



Accounting and Information
Management Division

B-279801

April 30, 1998

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

Subject: Internal Controls: Issues Regarding Automated Standard
Application for Payment System

Dear Mr. Gregg:

We recently reported on the U.S. government's consolidated financial statements for fiscal year 1997 (GAO/AIMD-98-127, March 31, 1998). Our audit, done pursuant to the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, included testing the effectiveness of internal controls that the Department of the Treasury's Financial Management Service (FMS) designed and implemented in the Automated Standard Application for Payment (ASAP) system. This system, jointly developed and implemented by FMS and the Federal Reserve Bank of Richmond (FRB of Richmond), is an electronic payment and information system. Using the ASAP system, recipient/requestor organizations receiving federal funds can draw funds from accounts preauthorized by federal agencies. Organizations participating in the ASAP system include recipients of federal domestic assistance programs, such as state agencies, and third party providers that are performing financial services for federal agencies, such as Medicare providers. FMS reported that ASAP disbursements totaled approximately \$179 billion during fiscal year 1997.

The purpose of this letter is to advise you of several internal control issues identified during our testing. We are suggesting improvements to address these matters, which include (1) the lack of supervision of certain ASAP system staff's work at two Regional Financial Centers (Centers) that administer the ASAP system, (2) inconsistent documentation by one of the Centers of its review of enrollment forms from federal agencies and organizations that want to participate in the ASAP system, and (3) inappropriate access to the ASAP system's disbursement and return payment processing functions. Due to its sensitive nature, the details of an additional weakness related to ASAP system access will be provided to you in a separate letter.

We reviewed FMS's internal controls over disbursements at the Philadelphia and San Francisco Financial Centers which, among other duties, are responsible for administering the ASAP system. We did not review the internal controls over the third Center (Kansas City) responsible for administering the ASAP system because at the time of our testing, it had just started to administer the program. In addition, we reviewed the internal controls, including electronic data processing general controls, related to the ASAP system at the Federal Reserve Bank of Richmond.¹ In connection with these reviews, we gained an understanding of the disbursement process in place during the period of October 1, 1996, to September 30, 1997, and performed observations of related daily operations. We also reviewed written procedures and tested selected transactions that were processed during that period.

Although the internal control matters we found are not material in relation to the federal government's fiscal year 1997 consolidated financial statements, we believe they warrant your attention. We provided FMS management with written descriptions of these matters and obtained their comments. FMS officials have informed us that FMS has taken, or plans to take, corrective actions to address these weaknesses. We plan to follow up on these matters during our audit of the federal government's fiscal year 1998 consolidated financial statements.

LACK OF SUPERVISION OF CERTAIN
ASAP SYSTEM STAFF'S WORK

The Comptroller General's Standards for Internal Controls in the Federal Government requires supervisors to systematically review staff's work to the extent necessary and approve it at critical points to ensure that management

¹Electronic data processing general controls are policies and procedures that apply to an entity's overall effectiveness and security of operations and create an environment in which application controls and certain user controls operate. General controls include the organizational structure, operating procedures, software security features, system development and change control, and physical safeguards designed to ensure that only authorized changes are made to computer programs, that access to data is appropriately restricted, that back-up and recovery plans are adequate to ensure the continuity of essential operations, and that physical protection of facilities is provided.

objectives are met and errors or misunderstandings of procedures are detected.² However, at the Philadelphia and San Francisco Centers, we found that the ASAP system staff's work was not reviewed and approved by a supervisor.

FMS policies and procedures require federal agencies and organizations (users) that want to participate in the ASAP system to complete and submit various enrollment forms—such as delegations of authority, user identification requests, and requestor bank information—prior to them being granted ASAP system access.³ These forms, which vary depending on the type of user, are maintained in user folders at the Centers and are to be reviewed for accuracy and completeness. The staff then enroll the users by inputting the information from the enrollment forms into the ASAP system.

Out of a total of 452 ASAP users' folders at the Centers we visited, we selected on a nonstatistical basis and reviewed 48 (27 at Philadelphia and 21 at San Francisco) and did not find any evidence of supervisory review and approval of the enrollment procedures performed by the staff.⁴ Officials at these Centers stated that FMS does not require its supervisors to review and approve the acceptance of ASAP users' enrollment forms. Because such reviews and approvals are not being performed, FMS lacks assurance that FMS policies and procedures are being followed, and the risk of errors occurring and not being detected in a timely manner is increased. We suggest that the Assistant Commissioner for Regional Operations implement a procedure that requires supervisors to systematically review and approve staff work in enrolling ASAP system users and document this review in the applicant's folder.

INCONSISTENT DOCUMENTATION OF THE REVIEW OF USERS' ENROLLMENT FORMS

According to the Comptroller General's Standards for Internal Controls in the Federal Government, all pertinent aspects of transactions and other significant events are to be clearly documented. However, we found that staff at the San

²This requirement, along with proposed standards that supersede the standards GAO issued in 1983, are included in GAO's exposure draft, entitled Standards for Internal Control in the Federal Government (GAO/AIMD-98-21.3.1) issued December 1997. The Comptroller General's internal control standards are developed pursuant to the Federal Managers' Financial Integrity Act of 1982.

³ASAP Enrollment Guidelines, December 20, 1996.

⁴The 452 users' folders consist of 278 at the San Francisco Center and 174 at the Philadelphia Center.

Francisco Center did not always document their review of users' enrollment forms by completing a tracking form. The tracking form, required by FMS enrollment procedures, is designed to aid staff in reviewing, tracking, and accepting the various enrollment forms that users must submit to the Center to participate in the ASAP system.

Out of the 21 folders we reviewed at the San Francisco Center, our work showed that only 1 of the 5 ASAP system federal participating agencies (FPA) folders and only 6 of the 16 ASAP system payment requestor/recipient and recipient organization folders that we tested contained the completed tracking form.

Because the tracking forms were not completed, FMS cannot be assured that the numerous different types of user enrollment forms were obtained and reviewed for accuracy and completeness prior to enrolling the user into the ASAP system. Accordingly, the risk of errors occurring and not being detected in a timely manner is increased. We suggest that the Assistant Commissioner for Regional Operations monitor implementation of FMS's required procedure that staff use tracking forms when reviewing ASAP users' enrollment forms.

INAPPROPRIATE ACCESS TO THE ASAP SYSTEM FUNCTIONS

According to the Comptroller General's Standards For Internal Controls in the Federal Government, key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals. In connection with our review of electronic data processing general controls, we identified 58 user identifications that grant staff inappropriate access to the ASAP system's disbursement and return payments processing functions.⁵ FMS is not restricting access to these functions to only appropriate staff. As a result, FRB of Richmond, Center, and FPA staff were not adequately segregated from incompatible duties and there is an increased risk that invalid disbursements could occur.

More specifically, we found the following.

- (1) Four FRB of Richmond ASAP staff had user identifications that allowed them to establish ASAP user accounts (a Center function), authorize and certify payment amounts (a FPA function), and request ASAP payments

⁵Funds can be returned to FMS through the ASAP system when funds initially requested and received were (1) in excess of required amounts or (2) in advance of funding needs.

(a recipient/requestor organization function). However, the risk associated with these functions is partially mitigated because these users could only direct the payments to an approved recipient organization's bank account. These four user identifications, which FMS officials told us were originally created as a backup function, are no longer needed in the current ASAP environment.

- (2) Thirty-six FPA staff, in addition to their normal duties of authorizing and certifying disbursements through ASAP, can also request payments on behalf of recipient/requestor organizations. The risk associated with this access is partially mitigated because the funds can only be directed to an approved recipient organization's bank account. According to FMS officials, this additional function was granted to the FPAs as a backup role in case a recipient/requestor organization was unable to process an ASAP payment request.
- (3) Eighteen Center user identifications grant staff the ability to create ASAP accounts and either authorize or certify funds to those accounts. FMS officials stated that the authorization and certification functions were given to the Center as a backup in case an FPA was unable to perform this function. The risk associated with these functions is partially mitigated because the Center staff do not have the ability to request payments.
- (4) The 18 Center user identifications also have the ability to send a returned payment back to a financial institution without verification by a second individual. However, the risk associated with this weakness is partially mitigated because the ASAP system only allows return payments to be sent back to the financial institution that originated the return payment.

We suggest that the Assistant Commissioner for Federal Finance implement the following actions to ensure that ASAP staff at FRB of Richmond, Centers, and FPAs are properly restricted to those disbursement functions required to perform their duties. Specifically,

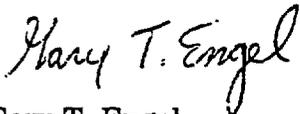
- (1) delete the user identifications that give the four FRB of Richmond staff inappropriate access to create accounts, authorize and certify payment amounts, and request payments;
- (2) remove from FPA user identifications the ability to request payments for recipient/requestor organizations. FMS should then create emergency identifications to serve as a backup at FPAs. The use of these

emergency identifications should be logged and periodically reviewed by management;

- (3) remove from Center user identifications the ability to authorize and certify funds for FPAs. FMS should then create emergency identifications to serve as a backup at the Centers. The use of these emergency identifications should be logged and periodically reviewed by management; and
- (4) implement an automated control in ASAP that requires two users in order to send a return payment back to the originating financial institution.

We appreciate the cooperation and assistance of FMS management and staff during our fiscal year 1997 audit. We are sending copies of this letter to the Department of the Treasury Deputy Inspector General and to interested congressional committees. Copies will be available to others upon request. If you have any questions, please contact me at (202) 512-3406 or Christine Robertson, Assistant Director, at (202) 512-9379.

Sincerely yours,



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

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