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General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-281402

December 21, 1998

The Honorable William J. Lynn
Under Secretary of Defense (Comptroller)

Subject: Internal Controls: Reporting Air Force Vendor Payment System Weaknesses Under the Federal Managers' Financial Integrity Act

Dear Mr. Lynn:

Our September 28, 1998, report, Financial Management: Improvements Needed in Air Force Vendor Payment Systems and Controls (GAO/AIMD-98-274), discusses the Air Force's vulnerability to fraudulent and improper vendor payments due to the lack of segregation of duties, weak controls over remittance addresses, broad access to the vendor payment system, and weaknesses in operating computer system and local network security. We concluded that until the Defense Finance and Accounting Service and the Air Force address control weaknesses in systems and processes and maintain accountability over goods and services received, the Air Force vendor payment process will continue to be vulnerable to fraudulent and improper payments. The purpose of this letter is to discuss the Department of Defense's reporting of these system and control weaknesses, along with corrective action plans and statuses, to the President and the Congress in accordance with the Federal Managers' Financial Integrity Act of 1982, as amended (31 U.S.C. 3512).

Our report made recommendations to strengthen payment processing controls, revise vendor payment system access levels, and reduce the number of employees with vendor payment system access. We also recommended ways to strengthen computer security for the vendor payment system, ensure that internal controls are properly designed, and ensure that vendor payments are proper and comply with the Prompt Payment Act time frames.

Your October 14, 1998, letter to us concurred with these recommendations and described ongoing efforts by the Defense Finance and Accounting Service and the Defense Information Systems Agency to address them. The plans for corrective actions outlined in your letter included (1) revising internal control guidance to better assure segregation of duties, (2) reviewing and adjusting vendor payment system access to the minimum number of personnel needed to

GAO/AIMD-99-33R Air Force Vendor Payment Systems

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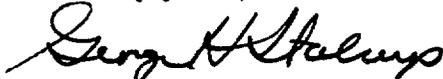
properly conduct business, and (3) correcting the identified vulnerabilities in computer operating system security.

These are positive steps toward improving vendor payment system controls. At the same time, because the control deficiencies we identified are serious and the planned corrective actions are not yet complete, it also would be appropriate to include the Air Force vendor payment system's vulnerability to fraudulent and improper payments as a material weakness in the department's Annual Statement of Assurance for fiscal year 1998, pursuant to the Federal Managers' Financial Integrity Act. The act requires that the head of each executive agency report annually to the President and the Congress on material weaknesses in the agency's systems of internal accounting and administrative control and the plans and schedule for correcting these weaknesses. These reports are due by December 31 following the end of the fiscal year. By evaluating progress in resolving these material weaknesses through the Financial Integrity Act reporting process, the department's top-level managers and the Congress would have information for monitoring the effective completion of the plans you have outlined and thus for ensuring that improved Air Force vendor payment systems and controls are in place and operating as intended.

On October 30, 1998, we requested comments on a draft of this letter from the Secretary of Defense or his designee. We received comments from the Principal Deputy Under Secretary of Defense (Comptroller) in which the department agreed to report vendor pay deficiencies in its fiscal year 1998 Annual Statement of Assurance.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Subcommittee on Administrative Oversight and the Courts of the Senate Committee on the Judiciary, the Senate Committee on Governmental Affairs, and the House Committee on Government Reform and Oversight; the Director, Office of Management and Budget; and other interested parties. If you have any questions on matters discussed in this letter, please contact me at (202) 512-9095 or Gayle Fischer, Assistant Director, at (202) 512-9577.

Sincerely yours,



George H. Stalcup
Associate Director, Defense Audits

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