

We also recommend that you consider requirements discussed in this report in the evaluation of internal controls each agency head is required to make by the Federal Managers' Financial Integrity Act of 1982, and determine whether all weaknesses identified have been corrected in preparing the annual reports required by the Act.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not 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 a copy of this report to your Inspector General. We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

W D Campbell

W. D. Campbell
Acting Director

Enclosures - 2

INTERNAL CONTROL WEAKNESSES AT FOURTEEN VETERANS ADMINISTRATION ACCOUNTING STATIONS

The Accounting and Auditing Act of 1950 (31 U.S.C. 3512) requires the head of each executive agency to establish and maintain a system of accounting and internal controls to provide effective control over and accountability for all of the agency's assets. Our survey, which evaluated accounting controls at fourteen Veterans Administration accounting stations, disclosed the following:

--Accounts receivable were improperly handled at several facilities. They were not entered in the accounting records, collection of delinquent receivables was not vigorously pursued, aging schedules were not routinely prepared, and interest was not charged on delinquent debts.

--Travel advances were not properly monitored or recovered at some locations.

--Collections were not adequately controlled at most accounting stations. Collections were not properly logged in, safeguarded, or deposited. Also, duties were not divided between handling of collections and other functions, and the insurance collection procedures manual is out of date.

--Disbursement controls were weak at several stations; vouchers were not adequately preaudited, payments were not scheduled to coincide with due dates, and reasons for lost discounts were not documented.

--Imprest funds at several facilities were not properly managed. Basic control procedures were not in use, reviews of the funds were insufficient, and duties were not appropriately segregated.

--Government Transportation Requests (GTRs) were not effectively controlled at most locations. They were not periodically reconciled or adequately safeguarded, and stocks on hand exceeded need.

--Some offices did not correct deficiencies disclosed by internal audits.

These internal control weaknesses, most of which existed at several accounting stations, are discussed in more detail below. The locations where we found the weaknesses are identified in enclosure II.

NEED TO IMPROVE CONTROL OVER ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from operations and therefore are Government assets to be controlled, safeguarded, and--most importantly--collected. At some of the stations visited certain amounts due the VA were not recorded as receivables, late charges were not assessed for overdue payments, due dates were not specified on billings, and collection efforts were inadequate.

Medical care claims against third parties not recorded

The GAO manual (2 GAO 12.4) states that accounting for receivables is an important form of control over agency resources, in that it results in a systematic record of amounts due that must be accounted for. The manual specifically provides that accounts receivable shall be recorded accurately and promptly upon completion of the acts that entitle an agency to collect amounts it is owed. However, we noted that VA did not comply with this guidance in its treatment of amounts due for certain medical care costs.

Although provisions of health insurance policies normally preclude payment to the VA for medical treatment, it can recover the cost for medical care furnished to veterans when third parties are liable for the disease, injury, or disability. After a settlement agreement is reached, the insurance company or other party makes payment to a VA district counsel who, in turn, forwards the payment to the medical center that provided the treatment.

Although these payments can be substantial, they are not recorded in the accounting records until the medical center cashier receives the check. Between the time the agreement is reached and the payment is received by the cashier, 2 or 3 months can elapse. For example, in one case an agreement for payment of $5,998 was reached on April 21, 1981, but the cashier did not receive the check until July 30, 1981.

VA officials explained that possible third-party claims should not be recorded as receivables when the treatment is rendered because of the uncertainty at that time about whether a third party is liable for the treatment. However, the officials concurred that receivables could be recorded when the amount of payment is agreed upon by the district counsels and the third party. This approach would be consistent with one taken by an agency to a similar finding noted in one of our earlier reports [1] on internal controls, and we would concur with it.

Late charges not assessed for all overdue payments

To encourage prompt payment of debts due the Government, the Treasury Fiscal Requirements Manual (I TFRM 6-8020.20) requires assessment of late charges on overdue debts and specifies how such charges are to be calculated. Moreover, the Veterans Rehabilitation and Education Amendments of 1980 (Public Law 96-466, Oct. 17, 1980) require that the VA charge its debtors for the administrative costs of collection as well as interest on delinquent debts. In a report on educational and other debts from veterans, [2] we recommended that the VA immediately implement the debt collection provisions of Public Law 96-466.

The VA does not now charge interest on delinquent amounts due it except for delinquencies under its loan programs. However, it is developing and implementing procedures to charge interest and collection costs on delinquencies incurred under its other programs. For example, the VA plans to begin charging on student benefit overpayments in April 1983, and on compensation and pension overpayments in March 1984.

Due dates not specified on billings

The Federal Claims Collection Standards require that demands for payment made to debtors of the United States should include in the initial notification the date by which the payment is to be made. However, nine stations we visited did not specify due dates in their billings. Due dates on billings are desirable for encouraging debtors to promptly pay bills, and are necessary if

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1/"Weaknesses in Internal Financial and Accounting Controls at Department of Energy Accounting Stations" (AFMD-81-106, Sept. 17, 1981).

2/"Legislation Plus Aggressive Action Needed to Strengthen VA's Debt Collection," (HRD-81-5, Feb. 13, 1981).

interest is to be charged on delinquent debts. VA officials recognize that the VA manual needs to be revised to require due dates on billings.

Aging schedules not prepared

Identifying receivables that are overdue is an essential step in taking timely and forceful action to collect delinquent accounts. Seven accounting stations, however, were not using their accounting records to prepare periodic accounts receivable aging schedules. Aging schedules, which show receivable balances in chronological order by age, can be used to readily identify accounts needing followup attention. Without such information, an accounting station's ability to effectively control and manage its receivables is hampered. According to VA officials, a system for aging certain categories of receivables is now in place, and systems for other receivables will be implemented in the near future.

Need to improve collection actions

Timely and aggressive efforts should be made to collect all claims of the United States. The Federal Claims Collections Standards require three written demands to be made at 30-day intervals, collection by offset where feasible, and other persistent actions until claims are resolved. Seven accounting stations, however, were not taking all required actions to collect delinquent receivables. To illustrate:

--Five accounting stations were not sending demand letters at 30-day intervals.

--Two accounting stations were not taking action to collect or resolve older receivables.

--Two accounting stations were making payments to vendors that were delinquent on debts owed to the Veterans Administration, contrary to established procedures.

VA officials agreed that the accounting stations' collection efforts should be more thorough.

Updated insurance collection operating procedures manual is needed

According to the GAO manual (2 GAO 32), agencies should develop comprehensive accounting manuals that clearly describe authorized procedures for employees' daily use. The manuals should describe the system in detail, display the forms used, state the procedural steps, and illustrate the reports issued. The instructions should be developed in such a manner that accounting and other personnel can use them in day-to-day maintenance and operation of the system.

However, the VA procedures manual has not been revised to show the current insurance collection systems at two locations; the systems were changed more than 5 years ago. VA officials told us they have put off updating the manual because VA may upgrade the collection processing equipment next year.

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

Because of the substantial amounts involved, it is especially important that VA facilities maintain effective control over their collections. Individual medical centers and regional offices often collect more than $1 million a year, and the regional insurance center at St. Paul, Minnesota, collects more than $200 million a year in insurance remittances and benefit overpayment recoveries.

Collection controls have been specified in GAO and Treasury manuals to ensure that collections are properly accounted for and promptly deposited. These controls were not used effectively at accounting stations we visited. Some stations did not properly record collections or adequately safeguard amounts collected. In addition, collection duties were not properly segregated.

Collections received through the mail not recorded promptly

Cash and checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, the GAO manual (2 GAO 12) specifies that agency collections should be placed under appropriate accounting controls as soon as they are received. Such controls should, among other things, provide for collections to be logged in upon receipt and properly accounted for until deposited. However, VA's procedures manual is not consistent with this guidance. The manual (M-23-1, Part 1.1.17) requires only that currency and negotiable instruments made payable to other than the Veterans Administration be logged in upon receipt.

At all accounting stations, the mailroom employees did not immediately record or otherwise account for most collections. Instead, except for currency and some negotiable instruments, incoming mail receipts were not recorded until they had been forwarded to the accounting office. Likewise, all stations reviewed did not document the transfer of checks from the mailrooms to the collection officers, a practice that would hamper the fixing of responsibility should a loss occur.

Collections not adequately safeguarded

The GAO manual (7 GAO 11.1) requires that money received on account of or for the custody of the United States be placed under adequate physical control. Three of the stations we visited, however, did not maintain proper security over collections, thereby allowing easy access to collections and increasing the risk of loss:

--At the insurance center in St. Paul, remittances for insurance premiums and other collections totaling more than $4 million were stored in a walk-in vault. The vault was left open from 6:30 a.m. to 5:30 p.m. with no custodian or guard to limit access during that time. Furthermore, the vault was located near many employees and was accessible to the public.

--Checks received by one district counsel were stored in case folders either on top of a desk or in an unlocked file cabinet.

--In another district counsel's office, checks were stored in unlocked desks. Also, checks received on a Friday were left in a basket on top of a desk until they were processed the following Monday.

Collection duties not properly segregated

One of the basic principles of internal control is to divide critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO manual (7 GAO 11.2) states that persons responsible for handling receipts should not participate in accounting or operating functions that would permit them to conceal the misuse of such receipts.

In contrast, the VA manual (MP-4, Part I 2B.13) specifies that personnel who receive and have custody of collections prepare deposit tickets. Because most collections were not logged in by the mailroom, the collection personnel also made the initial recording of collections. Moreover, at nine stations collection personnel also prepared the followup letters on delinquent accounts receivable.

We also noted that the VA manual (MP-4, Parts I 2A.04 and 2B.01) permits collection officers to serve as imprest fund cashiers, a condition we noted at all 14 stations. These employees were responsible for imprest funds totaling $695,950. When cash receipts are handled by imprest fund cashiers, opportunities exist for the cash receipts to be used to cover shortages in imprest funds, thereby increasing the risk of fraud or misuse of funds. This is particularly true when collections are allowed to accumulate over a period of time before being deposited. At medical centers, it may not be practical or cost effective to have different people collect money and disburse imprest funds. These persons act as tellers with respect to patient funds. We believe, however, that the duties of accounting personnel could be reorganized so that collecting, depositing, and following up on delinquent debts are not performed by the same individuals.

NEED TO DEPOSIT COLLECTIONS PROMPTLY

When collections are not deposited promptly, access to the funds by the Treasury is delayed, thus increasing the amount the Treasury must borrow from the public and raising the Government's interest costs. Moreover, maintaining checks on hand unnecessarily increases the potential for loss, theft, or misuse.

The Treasury manual (I TFRM-6-8020.30) states that agencies' deposit procedures should have as their objective the lowest total cost to the Government, including agency direct costs, the cost of purchased services, and the internal cost of money being collected. Specifically, the Treasury manual provides that collections of $1,000 or more should be deposited daily, but that smaller collections may be accumulated and deposited when the total reaches $1,000. Still, deposits must be made at least weekly regardless of the amount accumulated.

Large amounts at St. Paul regional office and insurance center not promptly deposited

The St. Paul insurance center is one of two facilities that collect and deposit veterans insurance premiums. The center processes and deposits between 20,000 and 25,000 premium payments daily, totaling about $1 million. We noted that the premium payments are often not deposited until several days after receipt because of processing backlogs. To illustrate, the backlog of undeposited premiums averaged about 97,900 items, or 4 to 5 days' processing, for the months November 1981 through March 1982.

Center officials were aware of this problem and its adverse effect on Treasury interest costs and insurance fund income, and attributed the backlog to the large volume of receipts at the beginning of each month. Analysis of daily balances, however, indicates the backlogs are generally continuous. The following are the high and low numbers of undeposited remittances over a 5-month period.

	High	Low
November 1981	111,115	81,467
December 1981	122,316	78,507
January 1982	130,657	81,287
February 1982	122,315	90,629
March 1982	105,235	36,957

The Veterans Administration's Office of Inspector General noted similar problems at the Philadelphia regional office and insurance center. In February 1982, the Inspector General recommended that VA apply to the Treasury for its reimbursable lockbox remittance processing service. Under this arrangement, a local bank processes remittances for a fee and makes deposits to the Treasury. Under certain circumstances, the Treasury will pay the bank's fee. With high interest rates, the Treasury can gain substantially from 1-day deposit service provided under the lockbox arrangement. The inspector general auditors estimated VA could save $721,000 annually in processing costs at the Philadelphia office by using bank processing, and also resolve a number of security problems. We understand that VA officials have not yet acted to implement the Inspector General's recommendation.

Nonetheless, we encourage VA to explore the feasibility of a lockbox arrangement for its St. Paul insurance operation as well. Making average daily deposits of $1 million even 1 day earlier would, over a year, save the Treasury $100,000 (assuming a 10-percent interest rate). Since the insurance center's backlog is usually several workdays, the potential savings from prompt deposit are several times greater than $100,000.

Collections by district counsels not promptly deposited

VA's Office of General Counsel is active in collecting various debts owed VA. District counsels at the 58 regional offices are charged with collecting benefit overpayments and medical care costs reimbursable from workers' compensation and other third parties. Counsels in some States are collecting several hundred thousand dollars annually. However, rather than depositing the collections locally, the counsels forward them to other accounting stations for deposit. To illustrate, overpayment collections by the counsels are mailed to the centralized accounts receivable system at the St. Paul center. The district counsel in Milwaukee, for example, in fiscal 1981, collected $86,000 in overpayments and sent it to St. Paul.

Medical cost reimbursement collections are mailed to the medical center that treated the patients in question. For example, the district counsel in Chicago collected $301,000 in fiscal 1981 that was sent to VA medical facilities before eventual deposit with the Treasury. These practices not only delay deposits but also increase the potential for receipts to be lost or stolen.

VA officials told us that their attorneys personally receive checks for their collections to make sure the payment meets the agreement reached with the paying party and to close their files. VA officials acknowledged it may be possible to have the paying parties send checks directly to medical center cashiers. Likewise, benefit overpayment collections could be deposited by the cashier at the regional office where the district counsel is located.

NEED TO IMPROVE CONTROL OF TRAVEL ADVANCES

The GAO manual (7 GAO 25.6) provides that agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum.

Four of the accounting stations we visited did not effectively monitor travel advances. One station had eight travel advances totaling $1,654 that had been outstanding for more than 40 days, including three advances outstanding more than 180 days. Station officials sent out one or two followup letters, but no further action was taken. At two other stations, employees had travel advances for continuous travel that were in excess of their needs. For example, one employee had a $200 advance but had not traveled in over 3 months, and two employees had $800 advances that were more than twice the employees' average monthly travel costs. The fourth station did not have controls to ensure that advances are recovered when employees terminate.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

Because several of VA's accounting stations did not conform to Treasury and GAO requirements, Federal funds were being unnecessarily exposed to the risk of loss, theft, or other misuse. Moreover, the disbursement activities often did not conform to sound cash management principles in timing the payment of their bills.

Legality, propriety, and accuracy of disbursements should be checked before payments are made

Because disbursement transactions are susceptible to misuse and diversion, GAO, Treasury, and VA provide guidance to help ensure the propriety, accuracy, and legality of disbursements. For example, the GAO manual (7 GAO 24.2) requires a preaudit of vouchers before they are certified for payment. Examiners should, among other things, (1) verify the accuracy of the data on the voucher, (2) check that the vouchers and supporting documents were properly authorized, and (3) determine that the goods received or services performed were in accordance with the applicable purchase agreement. Despite these requirements, we noted weaknesses in the disbursement process at several accounting stations reviewed. For example:

- --At six stations, voucher examiners did not always determine that amounts billed for services were in accordance with the purchase agreement. When billings for goods were received, voucher examiners did check the related purchase orders and receiving reports. However, when billings were for services, voucher examiners did not check the contract or other agreements against which the billings were made. For example, monthly invoices for maintenance or rental were not compared with the terms of the contract.

- --At one medical center, the lists of officials authorized to approve various transaction documents were not current. Therefore, the examiners could not be sure that all payments were properly authorized.

- --At another medical center, we noted that payments were being made to the wrong vendor because the VA data processing center in Austin, Texas, entered erroneous vendor identification numbers into the payment system. Although we did not determine the full extent of the problem, we did find seven such erroneous payments totaling $3,441 that had been identified between July 1980 and January 1982.

- --Three stations were not always using procedures that help prevent duplicate payments. Of 21 invoices reviewed at one regional office, five had not been marked "paid" or otherwise canceled to prevent reuse. Although two other stations marked invoices with a paid legend, they did not mark supporting documents to prevent their reuse.

- --At one station, 11 of 318 payments reviewed were based on copies of invoices rather than originals. In such cases, fiscal personnel did not provide an explanation of the circumstances requiring use of a copy or steps they had taken to prevent a duplicate payment, as required by GAO (7 GAO 22.8) and Treasury (I TFRM 4-2020.40) manuals.

Inadequate separation of duties

At two locations, we found that contracting officers awarded contracts and also certified on subsequent vendor invoices that the goods had been received or services performed. As stated in OMB circular A-123, internal control depends largely on eliminating opportunities to conceal errors or irregularities. This in turn depends on assignment of work in such a fashion that no one individual controls all phases of an activity or transaction, thereby creating a situation that permits errors or irregularities to go undetected. The possibility of undetected irregularities increases when the functions of contracting and payment approval are not separated.

VA officials agreed that disbursement control features, such as checking purchase agreements and timing payments, should have been followed. Moreover, they told us the Austin data processing center is implementing a computer system that will automatically enter the correct vendor number in the system. The officials agreed the contracting and invoice approval functions should be separated; however, they stated that the regional office loan guaranty functions do not have adequate staff to divide these responsibilities. In our view, VA should find alternative ways to organize the work in the loan guaranty program so that these critical functions are not performed by the same individual.

Payments not scheduled to coincide with due dates

To avoid unnecessary borrowing costs, the Treasury requires agencies to control the timing of disbursements so that bills are paid when due--neither too early nor too late. Early payments unnecessarily accelerate the flow of cash from the Treasury and cost the Government substantial amounts in unnecessary interest costs. Conversely, if the Government pays its bills late, contractors and vendors lose substantial sums.

Even though the VA voucher auditing manual incorporates the Treasury requirements, 10 stations did not systematically schedule payment of vendors' invoices to coincide with due dates. Of 75 invoices reviewed at one station, 35 were paid more than 10 days before the due date while 4 were paid more than 10 days late. Another facility effectively scheduled vendor payments, but processed medical fees without regard to due dates.

Although the practice is prohibited by VA's voucher auditing manual, one regional office deducted prompt payment discounts from voucher amounts even though the station paid the vouchers after the dates the discounts expired. Review of 15 invoices on which prompt payment discounts were taken revealed that only one was paid within the discount period. In the case of two invoices, the station took discounts that were not offered by grouping the invoices for payment with others that did offer discounts. On the remaining 12, discounts were taken from 10 to 113 days after the discount period expired.

At one medical center, the reasons for failing to take discounts were not documented on the voucher as required by the VA voucher auditing manual. Such documentation is needed so that station managers can take corrective action when necessary.

NEED TO IMPROVE CONTROL OVER GOVERNMENT TRANSPORTATION REQUESTS

Government Transportation Requests authorize carriers to issue tickets to Government travelers, and to bill the Government agency for the tickets' cost. By their nature, these documents can easily be misused. It is essential that they be placed under adequate safeguards and controls.

The General Services Administration's Federal Property Management Regulations specify accountability controls that agencies should place over GTRs. The regulations state that

"* * * each agency shall prescribe procedures to control GTR procurement, stocking, distribution, and accountability and shall establish safeguards to prevent their improper or unauthorized use."

As indicated below, such control procedures were not always effectively used at the locations included in our survey.

Although all the stations visited maintained records of accountability for GTRs, the VA manual (MP-1 Part II 2.7) has no provision for periodic reconciliation of accountability records to GTRs issued to the station, used, and on hand by anyone other than the GTR custodians themselves. Effective control over these accountable documents requires that reconciliations be performed by individuals independent of the custodians.

Also, some stations did not adequately safeguard GTRs against loss or misuse. To illustrate:

--At one station, keys to the cabinet where the GTRs were stored were kept by a secretary who had not been designated as a GTR custodian. Also, the keys were stored in a desk drawer that was easily accessible to many other employees.

--At three other locations, GTRs were secured at night but left in unlocked desks or file cabinets during the workday. Unused transportation requests, like cash, should be maintained under proper physical control at all times.

--One station had a supply of unused GTRs that was far in excess of its needs. It had about 1,000 GTRs on hand but used only about 3 per month.

NEED FOR MORE EFFECTIVE CONTROL OF IMPREST FUNDS

Imprest funds are "cash on hand" funds comprising currency, coin, or Government checks advanced by a U.S. Treasury disbursing office to agency imprest fund cashiers. The VA facilities we surveyed used imprest funds for a variety of disbursing needs, such as paying employee travel advances, reimbursing patient travel, and paying for small supply purchases as well as for cashing patients' checks. The funds were sizable at 14 locations we visited, ranging from $4,000 to $170,000, and they totaled $695,950.

By their nature, imprest funds are susceptible to misuse, disappearance, or theft, and substantial losses do occur. In fiscal 1981, we received reports of two losses totaling $8,139 at VA facilities, and in 1982, we received reports of four losses amounting to $13,568.

We, along with the Treasury, have provided extensive guidance on controlling, safeguarding, and managing imprest-type funds. Our manual (7 GAO 27) sets forth the requirements for the use of imprest funds by the various departments and agencies. The Treasury's Fiscal Requirements Manual and its Manual of Procedures and Instructions for Cashiers specify procedures for agencies to follow when handling imprest funds. Moreover, VA's procedures manual incorporates much of the GAO and Treasury guidelines for controlling and safeguarding imprest funds. Despite the widely recognized need for stringent controls over imprest funds, we noted at least some control weaknesses at most of the VA accounting stations surveyed. To illustrate:

--Seven stations did not perform audits and reviews of their imprest funds that conformed to all prescribed requirements. Four of these did not perform some audits within the prescribed time intervals. VA instructions caution that reviews should be scheduled randomly so as to avoid a pattern of regularity that would nullify the element of surprise. Reviews at six locations did not always include determinations that the cashier was not making unauthorized use of the funds, or that procedures being followed were adequate to protect the funds from loss or misuse. Moreover, four of these stations did not assess the reasonableness of fund sizes each time the funds were reviewed, as required.

--Two stations maintained imprest funds larger than the 1-month requirement specified in Treasury and VA guidelines. One station had a fund of $6,500, but disbursements during the preceding 6 months never exceeded $4,600 a month. At a medical center, two funds were larger than necessary. One $60,000 fund exceeded needs by $25,000 and another $60,000 fund was at least $5,000 too high. The size of imprest funds should be limited both to minimize the amounts exposed to risk of misuse and loss and to conform to sound cash management principles.

--At seven facilities, duties were not properly separated. As allowed by VA regulations (VAPR 8-3.604-1), subcashiers and their alternates, who were responsible for the imprest funds used to purchase supplies, at six locations also served as purchasing agents. As specified in the GAO manual (7 GAO 24.5), disbursement operations should be segregated from functions such as purchasing. At one medical center, a subcashier was both approving and paying patient travel claims.

--Cashiers at seven facilities did not stamp "paid" on all documents supporting imprest fund disbursements. This procedure is required by the Treasury manual to reduce the potential that such documents as receipts from vendors will be reused to create duplicate payments.

--At one medical center, a subfund of $750 was not adequately safeguarded. During the day, the small cashbox was left beside a desk and could easily be carried away.

--The combinations to two safes, each containing a $60,000 fund, had not been changed for more than a year at one medical center.

VA officials agreed that accounting stations should correct the deficiencies noted above, with the exception of the separation-of-duties issues. Although they acknowledged that lack of separation of duties was a problem, they felt the documentation required to make a supply purchase with cash provided an adequate alternative control.

NEED FOR CORRECTIVE ACTION ON CONTROL DEFICIENCIES IDENTIFIED BY INTERNAL AUDITS

Internal audits are widely recognized as being part of an agency's system of financial controls. Under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal controls, including internal audit. VA's Office of the Inspector General conducts cyclical audits of VA stations that include review of fiscal and financial operations. Due to program and functional audit requirements, these cyclical audits are scheduled only every 5 years.

Internal audit is an effective tool for improving operations when managers take prompt action to correct deficiencies noted. At three facilities we visited, however, we noted internal control deficiencies that inspector general auditors had also disclosed in a report issued in 1980. Although station management had agreed to correct the deficiencies, we noted the following weaknesses had not been corrected:

--Two stations were not following up on delinquent accounts receivable.

--Two stations were not recovering travel advances that were outstanding in 1980.

--One station continued to issue travel advances for recurring travel that exceeded the travelers' needs.

VA requires that audited stations submit acceptable plans to implement corrective action before the audit can be considered resolved. Still, the correction of internal control deficiencies will depend largely on station management's commitment and followup.

NEED TO UPDATE WRITTEN PROCEDURES AND INSTRUCTIONS COVERING INTERNAL CONTROLS

As previously noted, many needed internal control features are not required by VA's written procedures and instructions. As a result, a number of accounting and financial transactions that were being performed in conformity with VA's established procedures were nonetheless potentially vulnerable to error or misuse. Accordingly, VA's fiscal procedures should be revised to

--require that all collections be logged in and adequately safeguarded immediately upon receipt,

--require that all collections be promptly deposited by the facility receiving them first,

--separate the duties of collection, deposit preparation, accounts receivable followup, and impress fund disbursement,

--have charges for medical treatment recorded as receivables as soon as agreement is reached on a settlement amount,

--require periodic preparation of accounts receivable aging schedules,

--require periodic reconciliation of GTRs by officials independent of the GTR custodians, and

--discontinue the practice of having purchasing agents serve as imprest fund cashiers.

These revisions would also help to ensure that the control weaknesses are corrected at all VA accounting stations, not just those we visited.

CONCLUSIONS AND RECOMMENDATIONS

As discussed in the preceding pages, at least some internal control weaknesses existed at each location we visited. Although any individual weakness at a single location may not have significant impact on the VA's financial condition, we believe that, in the aggregate, these weaknesses would be detrimental to the Administration's overall financial operations if allowed to remain unchecked.

In response to our findings, accounting station and headquarters officials generally agreed to take appropriate corrective actions. Such actions, however, will yield significant benefits only if implemented at all accounting stations rather than just at the ones we visited. Additionally, experience has shown that constant vigilance by top management is necessary for continued effective operation of any internal control. Accordingly, we are recommending that the Administrator of Veterans Affairs:

--Follow up to ensure that the weaknesses we have identified are corrected.

--Revise VA's written procedures and instructions covering financial and accounting operations to provide for needed internal control features.

--Consider the internal control requirements discussed in this report in the evaluation of internal controls each agency head is required to make by the Federal Managers' Financial Integrity Act of 1982, and determine whether all weaknesses identified have been corrected in preparing the annual reports required by the act.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations 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.

SUMMARY OF INTERNAL CONTROL WEAKNESSES IDENTIFIED AT 14 VETERANS ADMINISTRATION ACCOUNTING STATIONS

	Medical centers							Regional offices						Supply depot	
Weaknesses	Chicago, Ill.	Cleveland, Ohio	Columbia, Mo.	Dayton, Ohio	Hines, Ill.	Kansas City, Mo.	Wood, Wis.	Denver, Colo.	Detroit, Mich.	Indianapolis, Ind.	Milwaukee, Wis.	St. Louis, Mo.	St. Paul, Minn. a/	Hines, Ill.	Total
ACCOUNTS RECEIVABLE															
Third party medical claims not recorded as receivables	x	x	x	x	x	x	x								7
Late charges not assessed on overdue payments	x	x	x	x	x	x	x	x	x	x	x	x	x	x	14
Due dates not specified on billings	x	x	x			x	x	x		x	x			x	9
Inadequate collection actions	x	x				x	x	x				x			6
Aging schedules not prepared	x		x	x	x		x		x			x			7
COLLECTIONS															
Collections not recorded at earliest point of receipt	x	x	x	x	x	x	x	x	x	x	x	x	x	x	14
Collections not deposited promptly		x	x			x		x		x	x	x	x		8
Collections not adequately safeguarded										x		x	x		3
Duties not properly segregated	x	x	x	x	x	x	x	x	x	x	x	x	x	x	14
Written procedures out of date													x		1
TRAVEL ADVANCES															
Inadequate followup to recover advances	x														1
Continuous advances in excess of need								x						x	2
No control to recover advances from terminating employees			x												1
DISBURSEMENTS															
Vouchers not adequately preaudited	x			x			x				x	x		x	6
Invoices or supporting documents not canceled to prevent reuse	x			x								x			3
Delegations of authority out of date							x								1
Duties not properly separated							x				x				2
Payments not scheduled to coincide with due dates	x		x	x			x	x		x	x	x	x	x	10
Lost discounts not explained				x											1
GOVERNMENT TRANSPORTATION REQUESTS															
Not independently reconciled	x	x	x	x	x	x	x	x	x	x	x	x	x	x	14
Not adequately secured					x		x			x		x			4
Excessive supply on hand														x	1
IMPREST FUNDS															
Funds not adequately reviewed	x					x	x	x		x	x			x	7
Fund level exceeds needs		x													1
Duties not properly separated	x		x	x	x	x	x							x	7
Supporting documents not canceled to prevent reuse	x	x		x	x		x				x			x	7
Subcashiers not designated in writing				x			x								2
Cashier not provided list of authorized approving officials													x		1
Payments in excess of limit								x	x						2
Fund not adequately safeguarded		x													1

a/Includes insurance center at this location.