

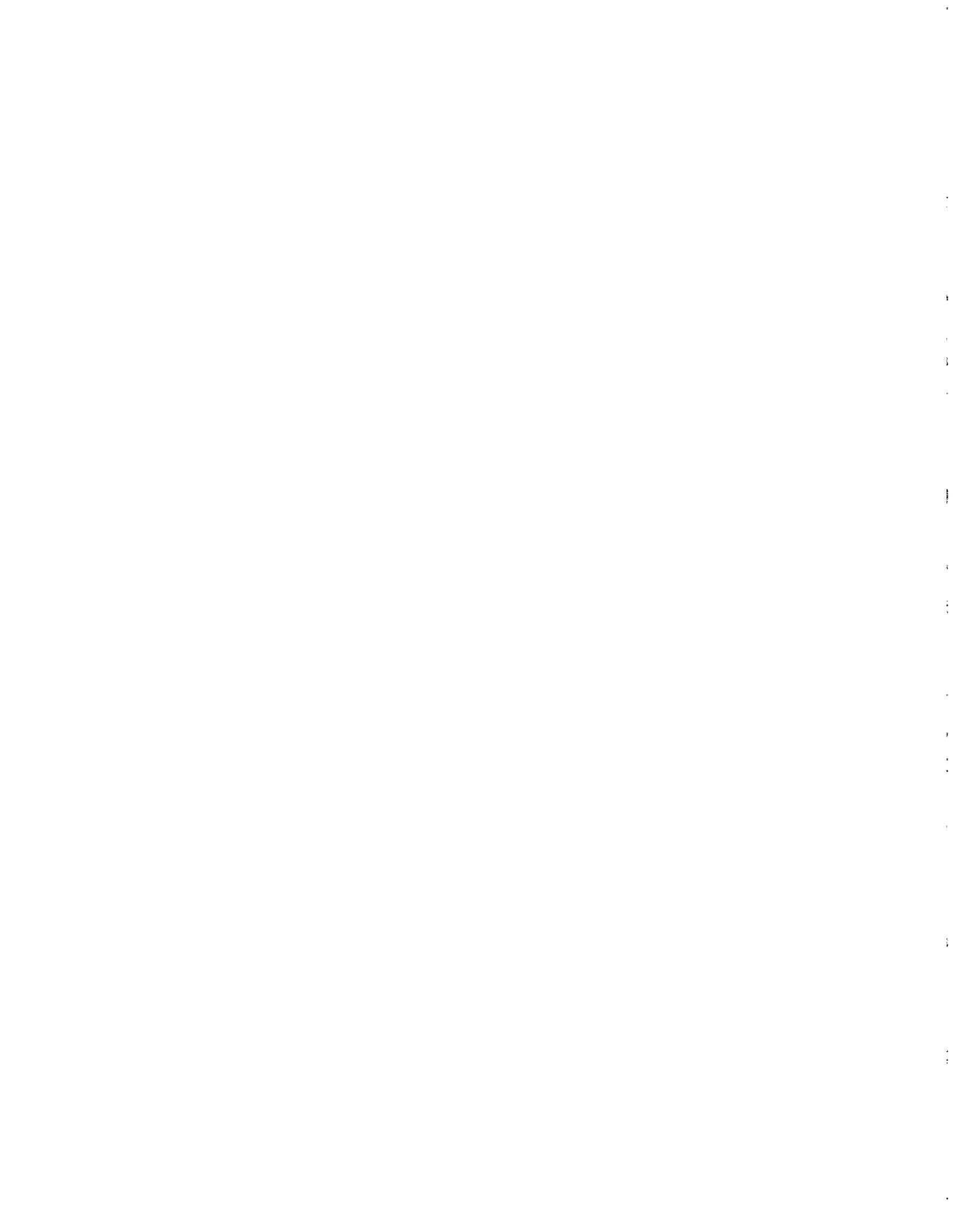
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TECHNICAL SUMMARY
DEPARTMENT OF HEALTH AND
HUMAN SERVICES
REGIONAL ACCOUNTING SYSTEM

PREPARED BY THE STAFF
OF THE
U.S. GENERAL ACCOUNTING OFFICE

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FOREWORD

The Department of Health and Human Services' Regional Accounting System was designed to provide for standard accounting and financial reporting for all regional operations except for the Social Security Administration's and Food and Drug Administration's regional offices. The Department's ten regional offices provide administrative support for the Department's major operating components in carrying out their programs in the field.

This technical summary is one of eleven volumes of detailed information that supports the overall Financial Management Profile for the Department of Health and Human Services (GAO/AFMD 84-15, April 9, 1984). The technical summaries provide detailed information on the major organization components of the Department of Health and Human Services (the Department), their financial management systems, and major internal control strengths and weaknesses in these systems.

The financial management profile of the Department and the eleven technical summaries were prepared by GAO as a pilot test of a new audit approach--called Controls and Risk Evaluation (CARE)--for (1) identifying and describing the financial management systems used by an agency and (2) assessing and ranking the internal control strengths and weaknesses of the systems. This analysis is based on reviews of available systems documentation discussions with agency personnel, and reviews of prior GAO and Inspector General reports. Tests were not performed on actual information processed by and recorded in the systems, therefore, conclusions cannot be reached about whether the systems' internal controls were actually operating as designed.

The information in this technical summary is intended for use in:

- planning future tests and evaluations of the accounting and financial management systems in the Department's regional offices.
- monitoring the regional offices' efforts to implement the Federal Managers' Financial Integrity Act of 1982, and
- supporting and enhancing the understanding and application of the CARE-based methodology by designers, operators, and evaluators of agency accounting and financial management systems.

The technical summary provides a description of the operation of the Regional Accounting System. This system is used to (1) maintain official accounting records and (2) produce required financial reports. The technical summary provides a detailed analysis of the internal control strengths and weaknesses in the system.

During the survey agency officials were briefed. The technical summary was provided to cognizant agency officials for their review and comment. Agency comments were considered and appropriate changes were made in preparing this summary. The assistance and cooperation of agency management enhanced the successful completion of the work. The results of the survey will be used by GAO as the basis for planning future reviews of the Regional Accounting System to ascertain if it conforms to the Comptroller General's principles and standards for federal agencies. This technical summary is being provided to the Department to assist it in its continuing efforts to improve financial management.

C o n t e n t s

	<u>Page</u>
Regional Accounting System and other regional financial operations	1
Departmental field organizations	1
Responsibilities of HHS regional offices	2
Regional accounting system	2
Other concerns	6
APPENDIX	
I. Objectives, scope, and methodology	8
II. Regional Accounting System internal control strengths and weaknesses	11
III. Regional Accounting System flowchart	29
IV. Agency Comments	30

ABBREVIATIONS

CARE	Controls and Risk Evaluation
DFAPS	Departmental Federal Assistance Financing System
FDA	Food and Drug Administration
GAO	General Accounting Office
RAS	Regional Accounting System
SSA	Social Security Administration



REGIONAL ACCOUNTING SYSTEM AND OTHER

REGIONAL FINANCIAL OPERATIONS

The Department of Health and Human Services' (the Department's) ten regional offices provide administrative support for the Department's major operating components in carrying out their programs in the field. The Regional Accounting System (RAS) was designed and implemented to provide standard accounting and financial reporting for all regional operations. RAS, however, does not support all regional operations. The Social Security Administration and Food and Drug Administration operate their own regional accounting systems to accomplish the same functions performed by RAS.

Internal controls included in RAS appeared adequate to provide reasonable assurance that accounting transactions are completely, timely, and accurately captured, recorded, summarized and reported. Regional offices, however, use many other locally developed systems that duplicate functions performed by RAS. The SF 224 Funds and Control System designed and used by the Chicago regional office and other similar automated systems used by most other regional offices to prepare check issue magnetic tapes for the Treasury Department are examples of locally developed systems that duplicate RAS.

Locally developed systems used by many of the regional offices result in:

- The Department incurring unnecessary costs to design, implement and operate systems that duplicate functions already performed by RAS.
- Regional Offices using non-standard systems--including related internal control procedures--to process and report financial transactions with the result that regional offices have nullified the objectives of RAS--that is, a standard accounting and internal control system for the regional offices.

DEPARTMENTAL FIELD ORGANIZATIONS

The Department's ten regional offices are responsible for administering the Department's programs within their respective geographic areas. The regional offices provide administrative support to all the Department's major operating component's field activities except for the Food and Drug Administration (FDA).

SSA has its own 10 regional offices that support SSA's field operations. The SSA regional offices monitor and control the operations of SSA local field offices within their respective geographic areas. SSA's local field office structure includes 1,354 fulltime district or branch offices, about 3,200 part-time contract stations, and 31 teleservice centers. The function of the local

field office is to deal directly with the public in administering SSA programs.

FDA has regional and supporting district offices located throughout the country. FDA regional and district offices administer FDA's programs in the field. These offices operate independently from the Department's ten regional offices.

RESPONSIBILITIES OF HHS REGIONAL OFFICES

Each Regional Office has a financial management division including branches for accounting, fiscal, and budget services. These divisions provide three basic financial management services:

1. Accounting Services - Accounting service is provided through RAS. Accounting transaction data is entered into RAS by the regional office accounting branch staff via computer terminals. Financial reports generated by RAS are sent back to the regional offices by computer terminal.
2. Fiscal Services - The fiscal services branch provides voucher processing and payment services for the regional offices. Each region (except San Francisco) operates a imprest fund to make immediate payments to travelers and certain vendors. This branch also issues airline tickets, provides assistance for travelers, monitors regional and departmental travel policies, and collects debts owed to the Department.
3. Budget Services - The budget services branch prepares and monitors financial plans, controls regional office personnel positions, and reviews and analyses financial reports for regional program managers.

Each regional office has its own computer center and equipment. Some regions' computer centers are included in the Division of Accounting, Fiscal, and Budget Services, while in the other regions the computer center is in a separate Administrative Services Division.

REGIONAL ACCOUNTING SYSTEM

RAS is operated on a computer system located at the Office of Data Processing in Washington, D.C. RAS accepts and processes financial transaction information initiated in ten regional offices. RAS also receives information from and sends information to other Departmental financial management systems. These systems are the:

- Central Personnel/Payroll System.
- Departmental Federal Assistance Financing System (DFAFS)
- Departmental major organizational component accounting (general ledger) systems.

--Financial Assistance Reporting System.

System Inputs

Regional offices enter accounting transactions, via computer terminal, into RAS on a daily basis. RAS processes accounting transactions overnight. RAS provides for 24-hour turnaround so that the regional offices and other users are provided transaction summaries and reports on transactions within 24-hours of submission of transactions. Examples of the summaries and reports are the status of funds reports and accounting control reports.

As previously mentioned, RAS receives data from and sends data to other Departmental financial management systems via magnetic tape, specifically:

- The Central Personnel/Payroll system provides RAS with information on payroll costs for all personnel assigned to regional offices. This information includes payroll obligations, payroll costs, and leave usage and accruals.
- DFAFS provides RAS with information on cash advances and expenditures of advanced cash for all grants, loans and contracts administered by the regional offices.
- RAS provides DPAFS with information on obligations for grants, loans, and contracts awarded by and administered through the regional offices.
- RAS provides the Departmental major organizational component accounting (general ledger) systems with obligation and expenditure information for transactions processed by the regional offices on behalf of the major organizational components.

System Processing

Each day the accounting transactions sent into RAS by the regional offices, via computer terminal, and the information sent to RAS from other Departmental financial management systems via magnetic tape is recorded and held on transaction file pending start of the daily processing routine. After all input data has been received, RAS begins a preprocessing routine which sorts the input data and prepares a series of daily statistical reports which include information such as record counts of input transactions, error corrections, and total dollars for transactions.

After the preprocessing routine is completed, the input data is subject to a series of edit checks. For example, an edit check is made to compare an initial obligation transaction against obligations already recorded in the system to make sure duplicate entries are not made. Another edit check is made to compare an initial obligation transaction to the balance of unobligated funds to determine whether sufficient funds are available to cover the transaction. Transactions failing the edits are entered into a

rotating error file, which contains all current and previous uncorrected errors. Each region receives a daily error report. Valid transactions--those which pass the edit tests--are posted to the appropriated RAS masterfiles.

RAS masterfiles include the:

- | | |
|---------------------------------------|---|
| General Ledger File - | This file includes the general ledger summary asset, liability, appropriation, obligation, expenditure, receipt, and cost accounts. |
| Allotment/Allowance File - | This file includes detailed accounts on the current status of appropriated funds. It is used to determine availability of funds for obligation transactions. |
| Open Obligation Document File - | This file contains information pertaining to each obligation document which is open and those closed but not yet purged from the file. It is used to prevent the processing of duplicate obligation transactions. |
| Open Miscellaneous Document File - | This file contains records of open commitments, travel advances, and receivables and is used for transaction editing, reporting, and fund control. |
| Inactive Document File - | This file includes detailed information on all closed obligation documents which will be removed from the Open Obligation Document File. |
| Common Accounting Object Class File - | This file includes all common accounting numbers used by all organizational components of the Department. Common accounting numbers identify Departmental appropriations, allotments, programs, and organizational units. These numbers are used to control the sorting, summarizing, and posting of information to the general ledger account. |

Planning File -

The file contains detailed information on regional operating financial plans. Information in this file is used in conjunction with the actual financial results of operations as recorded in the general ledger accounts to produce a variety of financial reports on the status of the plans.

History File -

All transactions are written on the History File. This file is used to reconstruct all other files maintained by RAS and serves as an audit trail for all transactions processed through RAS.

RAS includes a series of controls to guard against data processing errors such as use of the wrong data file or machine failure. Each program processing data provides an input and output count to make sure no data is dropped and a dollar total summarization to make sure the system is always in balance. RAS also uses automated tables to validate transaction data, determine transaction effect on the computer files, and provide descriptions of coded data for reports. The tables are as follows:

- Input Data Element Validation Tables to validate certain data elements in transactions -- common accounting number table and general ledger account number table are examples.
- Internal Data Element Validation Tables to control the processing by RAS--appropriation, allotment, allowances, and general ledger account numbers table is an example.
- Description Tables to translate codes into English descriptions to facilitate the preparation of reports.

These tables can only be updated by the Systems Operation Group in the Department's Washington, D.C. headquarters and not the staff in the regional offices. This group is responsible for maintaining and operating RAS.

System Outputs

RAS produces an extensive listing of standard reports. Several reports are automatically distributed to regions, while others are available on request. The use of the reports varies among the regions and is heavily dependent upon use of locally developed systems. In all instances, local systems are reconciled back to RAS reports, but the RAS reports are not used.

Internal Control Strengths and Weaknesses

Internal Controls in RAS appear adequate to ensure that accounting transactions are accurately and completely posted to the general ledger accounts. RAS's primary function is to record, accumulate, summarize, and report financial transactions entered for processing and to provide summary financial information to the accounting (general ledger) systems operated by the Department's organizational components.

RAS provides for standardization of processing financial transactions in that all transactions must be entered into RAS in a standard format and all reports produced are standardized. The standardization RAS is designed to achieve, is largely nullified though the use of locally designed systems, which supplement or duplicate the functions performed by RAS.

As mentioned above, RAS's primary function is to record and report summary financial information on the results of program and administrative operations carried out in the regional office and on the status of appropriated funds. From a control standpoint, RAS's primary function is to help ensure that obligations and disbursements do not exceed the regional offices spending authority. RAS is not designed to include controls to ensure the propriety of individual obligations and disbursements. For example, the procurement process in most regions is a manual process and, therefore, difficult to monitor to assure consistency and accuracy.

OTHER CONCERNS

Most regions have developed and are operating systems that supplement RAS, or in some cases, duplicate functions performed by RAS. This has resulted in the Department incurring unnecessary system development and operating costs.

Locally Developed Financial Management Systems

RAS was designed and implemented to provide standardization for the financial management and accounting functions in the regional offices. The standardization objective of RAS has been largely nullified because most of the eight regional offices we visited are using locally developed systems to supplement and/or replace functions RAS was designed to perform.

There are wide variations among locally developed systems because of the different types of computer equipment available in the regions. Some of the locally developed systems supplement the services available from RAS such as the teleticketing and audit disallowances systems operated by the Chicago and Atlanta regional offices. Other locally developed systems duplicate services available from RAS. Two examples of duplicate systems are:

--Chicago's fund control system which duplicates the preparation of the status of funds report by RAS.

--San Francisco's financial operating system maintains financial records for the region. RAS maintains similar records.

As a result, the Department has incurred unnecessary system development and operating costs.

Another major problem with the locally developed systems, is the lack of coordination among the regions that developed similar systems. The prime example is the various automated Treasury scheduling systems. Four regions independently have their own Treasury scheduling systems. As a result, the four regions incurred costs to design, develop, document, and implement four systems to do the same thing. These systems all produce a magnetic tape for use by the appropriate Treasury Disbursing Office in preparing and issuing checks.

Overall, the regional offices have designed and are operating 27 systems that supplement or replace functions in RAS. These systems are summarized in Table 1 below.

TABLE 1
SUMMARY OF LOCALLY DESIGNED REGIONAL OFFICE SYSTEMS

Systems Descriptions	New York	Philadelphia	Atlanta	Chicago	Kansas City	Dallas	Seattle	San Francisco
Grant Payments	X		X	X	X			
Fund Control				X				
Teleticketing			X	X				
Impact Fund				X				
Audit Disallowances				X				
Automated Treasury Scheduling System				X	X		X	X
Data Entry to RAS					X		X	X
Cost Allocation System For Reviewing Costs							X	
Property	X		X		X		X	X
Travel Allowance Control								X
Procurement								X
Financial Operating								X
Voucher Control								X
Personnel/Payroll Processing	X							

OBJECTIVES, SCOPE, AND METHODOLOGY

This survey focused on documenting the Regional Accounting System, identifying related systems, and internal control strengths and weaknesses in the system. The survey applied GAO's Controls and Risk Evaluation (CARE) audit approach.

SURVEY OBJECTIVES

Our survey objectives were to (1) document the Regional Accounting System and determine the flow of financial transactions from the time they are authorized through final reporting of these transactions in internal and external reports, (2) identify related systems and the relationships between these systems, that is, the flow of information among different systems, and (3) identify and document internal control strengths and weaknesses in the systems.

SURVEY SCOPE

Survey work was performed at eight of the Department's ten regional offices. We documented the Regional Accounting System and identified, based on available system documentation and through discussions with agency accounting, ADP systems, program officials, and review of prior GAO, Inspector General and special system study group reports, the internal control strengths and weaknesses in the system. We did not perform any tests of system operations or actual financial information and transactions. The following sections present the definitions of a financial management system, internal control, and an agency system of internal control used in this survey.

DEFINITION OF A FINANCIAL
MANAGEMENT SYSTEM

In consonance with GAO's Policy and Procedures Manual for Guidance for Federal Agencies (Titles 2 through 8), we defined a financial management system for this survey, as the manual and/or automated systems that capture, record, summarize, and/or report financial and related quantitative information related to the:

- Authorization of the use of resources.
- Management of liabilities.
- Control of receipts.
- Disbursement of funds.
- Control of assets.
- Control of appropriated funds.

--Development and issuance of reports on the financial status of assets, liabilities, and appropriated funds and the financial results of program and administrative operations.

In an April 18, 1983, letter to the heads of Departments and Agencies, the Comptroller General announced changes to GAO's procedures for approving agency accounting systems. In this letter, the Comptroller General reiterated the definition of an accounting systems in GAO's Policy and Procedures Manual for Guidance of Federal Agencies.

DEFINITION OF INTERNAL CONTROLS

On June 16, 1983, the Comptroller General issued the Standards for Internal Controls in the Federal Government to be followed by agencies in establishing and maintaining systems of internal controls. The standards define systems of internal controls as

"The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports."

Processing procedures are those manual and/or automated procedures that govern capturing, recording, processing, summarizing, and reporting of financial and related quantitative information. Internal control procedures and independent procedures provide evidence that processing procedures have, in fact, been followed.

DEFINITION OF AN AGENCY'S SYSTEM OF INTERNAL CONTROL

Most agencies operate several financial management systems that process different types of financial transactions and provide information to each other. The individual financial management systems--taken together--form the agency's overall financial accounting, control, and reporting system. For example, most agencies have a general ledger/administrative control of funds system, and a subsidiary system that, for example, process transactions relating to personnel/payroll actions, personal property, disbursements, receipts, loans, accounts receivable, and accounts payable. These systems--taken together--are the agency's overall financial accounting, control, and reporting system.

The financial management systems that make up an agency's overall financial accounting, control, and reporting system include both processing procedures and independent internal control procedures, as defined in the preceding two sections. For this survey, we defined an agency's system of internal control as all the internal control procedures--taken together--that are included in all the financial management systems that comprise the overall financial accounting, control, and reporting system.

SURVEY METHODOLOGY

Our survey work followed the requirements of GAO's CARE survey approach. Accordingly, our survey included identification and documentation of the Regional Offices:

- Missions and responsibilities.
- Accounting and related financial management systems and the interrelationships between these systems.
- Internal control strengths and weaknesses in the accounting and related financial management systems.

In consonance with the CARE survey approach our work entailed identification and documentation of the operations and related internal control strengths and weaknesses of the Department's Regional Accounting System based on (1) available agency system documentation, (2) discussions with cognizant agency accounting, program, and ADP systems officials, and (3) prior issued GAO, Inspector General, and special study group reports. Our survey was made in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions": except that no tests were performed of system operations or of information processed by and recorded in these systems.

REGIONAL ACCOUNTING SYSTEM - ASSET AND LIABILITY
MANAGEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

Authorization

1. Sources of assets and liabilities should be authorized in accordance with laws, regulations and management's policy.

The RAS includes an interface through DFAPS to the Central Registry System. Region IX uses the Interactive Procurement Analysis and Status System in the procurement process. The system maintains an address file for customers/vendors. Specific procedures are in place to add or delete a customer/vendor. All purchase orders are matched with the file and rejected if no match is made.

Manual controls are the primary procedures for processing all transactions.

2. The amounts, timing, and conditions of transactions should be authorized in accordance with laws, regulations and management's policy.

Requisitions are submitted to a procurement office which generates the procurement and purchase orders. Purchase orders are prepared including an approved vendor (see control objective 1), a common accounting number (CAN), object class, and appropriation citation. Some regions have data entry systems to perform edits of data prior to transmission to RAS.

Lack of standardization and reliance primarily on manual processing.

3. The amounts, timing and conditions of funds should be authorized in accordance with laws, regulations and management's policy.

After a match of purchase orders, receiving reports and invoices, a Document History Record (DHR) is prepared to transmit data to RAS. The payment tape is used to generate expenditure-disbursement transactions. Region IX use IPASS to accomplish the match of purchase orders, receiving reports and invoices.

Manual matching of documents is performed.

4. Adjustments to assets and liabilities accounts and distributions should be authorized in accordance with management's policy.

See cycle control objectives 2 and 3.

REGIONAL ACCOUNTING SYSTEM - ASSET AND LIABILITY
MANAGEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

5. Asset and liability management procedures should be established and maintained in accordance with management's policy.

See cycle control objectives 1, 2, and 3.

Economy, Efficiency and Effectiveness

6. Cycle results should be in accordance with laws, regulations and management's policy and plans.

The RAS is a double-entry accrual accounting system with the HHS approved general ledger accounts. Reports on transaction results and fund status are generated semimonthly and monthly. Also, the SF 224 for Treasury is prepared and certified reports are prepared at year-end.

7. Cycle results should be achieved in an economical and efficient manner.

See cycle control objectives 1, 2, 3, and 6.

There are several unique systems in the regions which precludes standardization.

8. Processing procedures used to create, recognize and report events and related transactions should be economical and efficient.

See cycle control objectives 1, 2, 3, 6, and 7. The DHR is used to standardize the data input to RAS.

Some regions have pre-edits of data before transmission to RAS to produce a "clear" transmission. Others have no such process. Lack of standardization.

REGIONAL ACCOUNTING SYSTEM - ASSET AND LIABILITY
MANAGEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

Transaction Processing

- | | | |
|---|--|---|
| 9. Only those requests to buy or sell assets that meet laws, regulations, and management's policy should be approved. | See cycle control objectives 1 and 2. Property systems define procedures over all property transactions. | |
| 10. Assets and liabilities acquired should be accurately and promptly reported. | See cycle control objectives 3 and 9. | Regions have separate property accounting systems, but these systems are not periodically reconciled with general ledger accounts as required. Arbitrary adjustments are then necessary to "force" accounts into balance. |
| 11. Retirements or dispositions of assets to outsiders should be accurately and promptly reported. | See cycle control objective 9. | See cycle control objective 10. |
| 12. Amounts due from or to purchasers and creditors and the accounting distribution of those amounts, should be computed accurately and promptly recognized as assets or liabilities. | See cycle control objective 3, 6, and 9. | See cycle control objective 10. |

REGIONAL ACCOUNTING SYSTEM - ASSET AND LIABILITY
MANAGEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

13. Changes in values should, where required by generally accepted governmental accounting principles, be computed accurately and recognized promptly.

See cycle control objectives 3, 6, and 9.

See cycle objective 10.

Classification

14. Amounts due to creditors and related adjustments, should be accurately and promptly classified, summarized and reported.

See cycle control objectives 3, 6, and 9.

15. Purchases and sales of assets, changes in liabilities and related adjustments should be accurately applied to the accounts.

See cycle control objective 10.

16. Journal entries for assets and liabilities acquired and retired, and related adjustments should be prepared and posted each accounting period.

See cycle control objective 10.

REGIONAL ACCOUNTING SYSTEM - ASSET AND LIABILITY
MANAGEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Control Weaknesses

See cycle control objective 10.

Control Techniques in Place

Cycle Control Objectives

17. Journal entries should summarize and classify economic activities in accordance with management's plan.

Substantiation and Evaluation

18. Recorded balances of asset and liability accounts, and related transaction activity, should be periodically substantiated and evaluated.

See cycle control objective 10.

REGIONAL ACCOUNTING SYSTEM-REPORTING CYCLE
INTERNAL CONTROLS STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl WeaknessesAuthorization

1. Data entered into reporting systems should be authorized in accordance with laws, regulations and management's policy.
2. Reporting system processing procedures should be established and maintained in accordance with laws, regulations and management's policy.

The RAS has a standard reporting format for data entry through the Document History Record (DHR) and uses a standard chart of account. All data is double-entry accrual accounting. The manuals and procedures are standard and out to all regions.

The RAS produces various reports semimonthly, monthly, and at year-end on the status of funds and general ledger account balances. Also, the Treasury SF 224 report is prepared as required along with a year-end certified report.

Economy, Efficiency, and Effectiveness

3. Reporting should be in accordance with laws, regulations and management's policy and plans.
4. Reporting should be achieved in an economical and efficient manner.

See cycle control objective 2.

There are unique systems throughout the regions precluding standardization. Also, data entry edits vary among the regions.

REGIONAL ACCOUNTING SYSTEM-REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

5. Reporting procedures used should be economical and efficient.
6. Only those reports that meet management's policy should be approved.
7. Reports should be prepared accurately and promptly.
8. Relevant disclosure data should be gathered accurately and promptly.
9. Relevant disclosure data should be accurately summarized and reported.

See cycle control objective 2.

Reports are prepared promptly. Also, a rotating error file controls errors of invalid transactions but improper transactions may not be identified until reviewed by initiators of transactions.

See cycle control objectives 2 and 7.

See cycle control objectives 2 and 7.

See cycle control objective 4.

RAS cut off date for month-end processing is the last Friday of the month. Treasury's cut off date is the third day of the following month. As a result the SF 224 constantly has discrepancies and must be reconciled.

REGIONAL ACCOUNTING SYSTEM-REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

10. File and account balances should be accurately and promptly reported.

See cycle control objectives 1, 2, and 7.

11. Consolidation of reports should be accomplished accurately and promptly.

See cycle control objective 1, 2, and 7.

Classification

12. Reporting entries should classify activities in accordance with management's plan.

See cycle control objectives 1, 2, and 7.

13. Reports should be prepared accurately and promptly, be prepared on consistent bases and fairly present the information they purport to display.

See cycle control objectives 1, 2, and 7.

REGIONAL ACCOUNTING SYSTEM-REPORTING CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

- 14. Recorded balances in the records should be periodically substantiated and evaluated.

Control Techniques in Place

Control Weaknesses

Balances are validated on an exception basis so there is no assurance of reconciliation.

REGIONAL ACCOUNTING SYSTEM - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESES

Cycle Control ObjectivesControl Techniques in PlaceControl WeaknessesAuthorization

1. Disbursement should be authorized in accordance with laws, regulations and management's policy.
2. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations and management's policy.
3. Disbursement processing procedures should be established and maintained in accordance with laws, regulations, and management's policy.

The RAS interfaces with DFAPS for grant payments and the payroll system for payroll payments.

The Document History Record (DHR) is used to record all transactions and make appropriate distribution to accounts. Provisions in the manual prescribe adjustment policies and procedures.

This cycle control objective was not included in our survey.

Manual procedures are used for most payments with a manual matching process for pertinent documentation.

Economy, Efficiency and Effectiveness

4. Disbursement cycle results should be in accordance with laws, regulations and management's policy and plans.

Manual procedures are primarily used to make sure all relevant data is recorded prior to payment authorization.

REGIONAL ACCOUNTING SYSTEM - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

5. Disbursements should be made in an economical and efficient manner.

Some regions have an Automated Treasury Scheduling System (ATSS). Each developed their local ATSS independently not using available knowledge and documentation. Other regions use a totally manual process. Grant payments are made monthly unless an exception is noted by the grant managers. Also, some regions have an automated process to generate the grant payment tape to Treasury.

6. Disbursement processing procedures used to create, recognize and report events and related transactions should be economical and efficient.

See cycle control objective 5.

Transaction Processing

7. Only those requests for disbursements that meet management's policy should be approved.

See cycle control objective 2.

8. Disbursements should be accurately and promptly reported.

Monthly reports are prepared on fund status, which includes disbursements. Treasury reports are reconciled by RAS monthly and appropriate corrections recorded.

Reports are only reconciled on an exception basis.

REGIONAL ACCOUNTING SYSTEM - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

- 9. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.

- 10. Each disbursement of cash should be based upon a recognized liability, be accurately prepared and be appropriately authorized.

- 11. Disbursements should be accurately and promptly classified, summarized and reported.

- 12. Cash disbursements and related adjustments should be accurately and promptly classified, summarized and reported.

See cycle control objective 2.

See cycle control objective 2.

See cycle control objectives 2 and 8.

See cycle control objective 2 and 8.

Monthly reports are prepared on fund status, which includes disbursements. Treasury reports are reconciled by RAS monthly and appropriate corrections recorded.

Many disbursements/liabilities are recorded virtually simultaneously.

Reports are only reconciled on an exception basis.

REGIONAL ACCOUNTING SYSTEM - OTHER DISBURSEMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

13. Liabilities incurred, cash disbursements and related adjustments should be accurately applied to the proper vendors' accounts.

See cycle control objective 2 and 8.

14. Transactions for amounts due to vendors, cash disbursements and related adjustments should be prepared each period.

See cycle control objective 8.

15. Disbursements should be summarized and classified in accordance with management's plan.

See cycle control objectives 2 and 8.

Substantiation and Evaluation

16. Recorded balances of disbursements, and related transaction activity, should be periodically substantiated and evaluated.

See cycle control objectives 5 and 8.

REGIONAL ACCOUNTING SYSTEM - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl WeaknessesAuthorization

1. Vendors should be authorized in accordance with laws, regulations and management's policy.

The Regional Accounting System has an interface with the Central Registry System through DFAPS. Most procurements are handled locally, however, any files of approved vendors are manually maintained except for Region IX. Region IX has an Interactive Procurement Analysis and Status System (IPASS) which includes an Address File for Customers/Vendors. The file is maintained by Region IX and specific procedures are in place to add or delete a customer/vendor. All purchase orders are matched with the file and rejected if no match is made.

Manual processes are difficult to guarantee consistency in application. Also, monitoring of the procurement process is difficult to institute.

2. The types, estimated quantities, and prices and terms of goods and services needed should be authorized in accordance with laws, regulations and management's policy.

Requisitions are submitted for all goods and services to the Region's procurement office. The purchase order is prepared in this office to include an approved vendor (See control objective 1), a valid common accounting number (CAN), object class and appropriation citation. Any of this data in error as far as validity of the numbers is rejected and returned for correction. Region IX will have the procurement office directly input purchase data into IPASS which generates the purchase order.

Valid data may be processed improperly charging the wrong funds. Corrections are dependent upon requisitioners validating their fund status monthly. The only reports back from requisitioners are exceptions to the system reports.

3. Adjustments should be authorized in accordance with laws, regulations and management's policy.

Receiving reports, invoices and purchase orders are compared prior to payment. Any discrepancies are noted for recording in the RAS. Documentation is accumulated in the Fiscal Office to record in RAS and to generate payments. Region IX will have IPASS perform the match and update the Financial System through an interface.

REGIONAL ACCOUNTING SYSTEM - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

4. Procurement cycle processing procedures should be established and maintained in accordance with laws, regulations and management's policy.

This particular cycle control objective was not included in our survey.

Economy, Efficiency and Effectiveness

5. Procurement cycle objectives should be in accordance with laws, regulations and management's policy and plans.

This particular cycle control objective was not included in our survey.

6. Procurements should be achieved in an economical and efficient manner.

Except for Region IX the procurement process is manually operated with after the fact support from RAS. Errors are not corrected until the next day at the earliest and, even then, only improperly recorded data is picked up. Invalid transactions are not picked up unless requisitioners notice the errors. (See control objective 2). Also, the FDA and SSA do their own procurements independent of RAS.

7. Procurement procedures used should be economical and efficient.

See cycle control objective 6.

REGIONAL ACCOUNTING SYSTEM - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control ObjectivesControl Techniques in PlaceControl Weaknesses

Transaction Processing

- | | |
|--|---|
| 8. Only those requests of vendors for goods or services that meet management's criteria should be approved. | See cycle control objectives 1, 2, and 3. |
| 9. Only requested goods and services should be accepted. | See cycle control objective 3. |
| 10. Goods and services accepted should be accurately and promptly reported. | See cycle control objective 3. |
| 11. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly. | See cycle control objective 3. |

REGIONAL ACCOUNTING SYSTEM - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEAKNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

- | | | |
|---|--------------------------------|--|
| 12. Amounts due to vendors should be accurately and promptly classified, summarized and reported. | See cycle control objective 3. | |
| 13. Purchasing adjustments should be accurately and promptly classified, summarized and reported. | See cycle control objective 3. | |
| 14. Liabilities incurred, and related adjustments, should be accurately applied to the proper vendors' accounts. | See cycle control objective 3. | |
| 15. Journal entries for amounts due to vendors and related adjustments should be prepared each accounting period. | See cycle control objective 3. | |

REGIONAL ACCOUNTING SYSTEM - PROCUREMENT CYCLE
INTERNAL CONTROL STRENGTHS AND WEARNESSES

Cycle Control Objectives

Control Techniques in Place

Control Weaknesses

16. Purchasing journal entries should summarize and classify economic activities in accordance with management's plan.

See cycle control objectives 1 and 2.

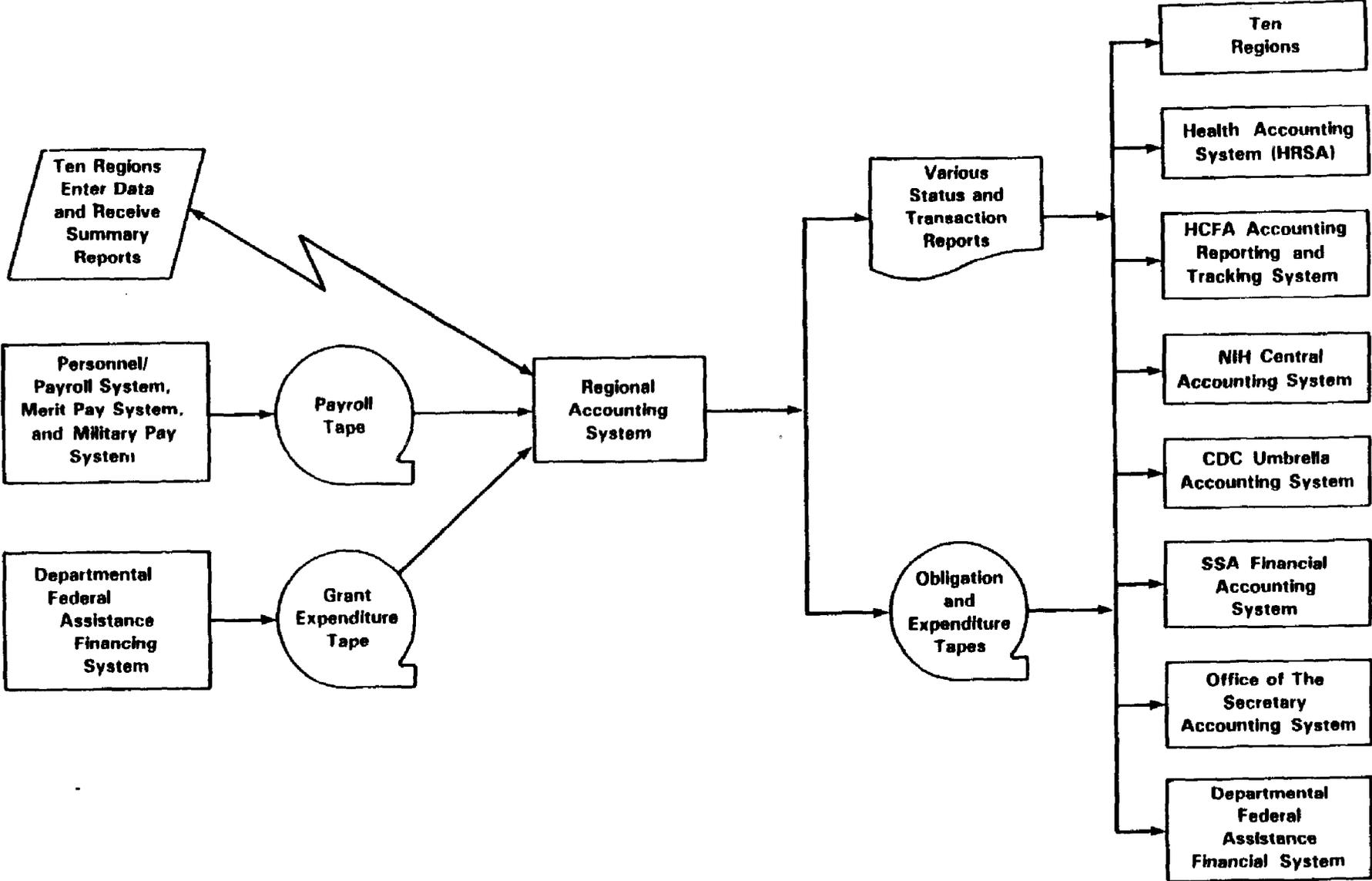
See cycle control objectives 1 and 2.

Substantiation and Evaluation

17. Recorded balances of accounts payable, and related transaction activity, should be periodically substantiated and evaluated.

See cycle control objective 2.

**Regional Accounting System
Financial Management Structure**





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Memorandum

DEC 30 1983

Date

From Director, Division of Financial Operations and
Fiscal Procedures

Subject GAO Draft Document on the Regional Accounting System (RAS)^{1/}

To Guy F. Linza
Chief, OPDIVs' Systems and Procedures Branch

We have carefully reviewed the GAO draft document on RAS and other Regional Financial Operations. Since you sent the GAO material to Bob Wilson and he sent it out to the regions we will direct most of our specific comments to the RAS aspects of the document. Our specific comments are as follows:

1. Page 2. The report indicates the regions provide administrative support to all operating activities in the field except SSA and FDA. This is not completely correct. The Regional Administrative Support Centers (RASCs) do pay SSA travel advances and travel vouchers. This is noted on page 11 of the report and page 2 should be changed to agree with page 11.
2. Page 4 - RAS Input. We recommend the information under this heading be replaced with the following:
(GAO note--Technical Summary changed--page 1)
RAS Input

The RAS is a single entry, batch processing accounting system which accepts transaction data input from the Regional offices and others (i.e., payroll, DFAFS, Agency letter of Credit) and processes the data daily on the OS/DDP computer.

The RAS is designed to:

Accumulate a daily transaction file of input from Regional Offices and others.

Edit all data to ensure validity as well as funds availability and reject and place on a rotating error file all transactions that fail the edit.

Valid transactions are entered on the appropriate eight data bases, the history file, and extract files for interface with other systems.

Create an audit trail, statistical reports and an error report and teleprocess it back to the Regional Offices.

Generate reports (categories: status of funds, status of documents, geographical funds distribution, transaction reports, accounting control reports) for use by Regional, Headquarters and other users.

^{1/} Agency officials commented on a draft of the technical summary and as a result, the page numbers cited in the agency comments do not correspond with page numbers in this technical summary.

Transactions are updated each night (Monday - Thursday) and reports are available at the start of the next work day.

(GAO Note -- Technical summary change - pages 3-5)

3. Page 5 under RAS Interfaces With Other Systems the statement is made that "RAS provides obligation and expenditure data on grants when, combined with grants application data, provides complete grants management reports for the life of the grant." While this may be possible it is not done on a regular basis. In fact only once have we provided such data from RAS for use by an office which had grants application data available. If this is happening on a regular basis we are not aware of it.
(GAO Note -- Technical summary changed -- page 3)
4. Page 6 under RAS Processing change the last line on the page from "batch accounts" to "batch counts."
(GAO Note -- Technical summary changed -- page 3)
5. Page 11 second paragraph should be changed from "RASC Assessment of Discussions" to "RASC Assessment of Divisions."
(GAO Note -- comment deleted from Technical summary)
6. Page 11 under Social Security Administration the statement is made that "the RAS records the data for cash reporting purposes then reverses the transactions from the system." This is not correct. The SSA travel advances and travel voucher payments are entered into the RAS and applied against dummy appropriations. The entries into the RAS are required for cash reporting purposes (automated SF 224) and are not reversed out.
(GAO Note -- comment deleted from Technical summary)
7. Page 14 last paragraph states "there apparently is no plan to provide (1) standard hardware to the regions, (2) standard systems or subsystems for local use." There are currently plans to have the Regional Offices operate under the Standard Accounting System (SAS) in lieu of RAS. All the regions will have standardized equipment to operate the SAS. Also, with the implementation of SAS many of the locally developed systems and subsystems will no longer be needed.

The Division of Data Processing, as functional manager for the OS's regional ADP, established a Regional Information Systems Advisory Board. The Board functions as a review and oversight group that will monitor the impact of systems development in the regions and maintaining a systematic and ordered approach to automating the daily workload in the regions.

(GAO Note -- comment deleted from Technical summary)

8. Page 15 last two sentences are incorrect. Accounting transactions for procurement activity are passed through numerous edits in the RAS. Before a transaction would be updated in RAS, all fields must be valid, follow-on transactions must match the original obligation and funds must be available. In addition, the Finance Office monthly, verifies all the documents on the RAS reports to the original documentation.
(GAO Note -- Technical summary changed -- page 3)
9. Page 21 and 22 mention processes as a weakness. We would like to point out that the RAS performs numerous edits on the transactions input and does a status of funds matching and a matching of key fields for follow-on transactions. The Finance Office does a manual match of the open document file to the documentation.
(GAO Note -- Technical summary changed -- page 3)

10. Page 26 item #1. It appears the document writer does not understand the RAS interfaces with the Central Registry Systems and DFAPS. The RAS has numerous edits before allowing a transaction to be updated on its data base. RAS verifies entity numbers against the Central Registry file for grants and contracts and rejects all transactions where the entity number is not on the CRS file. All applicable data is telecommunicated to DFAPS. Audit trails are generated to confirm the transmission. The DFAPS system edits again all the data received from RAS. All errors are put on a DFAPS error file which is transmitted back to the regional finance offices. Also the regions have the capability of making on-line inquiries of the DFAPS error files.

(GAO Note - comment deleted from Technical summary)

11. Page 32 item #8. It is not standard operating procedure to cutoff RAS operation on the last Friday of the month. Normally cutoff is on the last workday of the month regardless of what day of the week it is.

Treasury's cutoff for the SF 224 is also the last workday of the month and not the third workday of the following month.

The SF 224 is due to Treasury by the third workday of the following month.

The regions normally cutoff processing disbursement transactions three days before month-end so as all the documents will clear Treasury and there will be no discrepancies. Most differences on Treasury's Statement of Differences are for SIBAC and SLUC billing. Most times GSA does not provide the Finance Offices the bills timely and therefore they are not on the SF 224 while Treasury has them recorded.

(GAO note - no change necessary)

In conclusion we would like to make a general comment about the RAS and regional operations. During the last few years the funding and staffing for the RAS has been restricted and/or reduced. Possibly some of the development of ADP systems in the field could have been coordinated through the RAS if more resources had been available. However, this would have to be done hand-in-hand with a standard ADP equipment procurement effort. As it is each region has been able to obtain ADP resources through a variety of channels and means apparently without any central coordination.

Richard S. Carlson
Richard S. Carlson

cc: David V. Dukes
Richard Diamond



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the
Regional Director
Region VIII

Memorandum

Date: December 28, 1983

From: Director, Regional Administrative Support Center, Region VIII

Subject: General Accounting Office Draft Document on the Regional Accounting System and Other Regional Financial Operations 1/

To: Guy F. Linza, Chief, Operating Divisions' Systems and Procedures Branch, OS

The Region VIII comments to the GAO Draft on RAS are:

- 1) Page 1 - The Regional Accounting System (RAS) was established to provide standardized accounting and financial reporting for all regional components except SSA and FDA. SSA's accounting is done centrally, and FDA's is done on a limited basis in their District Offices.
(GAO note -- Technical summary changed -- page 1)
- 2) Due to the proposed Standard Accounting System (SAS), refinements to the RAS, such as automated Treasury scheduling, were not developed because they were to be included in the SAS. Delays in SAS implementation and staff cuts in the Regions prompted development of other systems in the Regions to enable them to operate more efficiently. In many cases, the systems developed were done on the available equipment in the particular region, and as a result, standardization and interaction among the regions was not possible.
(GAO note -- Technical summary changed -- page 6)
- 3) Page 1, Paragraph 4 - Certain administrative support functions, such as payment of travel advances and travel vouchers, standard level user charges (SLUC), common supplies, procurement, etc., are provided to SSA by the Regional Administrative Support Center.
(GAO note -- Technical summary changed -- page 1)
- 4) Page 2, Accounting - Information is transmitted to and from headquarters via data lines, not by telephone.
(GAO note -- Technical summary changed -- page 3)
- 5) Page 5, Grants - Where is the RAS data combined with grants application data?
(GAO note -- Technical summary changed -- page 3)
- 6) Page 5, Payroll - Central payroll data is not provided through RAS for SSA or FDA.
 - Estimated payroll accruals are reversed out and new accruals are made on the last paid payroll of the month, and not after month-end closing.
 - The last sentence in the paragraph covering payroll does not make sense.
(GAO note -- Technical summary changed -- page 3)
- 7) Page 5, DFAFS - RAS and DAFS data is synchronized monthly.
(GAO note -- Technical summary changed -- page 3)

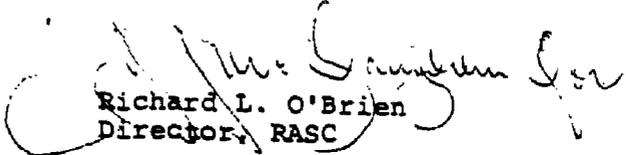
1/ Agency officials commented on a draft of the technical summary and as a result, the page numbers cited in the agency comments do not correspond with page numbers in this technical summary.

- 8) Regions don't have authority to issue allowances.
(GAO note -- comment deleted from Technical summary)
- 9) Page 11, Social Security Administration - The statement, "To enable SSA to perform the accounting, the RAS records the data for cash reporting purposes then reverses the transactions from the system" does not make sense. Some Regions enter SSA's cash disbursement data for SF-224 preparation, however, the transactions do not require reversal, nor does the function impact on SSA's ability to perform accounting functions.
(GAO note -- comment deleted from Technical summary)
- 10) Page 15, 3rd Paragraph - The report indicates that disbursement reports were only reconciled on an exception basis. Cash disbursements are reconciled monthly, both to Treasury and to the General Ledger.
(GAO note -- Technical summary changed -- page 5)
- 11) Page 15, last paragraph - It reads as if the system itself can inadvertently charge the wrong funds. Incorrect charges could happen in any system. The output is only as good as the input.
(GAO note -- comment deleted from Technical summary)
- 12) Other Disbursement Cycle Control Objectives (Pages 16-33)
- a) Items 1 and 4 - Are manual procedures necessarily major control weaknesses?

(GAO note -- There is a greater potential for inconsistency in applying manual procedures. Use of automated controls to back-up manual procedures can strengthen the overall system of controls.)
- b) Items 8 and 12 - Disbursement reports are reconciled at least monthly.
(GAO note -- Technical summary changed -- page 22)
- c) Page 21, item 1 - Same as a) above.
(GAO note -- see comment above)
- d) Page 21, item 2 - Valid, but incorrect data may be processed in any system.
(GAO note -- no change needed)
- e) Page 22, item 6 - Throughout the report, the Regions have been chastised for developing duplicate systems outside of RAS, and here it seems like this outside development is acceptable.

(GAO note -- Locally developed systems are listed as control weaknesses in Appendix II)
- f) Page 26, items 1, 2, 3 - Same as a) above.
(GAO note -- see note above)
- g) Page 28, item 10 - Region VIII uses the output from the Property Accounting System to reconcile property accounts to the general ledger.
(GAO note -- see control weaknesses for item 10 on page 14)
- h) Page 32, item 8 - RAS cutoff is not necessarily on the last Friday of the month. In fact, the entire statement is confusing.

(GAO note -- this control weaknesses was confirmed by officials in several regional offices)


Richard L. O'Brien
Director, RASC

cc: Robert A. Wilson