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Financial Management Profile:

# Department of Health and Human Services

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## Foreword

The Department of Health and Human Services is the largest federal civilian agency. In fiscal year 1982 the Department disbursed over \$280 billion--one-third of the annual federal budget--and employed more than 146,000 individuals. Its programs touch the lives of more Americans than those of any other agency and are central to the economic well-being of American society. These programs provide retirement income and health insurance for millions of Americans, regulation of the purity of foods and drugs sold in America, research and treatment of disease, and improvements in the quality of American life.

The primary objectives of our survey were to identify the (1) financial management systems used by the Department, (2) internal control strengths and weaknesses in these systems, and (3) interrelationships of the systems. This survey was based on GAO's newly developed Controls and Risk Evaluation (CARE) audit approach which treats a federal agency as a financial entity. Our analysis was based on a review of available system documentation, discussions with cognizant agency personnel and review of prior GAO and Inspector General reports. However, we did not perform tests to ascertain if the financial management systems' internal controls were operating as designed. Nor were tests made of actual information processed by and recorded by the systems. Consequently, the survey was not intended to approve or disapprove any of the Department's financial management systems.

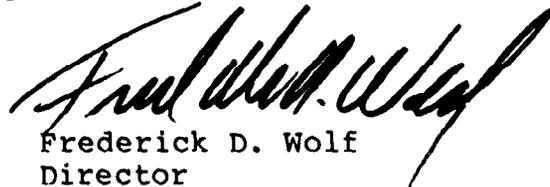
This financial management profile of the Department provides a description of its financial management systems and the interrelationships of these systems. We identified 81 systems that, taken together, constitute the financial management structure of the Department. These systems are used to (1) develop annual budget requests, (2) control appropriated funds and other resources, (3) authorize the use of funds and other resources, and (4) capture, record, process, summarize, and report all financial information related to execution of budget authority.

In addition to this financial management profile, we also have available 11 additional volumes of detailed information on the Department's various organizational components. These volumes provide a detailed analysis of the 81 systems and identify specific internal control strengths and weaknesses for each system. The additional volumes will be made available upon request.

During the course of our survey, top Department officials were briefed on several occasions. The report was provided to cognizant agency officials for their review and comment. Their comments were considered and changes were made as appropriate. The assistance

and cooperation of departmental managers--at all levels--enhanced the successful completion of our work.

The results of the survey will be used by GAO as the basis for planning future reviews of the Department's financial management systems to ascertain if they conform to the Comptroller General's principles and standards. The "Financial Management Profile" is being provided to the Department to assist in its continuing efforts to improve financial management.



Frederick D. Wolf  
Director  
Accounting and Financial  
Management Division

D I G E S T

The Department of Health and Human Services is composed of five major organizational components: (1) the Office of the Secretary, (2) the Public Health Service, (3) the Office of Human Development Services, (4) the Health Care Financing Administration, and (5) the Social Security Administration. These components employed more than 146,000 individuals in fiscal 1982 and received more than \$280 billion in spending authority. This spending authority amounted to about one-third of the entire federal fiscal 1982 budget and covered three broad program categories.

Retirement, disability, and supplemental income (welfare) programs	(billions) \$209
Health insurance and medical benefit programs.	34
Regulatory, medical research and treatment, and human development and services programs	<u>37</u>
Total	<u>\$280</u>

The funding for the Department's \$280 billion budget came from three primary sources:

- payments from four trust funds maintained by the Treasury Department and supported by employee and employer payroll taxes under the Federal Insurance Contribution Act and Self Employment Contribution Act,
- collections from states, businesses, and individuals for their share of income security and health insurance program costs and for other services rendered--like drug testing services, and
- funds appropriated by the Congress.

The Department also operates six direct loan programs and four loan guarantee programs. These loan

programs provide funds for educating health professionals and building and operating health care facilities. At the end of fiscal 1982, the Department had about \$1.2 billion of direct loans outstanding and was guarantor for about \$1.5 billion in loans.

GAO performed this survey study to identify and document the Department's financial management systems used to account for, control, and report on its spending authority and related assets and liabilities and to identify the internal control strengths and weaknesses in these systems. Specifically, the survey focused on identifying and documenting the:

- manual and automated systems used by the Department to process all financial transactions from the time they are authorized through final reporting of the financial results of program and administrative operations in internal and external reports,
- relationships between the Department's financial management systems,
- internal control strengths and weaknesses in the systems,
- Department's budget development processes and systems, and
- relationships, if any, between the Department's budget development processes and its accounting systems.

The objectives of this survey were to:

- develop a financial management profile of the Department,
- determine how the Department develops its budget request and whether the financial results of the program trust fund, and administrative operations are integrated into the budget request development process, and
- identify accounting, financial reporting, and internal control weaknesses--significant risks--in the Department's financial management systems.

In addition to this financial management profile, GAO also has available 11 additional volumes of detailed information on the Department's various organizational components. These volumes provide a detailed analysis of the Department's financial

management systems and identify specific internal control strengths and weaknesses for each system. These volumes will be made available upon request.

GAO obtained comments on this financial management profile from the Department. They primarily involved suggestions to expand or clarify matters presented in the profile. It was changed, where appropriate, to incorporate the comments received. Agency comments were also obtained and considered in preparing the additional volumes supporting this financial management profile.

The assistance and cooperation of departmental managers--at all levels--enhanced the successful completion of the work. The results of the work will be used by GAO as the basis for planning future reviews of the Department's financial management systems to ascertain if they conform to the Comptroller General's principles and standards. This financial management profile is being provided to assist the Department in its continuing efforts to improve financial management.

#### FINANCIAL MANAGEMENT STRUCTURE OF THE DEPARTMENT

The Department's financial management structure consists of 81 financial management systems. These systems, taken together, are used to (1) develop annual budget requests, (2) control appropriated funds and other resources, (3) authorize the use of funds and other resources, and (4) capture, record, process, summarize, and report all financial information related to execution of budget authority. The 81 systems include 10 Department-wide systems, 8 general ledger systems, and 63 subsidiary financial management systems that support the 8 general ledger systems.

Based on GAO's survey of these systems, GAO determined that:

- The Department's budget development systems--except for the Social Security Administration's system--are not directly integrated with its accounting systems. (See pp. 16-18.)
- Budget development time frames preclude the use of the actual financial results of the immediately preceding year's program and administrative operations in developing budget requests. (See pp. 18-19.)
- Congress can directly control only about 13 percent of the Department's budget authority through the appropriation process. (See pp. 19-20.)

--Accountability for the four trust funds that support major benefit payment programs is divided between the Department of Health and Human Services, the Internal Revenue Service, and the Treasury Department. (See pp. 20-21.)

--The Department does not maintain a central accounting--general ledger/administrative control of funds--system. Instead, it operates eight separate accounting systems, which are essentially nonstandard systems. (See pp. 21-22.)

--The eight accounting systems are supported by 63 subsidiary financial management systems--like personal property, grants, and loans receivable systems--that maintain detailed records to support summary accounts in the eight accounting systems. (See p. 22.)

INTERNAL CONTROL STRENGTHS AND WEAKNESSES IN THE DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS

GAO assessed the internal control strengths and weaknesses in 73 of the Department's 81 financial management systems. The eight systems not evaluated include budget development systems and small subsidiary financial management systems. GAO's assessment indicated that the:

--Eight general ledger systems seem adequate to ensure that summary financial information is accurately, completely, and promptly recorded in the general ledger accounts. (See pp. 25-27.)

--Disbursement systems for administrative costs (like supplies, rent, utilities, and official travel) seemed adequate to ensure that disbursements were properly authorized, computed and completely and accurately reported to the eight accounting systems. (See p. 27.)

--Central personnel/payroll system did not appear adequate to ensure that paycheck amounts are proper and paychecks were only issued to entitled the persons entitled. (See pp. 27-29.)

--Disbursement systems for six benefit payment programs, with fiscal 1982 disbursements totaling about \$243 billion, did not appear adequate to ensure the propriety of benefit payments made. (See pp. 29-33.)

--Personal property systems, with the exception of the Food and Drug Administration's, appeared generally inadequate to ensure (1) complete, accurate,

and timely accounting for and control of the Department's personal property and (2) consideration of personal property already on-hand in reaching procurement decisions for new property. (See pp. 33-34.)

--Grant and contract systems appeared generally inadequate to ensure that contractors and grantees (1) do not prematurely draw down advances of federal cash, (2) completely, accurately, and promptly report expenditures of advanced cash, and (3) do not hold excessive balances of federal cash. (See pp. 34-36.)

OTHER OBSERVATIONS CONCERNING  
THE DEPARTMENT'S FINANCIAL  
MANAGEMENT SYSTEMS

Many of the Department's financial management systems are not designed and operated to efficiently and effectively use available computer hardware and software resources. The Department's organizational components also operate a number of automated financial management systems, in addition to the 81 systems covered in this survey, that duplicate the recording and reporting of information by the 81 systems surveyed by GAO. (See pp. 36-38.)

FINANCIAL MANAGEMENT IMPROVEMENT  
INITIATIVES THE DEPARTMENT  
HAS UNDERWAY

The Department has three major financial management improvement initiatives underway:

--The Standard Accounting System is being considered as a replacement for the eight existing accounting systems in order to provide the Department with a standard, Department-wide accounting system. Subsequent to the completion of our work, the system was implemented in October 1983 in the Office of the Secretary. (See pp. 40-41.)

--The Payment Management System is designed to replace the Departmental Federal Assistance Financing System and enhance the Department's accountability for and control over cash advances to contractors and grantees, expenditures of advanced cash, and cash balances held by contractors and grantees. This system is in the final development stages. (See p. 41.)

--A study of the Central Personnel/Payroll System is designed to develop a completely new set of system specifications for a Department-wide

personnel/payroll system. The contractor engaged by the Department is just beginning this study. (See pp. 41-42.)

In addition to the Department-wide initiatives, the following Department organizational components have financial management initiatives underway:

- The Food and Drug Administration is upgrading its accounting system to eliminate the need for existing duplicate fund control systems at the bureau level. (See p. 42.)
- The National Institutes of Health is upgrading its automated accounting system to computerize existing manual processes. (See p. 42.)
- The Social Security Administration has a major automated data processing modernization plan underway to completely upgrade the capabilities of its computer equipment. (See p. 43.)
- The Center for Disease Control is upgrading its accounts receivable system. (See p. 42.)
- The Office of Human Development Services is designing a new cash management system for cash advances to contractors and grantees. (See p. 42.)
- The Health Care Financing Administration is designing an automated cash management system for cash advances to contractors to replace existing manual processes. (See p. 43.)
- The Health Resources and Services Administration is redesigning its accounts receivable and payable systems. (See p. 42.)

These financial management improvement initiatives have not been fully designed, developed, and implemented, and at this time, are not in operation. An evaluation as to whether these initiatives will actually improve financial management at the Department will have to be done after the new systems are actually in operation.

RANKING THE DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS  
ACCORDING TO RISKS

GAO ranked, according to risk, 73 of the Department's 81 financial management systems. These rankings were based on ten factors which, among other things, considered:

- business risk--the dollar total of funds or resources and the kinds of assets and liabilities

accounted for and controlled by a system, and the purpose of a system (to authorize the use of funds or resources versus to accumulate and report summary financial information on the results of operations), and

--audit risk--the recency of audit and the importance of findings and recommendations and internal control strengths and weaknesses disclosed during this survey.

Based upon this analysis, GAO determined the Department has 3 high risk systems, 32 medium risk systems, and 38 low risk systems. (See table 2.)



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#### ABBREVIATIONS

ADP	automated data processing
ADAMHA	Alcohol, Drug Abuse, and Mental Health Administration
AFDC	Aid to Families with Dependent Children
CARE	Controls and Risk Evaluation
CDC	Center for Disease Control
DFAFS	Departmental Federal Assistance Financing System
DBMS	Data base management system
DI	Disability Insurance
FDA	Food and Drug Administration
FICA	Federal Insurance Contribution Act
GAO	General Accounting Office
HCFA	Health Care Financing Administration
HRSA	Health Resources and Services Administration
NIH	National Institutes of Health
NHSC	National Health Service Corps
OHDS	Office of Human Development Services
OMB	Office of Management and Budget
OS	Office of the Secretary
OSI	Old-age and Survivors Insurance
PHS	Public Health Service
SECA	Self Employment Contribution Act
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security number

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## CHAPTER 1

### INTRODUCTION

The Department of Health and Human Services is the largest civilian federal agency. In fiscal 1982, it requested about \$280 billion in spending authority which represented about 33 percent of the President's fiscal 1982 budget request to Congress. (See app. I.) The Department employs about 146,000 persons and requested approximately \$4 billion in fiscal 1982 for salaries, compensation, and employee benefits. (See app. II.) The Department is the largest user of automated data processing (ADP) and telecommunications services of all civilian federal agencies. As of September 30, 1981, it operated 31 computer centers located throughout the United States and had in operation 523 central computer processing units. (See app. III.)

The Department's programs fall into three categories:

- retirement, disability, and medical insurance benefit payment programs,
- public assistance and medical payment benefit programs for the economically disadvantaged, and
- medical research (for food, drug, and cosmetic regulation) and various human development programs.

Overall, the Department's programs, in one way or another, touch the lives of more Americans than any other federal agency.

The following three sections of this chapter present an overview of the Department's (1) organizational structure, (2) financial management structure, and (3) ADP resources. The final section of this chapter presents the structure of this financial management profile.

#### ORGANIZATIONAL STRUCTURE OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department is headed by the Secretary of Health and Human Services and comprises five major organizational components. They are the Office of the Secretary (which includes the Department's regional offices), Health Care Financing Administration, Public Health Service, Social Security Administration, and Office of Human Development Services. A brief description of the structure and mission of each component follows.

## Office of the Secretary

The Office of the Secretary includes the (1) immediate staff of the Secretary of Health and Human Services,<sup>1</sup> (2) eight staff offices,<sup>2</sup> (3) Office of Community Services, and (4) Office of Consumer Affairs.

The Secretary of Health and Human Services advises the President on health, welfare, and income security policies, plans, and programs, and carries out federal health, welfare, and income security programs. The Secretary discharges these responsibilities through (1) the Assistant Secretary for Human Development, (2) the Assistant Secretary for Health, (3) the Commissioner of the Social Security Administration, (4) the Administrator of the Health Care Financing Administration, and (5) the principal officials in the Department's ten regional offices.

The principal officials in the Department's ten regional offices are the Secretary's representatives in the field. They represent the Secretary in dealing with state and local governments, carrying out Department programs in the field, and promoting a general understanding of Department policies, objectives, and programs.

The eight staff offices in the Office of the Secretary provide overall policy direction and guidance to the remaining four major organizational components. These components carry out federal health, welfare, and income security programs. In addition, the eight staff offices are responsible for promoting a general understanding among the American public of the Department's goals and programs.

The Office of Community Services was created on October 1, 1979. It assumed administration of the community services project grants to states and localities which previously had been administered by the Community Services Administration. The Community Services Administration was abolished on September 30, 1979.

The Office of Consumer Affairs includes the immediate staff of the Advisor to The President for Consumer Affairs. The Advisor reports directly to the President. The Office of Consumer Affairs is attached to the Department for administrative support only.

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<sup>1</sup>The immediate staff of the Secretary of Health and Human Services includes the (1) Executive Assistant to the Secretary, (2) Office of the Under Secretary, (3) Office of Chief of Staff, and (4) Offices of Deputy Under Secretaries.

<sup>2</sup>The eight staff offices in the Office of the Secretary include: (1) Office of Assistant Secretary for Management and Budget, (2) Office of Assistant Secretary for Legislation, (3) Office of Assistant Secretary for Personnel Administration, (4) Office of Assistant Secretary for Public Affairs, (5) Office of Assistant Secretary for Planning and Evaluation, (6) Office of General Counsel, (7) Office for Civil Rights, and (8) Office of Inspector General.

## Health Care Financing Administration

The Health Care Financing Administration (HCFA) is headed by the Administrator who administers the Medicare and Medicaid programs.

The Medicare program covers hospital, physician, and other medical services for persons age 65 and over. The Medicare program is made up of two parts: hospital and supplementary medical insurance. The hospital insurance covers hospital in-patient costs. The supplementary medical insurance covers physician and other medical services costs. Both parts of Medicare require beneficiaries to share the costs.

The Medicaid program covers medical services provided to eligible low income individuals and families. The program is administered by the states, and program costs are shared by the federal government and the states.

## Public Health Service

The Public Health Service (PHS) is headed by the Assistant Secretary for Health and comprises five organizational entities. A brief description of each follows.

- The Alcohol, Drug Abuse, and Mental Health Administration is responsible for conducting research into the causes and cures of major mental disorders, drug and alcohol abuse. It discharges its responsibilities by awarding research contracts and grants to states and private research organizations.
- The Center for Disease Control (CDC) is responsible for federal programs to (1) control the spread of communicable diseases in the United States, (2) reduce the incidence of communicable diseases in the United States, (3) provide protection to the United States population against certain environmental hazards, (4) promote occupational safety and health in the workplace, and (5) educate the American population on health and safety issues.
- The Food and Drug Administration (FDA) is responsible for protecting the public's health from impairment by foods, drugs, biological products, cosmetics, medical devices, ionizing and nonionizing radiation-emitting products and substances, poisons, pesticides, and food additives. FDA's regulatory functions are geared to ensure that foods are safe, pure, and wholesome; drugs, medical devices, and biological products are safe and effective; cosmetics are harmless; all are honestly and informatively packaged, and that exposure to potentially injurious radiation is minimized.
- The Health Resources and Services Administration (HRSA) is responsible for federal programs to improve health services for all people of the United States and to develop health

care and maintenance systems which are adequately financed, comprehensive, and responsive to the health care needs of individuals and families.

- The National Institutes of Health (NIH) is responsible for federal medical research efforts. The mission of the National Institutes of Health<sup>3</sup> is to improve the health of the people of the United States by increasing the body of scientific knowledge on the causes, detection, treatment, and prevention of disease.

### Social Security Administration

The Social Security Administration (SSA), headed by the Commissioner of Social Security, administers six income security programs.

1. The Old-age and Survivors Insurance Program provides supplementary retirement income to individuals covered by the Social Security Program.
2. The Disability Insurance Program provides benefit payments to workers and the families of workers who become disabled before reaching retirement age and who were covered by the Social Security Program.
3. The Supplemental Security Income Program provides an income supplement to aged, blind, and disabled individuals who have limited income and resources.
4. The Aid to Families with Dependent Children Program provides families with minor children with financial benefits if these families have no other income because the father is unable to work or if the father has left the home and the mother is unable to work because of child care responsibilities.
5. The Black Lung Program provides disability income payments to coal miners who contract black lung disease.
6. The Low Income Energy Assistance Program provides assistance payments to economically disadvantaged individuals to help them pay home heating bills during the winter months.

### Office of Human Development Services

The Office of Human Development Services (OHDS) is headed by the Assistant Secretary for Human Development and is responsible for federal human development programs for the elderly, children,

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<sup>3</sup>The National Institutes of Health consists of the Office of the Director, the National Library of Medicine, the Clinical Center, the Fogarty International Center, 11 research institutes, and seven divisions.

youth, Native Americans, persons with developmental disabilities, and public assistance recipients. It issues grants to states and local governments to fund human development programs such as head start, child abuse, foster care, and adoption assistance programs.

#### FINANCIAL STRUCTURE OF THE DEPARTMENT

The Department of Health and Human Services requested fiscal year 1982 spending authority totaling about \$280 billion. (See app. I.) During fiscal 1982, the Department also managed six direct loan programs and four loan guarantee programs.

The funding for the Department's requested fiscal 1982 spending authority came from the following major sources:

- four trust funds maintained by the Treasury and supported by employee and employer payroll taxes under the Federal Insurance Contribution Act (FICA) and Self Employment Contribution Act (SECA),
- collections from states, businesses and individuals for their statutory share of income security and health insurance program costs and for services rendered by the Department like drug testing services, and
- funds appropriated by the Congress.

Details follow on the operations of trust funds, Departmental programs that require participation by states, and Departmental programs funded by general tax revenues.

#### Trust funds

Four trust funds<sup>4</sup> are maintained by the Treasury Department to support benefit payments under (1) the Social Security Administration's Old-age and Survivors and Disability Insurance programs and (2) the Health Care Financing Administration's Medicare program. Revenues to the trust funds come from employer and employee FICA and SECA payroll taxes and collections from covered individuals for their share of benefit costs.

The Department made \$209 billion in benefit payments from the four trust funds in fiscal 1982. Of the \$209 billion, \$187 billion came from federally collected tax revenues and \$22 billion came from collections from states and individuals. The amount of payments actually made during fiscal 1982 was determined by the number of people who met initial and continuing eligibility criteria, actually received benefit payments, and the payment computation standards in the legislation. The amount of actual benefit payments

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<sup>4</sup>Old-age and Survivors's Trust Fund, Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, and Federal Supplemental Medical Insurance Trust Fund.

was known only at the end of fiscal 1982. Estimated benefit payments for fiscal 1982 in the President's budget submitted to the Congress were as follows:

	(billions)
Old-age and Survivors Trust Fund	\$130
Federal Disability Trust Fund	22
Federal Hospital Insurance Trust Fund	39
Federal Supplementary Medical Insurance Trust fund	<u>18</u>
	<u>\$209</u>

The four trust funds also transferred more than \$1.1 billion to the Department of Health and Human Services' general revenue accounts as reimbursement for administrative support. This support includes ADP services, salaries, expendable supplies, rents, and utilities.

#### Programs that require state participation

The Department of Health and Human Services is responsible for three benefit payment programs that require the federal government and states to share program costs. They are the Supplemental Security Income, Aid to Families With Dependent Children, and Medicaid Programs. Estimated fiscal 1982 federal costs for these programs included in the President's budget submissions to Congress for these programs totaled about \$32.5 billion. The amount of payments actually made during fiscal 1982 under these three programs, however, was determined by the number of people who met initial and continuing eligibility criteria, actually received benefit payments, and payment computation standards set in the legislation.

The Supplemental Security Income Program is administered by the Social Security Administration, which makes program payments each month. In advance of making payments, the Administration bills states on a monthly basis for their anticipated share of program costs and subsequently adjusts future billings to reflect differences between anticipated and actual costs. For fiscal 1982, the federal share of program costs was estimated at about \$8 billion.

Under Aid to Families with Dependent Children, benefit payment levels are set by the federal government and the states. The program is administered by the states and the states bill the federal government for its share of program cost. For fiscal 1982, the federal share was estimated at about \$5.7 billion.

The Medicaid Program is administered by the states, and the states bill the federal government for its share of program costs. For fiscal 1982, the federal share of program cost was estimated at about \$18 billion.

### Programs funded by appropriations

Departmental programs, other than those discussed above under trust funds and state participation programs, are funded mainly out of federal general tax revenues. The President's fiscal 1982 budget request included about \$37 billion for these programs. Fiscal 1982 estimated program costs and sources of funds are summarized in Appendix I.

### Loan programs

During fiscal 1982, the Department operated six direct loan programs and four loan guarantee programs. These loan programs provided funds for educating health professionals, building and operating health care facilities.

The six direct loan programs are the:

- Health Services Direct Loans,
- Health Resources Administration Direct Loans,
- Health Education Loans,
- Nurse Training Loans,
- Medical Facilities Loan Fund, and
- Health Maintenance Organization Loans.

Under these programs, the federal government actually makes loans to applicants and then collects principal and interest over an agreed upon payback period. Under these programs, the Department acts as banker. The President's fiscal 1982 budget requests estimated that at the end of fiscal 1982, the Department would have an estimated \$1.2 billion in outstanding direct loans.

The four loan guarantee programs are the:

- Health Profession Graduate Student Loan Insurance Fund,
- Health Resources Administration Loan Guarantee Fund,
- Medical Facilities Guarantee Loan Fund, and
- Health Maintenance Organization Loan Guarantee Fund.

Under these programs, an applicant secures a loan from a private financial institution and the federal government guarantees to the financial institution the full payment of the loan. The only

time the federal government becomes involved in paying off a loan is when the loan recipient defaults. The President's fiscal 1982 budget request estimated that at the end of fiscal 1982, the Department would be guarantor for an estimated \$1.5 billion in loans.

#### ADP RESOURCES USED BY THE DEPARTMENT

The Department of Health and Human Services is one of the largest users of ADP equipment and systems among the civilian federal agencies. As of September 30, 1981, the Department operated 31 computer centers located throughout the United States. It ran 185 computer systems which were composed of 523 central processing units (computers). The 31 computer centers were operated by four organizational components of the Department: (1) the Office of the Secretary, (2) the Public Health Service, (3) the Social Security Administration, and (4) the Health Care Financing Administration. Appendix III includes a listing of the Department's computer centers, computer systems, and the number of central processing units installed.<sup>5</sup>

#### PURPOSE OF THIS FINANCIAL MANAGEMENT PROFILE

This financial management profile report presents the information obtained as a result of GAO's survey at the Department to identify its financial management structure, the internal controls included in this structure, and internal control strengths and weaknesses. The focus of our work was not to approve or disapprove any of the Department's financial management systems but rather to identify the systems in the Department's financial management structure, the relationship between the individual systems, and relative risks in these systems.

During our review, we worked closely with the Department's financial management personnel. We also periodically briefed senior Department officials on the progress and results of the work.

The information in this financial management profile will be useful to the Department in its continuing efforts to improve financial management. This profile should also be useful to the Department in identifying the accounting systems to be reviewed for conformance with GAO's accounting principles and standards and for approval or disapproval by the Comptroller General. Appendix IV lists the systems that we believe are subject to approval by the Comptroller General.

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<sup>5</sup>The source of this information is the General Services Administration's published inventory of ADP equipment as of September 30, 1981, which was published in February 1982.

STRUCTURE OF THIS FINANCIAL  
MANAGEMENT PROFILE

This profile comprises five chapters as follows:

- Chapter 2 discusses the objectives, scope, and methodology of our survey.
- Chapter 3 describes the financial management structure of the Department of Health and Human Services.
- Chapter 4 discusses the internal control strengths and weaknesses in the Department's financial management systems and other concerns with the Department's financial management systems.
- Chapter 5 describes initiatives the Department has underway to improve financial management.
- Chapter 6 presents our ranking of the systems that compose the Department's financial management structure according to the relative risks in each of these systems.

This financial management profile provides an overview of the individual systems that constitute the Department's financial management structure and the internal control strengths and weaknesses we identified. Detailed information is included in 11 additional volumes that are available upon request. (See app. X.)

## CHAPTER 2

### OBJECTIVES, SCOPE, AND METHODOLOGY

This survey treated the Department of Health and Human Services as a financial entity and focused on identifying the Department's financial management structure and related systems of internal control and on identifying internal control strengths and weaknesses. The survey applied GAO's Controls and Risk Evaluation (CARE) audit approach.

#### SURVEY OBJECTIVES

Our survey objectives were to (1) document all manual and automated systems that process financial transactions from the time they are authorized through final reporting of these transactions in internal and external reports, (2) identify the relationships between these systems, that is, the flow of information between different systems, (3) identify and document internal control strengths and weaknesses in the financial systems, and (4) document the Department's budget development processes and systems and any relationships between the budget and financial systems.

#### SURVEY SCOPE

This survey viewed the Department of Health and Human Services as a single financial entity. Consequently, we identified and surveyed the financial management systems in all five major organizational components of the Department. Survey work was performed at these sites:

- Office of the Secretary, Washington, D.C.,
- Health Care Financing Administration, Baltimore, Md.,
- Social Security Administration, Baltimore, Md.,
- Food and Drug Administration, Rockville, Md.,
- Health Services and Resources Administration, Rockville, Md.,
- Alcohol, Drug Abuse, and Mental Health Administration, Rockville, Md.,
- National Institutes of Health, Bethesda, Md.,
- Office of Human Development Services, Washington, D.C., and
- Center for Disease Control, Atlanta, Ga.

Work was also done at the Food and Drug Administration's Atlanta, Baltimore, and Philadelphia district and regional offices. We also visited eight of the Department's ten regional offices.<sup>1</sup> At the agency offices visited, we documented the financial management systems in operation, and based on available system documentation and through discussions with agency accounting, ADP, and program officials, identified the internal control strengths and weaknesses in these systems. We did not perform any tests of system operations or actual financial information and transactions. The following sections present our definitions of a financial management system, internal control, and an agency system of internal control.

#### DEFINITION OF A FINANCIAL MANAGEMENT SYSTEM

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

- development of budget requests,
- authorization of the use of resources,
- management of liabilities,
- receipt of revenue,
- disbursement of funds,
- control of assets,
- control of appropriated funds, and
- 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 (for the purposes of this profile, financial management systems). In this letter, the Comptroller General reiterated the definition of an accounting system in GAO's Policy and Procedures Manual.

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<sup>1</sup>Atlanta, Ga.; Chicago, Ill.; Dallas, Tex.; Kansas City, Mo.; New York, N.Y.; Philadelphia, Pa.; San Francisco, Calif.; and Seattle, Wash.

DEFINITION OF  
INTERNAL CONTROLS

On June 1, 1983, the Comptroller General issued the Standards for Internal Control in the Federal Government to be followed by federal agencies. 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."

Internal controls in financial management systems are implemented through either processing or internal control procedures. Processing procedures are those manual and/or automated procedures that govern the authorizing of transactions, and capturing, recording, processing, summarizing, and reporting of financial and related quantitative information. Internal controls are independent procedures that provide evidence that processing procedures have, in fact, been followed. An example follows:

In a payroll system, processing procedures for time and attendance records could provide that:

- Time and attendance records should be submitted for computer processing in batches of 100 records.
- Each time and attendance batch should include a batch control form that shows: (1) number of records in the batch, (2) total number of hours worked shown on the records in the batch, and (3) the total number of hours and leave shown on the records in the batch.

An internal control procedure could be a computer edit check that would reject from further computer processing all time and attendance record batches that did not include 100 time and attendance records and/or, did not include a batch control form showing total hours worked and leave taken for all records in the batch.

DEFINITION OF AN AGENCY'S  
SYSTEM OF INTERNAL CONTROL

Most agencies operate several financial management systems that process different types of financial transactions and that also provide information to each other. The individual financial management systems--taken together--form the agency's overall accounting, financial control, and financial reporting system. Generally, most agencies have a (1) budget development system, (2) general ledger/administrative control of funds system, and (3) subsidiary systems 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 management structure.

The financial management systems generally include both processing and independent internal control procedures, as previously defined and illustrated. 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 constitute the overall accounting, financial control, and financial reporting system.

#### DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS INCLUDED IN OUR SURVEY

Based on the foregoing definitions, we included in our survey all manual and automated systems at the Department of Health and Human Services that:

- develop budget requests,
- maintain general ledger accounts and produce financial reports,
- compare approved budgets to the financial results of operations,
- validate information from subsidiary financial management systems that feed information to general ledger systems,
- determine eligibility for and timing of benefit payments and authorize the making of payments,
- record and classify benefit payments,
- analyze, record, and report errors in benefit payment systems,
- authorize acquisition of resources,
- record acquisition and use of assets,
- record and account for assets and liabilities, and
- record and account for receipts.

#### SURVEY METHODOLOGY

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

- organizational structure and major organizational components and the mission of each component,

- ADP organizational structure including the Department's computer centers, owned and leased equipment, and ADP services obtained from other sources (other Government agencies and private contractors),
- budget development processes and systems,
- accounting financial control, and financial systems, as previously discussed, and the interrelationships between these systems,
- internal control strengths and weaknesses in the Department's systems, and
- relative risks in the Department's systems based on the internal control strengths and weaknesses identified during the survey.

In consonance with the CARE audit approach, our work identified and documented the operations and related internal control strengths and weaknesses of the Department's financial management system based on (1) available agency system documentation, (2) discussions with cognizant agency accounting, program, and ADP systems officials, and (3) prior GAO, inspector general, and special study group reports. We considered the Department's effort in implementing the Federal Managers' Financial Integrity Act, but we did not evaluate these efforts. A comprehensive review of the Department's efforts is underway and will be reported on separately.

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.

We did test the reliability of information produced by two general ledger/administrative control of funds systems based on a questionnaire sent to users of reports produced by these systems. These two tests were performed to evaluate the effectiveness of the user satisfaction questionnaire.

The procedures and factors we used to rank the Department's financial management systems according to each system's vulnerability to fraud, waste, and abuse--risks--are discussed in detail in chapter 6. This ranking will be used as one of the bases for scheduling future system-in-operation reviews at the Department.

## CHAPTER 3

### FINANCIAL MANAGEMENT STRUCTURE

#### OF THE DEPARTMENT

The Department of Health and Human Services' overall financial management structure consists of 81 systems. They are used either to (1) develop annual budget requests, (2) control appropriated funds and other resources, or (3) authorize transactions, capture, record, process, summarize, and report all financial and relevant quantitative information related to execution of budget authority.

Based on our survey of the Department's financial management structure, we determined that:

- Budget development systems--except for the Social Security Administration's system for administrative expenses--are not directly integrated with accounting systems.
- Budget development time frames preclude the use of the actual financial results of the immediately preceding year's program and administrative operations in developing budget requests.
- Congress can directly control only about 13 percent of the Department's budget authority through the appropriation process.
- Accountability for four trust funds, which supported about \$209 billion in benefit payments during fiscal 1982, is divided between the Department of Health and Human Services, the Internal Revenue Service, and the Treasury Department.
- The Office of the Secretary operates ten central systems to (1) prepare budget requests, (2) provide personnel/payroll services, (3) process regional office financial transactions, (4) record and control cash advances to contractors and grantees, (5) maintain a vendor file, and (6) prepare special financial reports.
- The Department does not maintain a central accounting (general ledger/administrative control of funds) system. Instead, it operates eight accounting systems. They are non-standard systems except for a standard chart of accounts (called the umbrella accounting system) subobject classification codes, transaction codes, and input formats for information exchanged between the eight systems.
- Departmental components run 63 financial management systems (like personal property, grants, and loans receivable systems) that maintain detailed records support of summary accounts in the eight accounting systems.

The above are overall issues we identified that generally relate to financial management in the Department. Specific internal control weaknesses in the Department's financial management systems are discussed in chapter 4. Appendix IV lists the Department's 81 financial management systems and appendix V presents a flowchart showing the interrelationships of the 81 systems.

#### DEPARTMENT-WIDE BUDGET DEVELOPMENT SYSTEMS

The Office of the Secretary operates a Department-wide budget development system that includes two major subsystems: the automated Budget Information and A-11 Budget subsystems. In this report, the Budget Information and A-11 Budget subsystems will be presented as two separate systems.

Both systems arithmetically summarize budget requests prepared by organizational components of the Department based on information in budget development systems at the organizational component level. The systems at this level are manual except at the SSA, National Cancer Institute, and Food and Drug Administration (the latter two are component agencies of the Public Health Service). Except for the SSA's administrative expenditures, none of the organizational component budget systems are directly integrated with their accounting systems.

The Office of Management and Budget (OMB) requires agencies to develop and submit their budget requests a year before the start of the fiscal year for which the request is being prepared. Thus, the actual financial results of program and administrative operations for the year preceding can not be used in developing budget requests.

#### Budget Information System

The Budget Information System is used to develop the annual, Department-wide budget request which is sent to the Office of Management and Budget, the President, and finally to the Congress. The system arithmetically summarizes budget requests from the Department's organizational components and produces a Department-wide budget request. This system is run on computer equipment owned and operated by a private contractor. Information is entered into and retrieved from the system by computer terminal.

Budget requests from the organizational components--except for the Public Health Service--are sent in hard copy format to the Office of the Secretary. Staff in the Office of the Secretary enter the requests, by computer terminal, into the Budget Information System. Budget requests for the Public Health Service's component agencies are entered directly, by computer terminal, into the Budget Information System by staff in the Office of Assistant Secretary for Health.

The organizational components' budget development systems that store summary budget request information and enable preparation of

the request documents, are essentially manual systems except for automated systems at the National Cancer Institute, Food and Drug Administration, and the Social Security Administration. The summary budget request information is based on detailed information produced by other automated management information systems and other financial systems. The detailed information from these systems is subjected to intensive manual analyses, summarization, and updates, to develop and support summary information in budget requests.

The SSA's budget system for administrative expenditures is directly linked to its accounting system. The budget development systems used by the other organizational components of the Department are stand-alone systems without any direct link to their accounting systems. The direct link between SSA's budget development and accounting systems facilitates preparing budget requests based on the actual financial results of the preceding fiscal year's administrative operations. For Departmental organizational components, other than SSA, budget requests are generally based on (1) historic average costs and growth rates for program and administrative expenditures, (2) economic factors like estimated inflation and unemployment rates, and (3) administrative policy decisions to increase, hold constant, or decrease programs other than entitlement programs.

In contrast, the Social Security Administration's budget development system receives a magnetic tape of expenditures for items like salaries, rent, utilities, and supply purchases from the accounting system each month. Consequently, SSA's budget request for administrative expenditures is based on actual expenditures incurred as of the date the budget request is submitted to the Office of Management and Budget. SSA's budget request for benefit payments is based on both long and short-term estimates of projected benefit payments. Long-term estimates are based on historic growth rates and economic factors. Short-term estimates are based on recent actual benefit payments that are increased or decreased to reflect cost-of-living increases, and changes in the number and mix of people on the benefit rolls. Short-term estimates support the budget request submitted to the OMB.

#### A-11 Budget System

The A-11 Budget System is used to develop the budget request for ADP and telecommunications costs. This budget request is prepared pursuant to the requirements of OMB Circular A-11 and is submitted to OMB. Proposed spending levels for ADP and telecommunications are included in the Department-wide annual budget request prepared by the Budget Information System. This request, however, does not break out ADP and telecommunications costs as separate line items. The function of the A-11 budget request is to separately set out the Department's resource needs for ADP and telecommunications.

The A-11 Budget System arithmetically summarizes budget requests received from the organizational components of the

Department. The system is run on computer equipment owned and operated by a private contractor. Information is entered into and retrieved from the system by computer terminal.

Organizational components enter their ADP and telecommunications budget requests into the A-11 Budget System by computer terminal. The systems used by the organizational components to develop their budget requests are essentially manual processes. The A-11 budget system is used to arithmetically summarize the budget requests entered into the system by departmental organizational components to develop the Department-wide A-11 budget request. This budget request is then sent to the Office of Management and Budget.

### Budget Development Time Frames

While the Department is developing its budget requests for any fiscal year, three budgets are simultaneously being executed, considered by Congress, or developed. For example, when the Department was developing its fiscal 1984 budget request, Congress was considering the Department's fiscal 1983 budget request, and the Department was executing its fiscal 1982 spending authority. Our survey focused on the budget development time frames for the fiscal 1984 budget request because this request was being prepared during our survey. An overview of the sequence of development of the fiscal 1984 budget request follows.

The Department's five major organizational components began developing their individual budgets during October 1981 through April 1982 by issuing budget development guidelines. These guidelines were issued to component operating units from February through April 1982. Operating units were given until April and May 1982 to develop their budget requests. The Department's major organizational components consolidated their operating units' budget requests into overall component budget requests, discussed these requests with staff in the Office of the Secretary, made changes to their requests based on the discussions, and submitted final budget requests to the Office of the Secretary by July 1982. The Office of the Secretary combined its organizational budget component requests into a single Department-wide request and submitted it to the Office of Management and Budget in October 1982. At that time, the Department had just completed executing its fiscal 1982 spending authority and was beginning to execute its fiscal 1983 spending authority.

For the A-11 budget request, the Office of the Secretary issued budget development guidelines to its major organizational components in April 1982. The components were given until June 1982 to develop and submit their budget requests to the Office of the Secretary. The Office of the Secretary consolidated its organizational component budget requests into a Department-wide budget request and submitted it to the Office of Management and Budget in September 1982. At the time the Department submitted its

fiscal 1984 A-11 budget request to the Office of Management and Budget, it had not yet completed executing its fiscal 1982 ADP and telecommunications spending authority.

CONGRESSIONAL CONTROL OF  
THE DEPARTMENT'S BUDGET AUTHORITY

Congress can directly control only about 13 percent of the Department's annual spending authority through the appropriation process. About 87 percent of the Department's annual budget request represents estimates of expenditures for payments to individuals or on behalf of individuals to states and commercial insurance carriers under major benefit payment programs. The actual amount of these expenditures, however, is determined by the number of people who meet initial and continuing eligibility criteria and receive benefit payments based on eligibility and payment criteria set separately in laws other than the annual appropriation acts. Consequently, the actual amounts of these expenditures can only be determined at the end of any fiscal year when they are totaled.

In the President's fiscal 1982 budget request submitted to Congress, the Department's spending authority totaled more than \$280 billion in the following categories:

	(billions)
Estimated retirement, disability, and medical insurance benefit payments to be made from four trust funds	\$209
Estimated public assistance and medical benefit payments to be made to the economically disadvantaged	34
Requested spending level for medical research; food, drug, and cosmetic regulation; and various human development programs.	<u>37</u>
Total	<u>\$280</u>

The \$37 billion for medical research, regulatory, and human development programs can be directly controlled by the Congress through the legislative process. This amount represented the requested spending ceiling submitted by the Department for congressional approval for carrying these activities. If approved by the Congress, the Department and its organizational components would have to keep obligations and expenditures within this spending ceiling.

The aggregate estimate of \$243 billion for insurance and public assistance program benefit payments, however, cannot be controlled directly through the appropriations process. This amount represented estimated benefit payments to be made rather than a

proposed spending level that the Congress could approve, modify or disapprove during the appropriation process.

As noted earlier, the actual amount of money to be expended annually under insurance and public assistance programs is determined by the number of people who are eligible for, apply for, and receive payments. In short, expenditures under insurance and public assistance programs are open-ended and will only be known at the end of the fiscal year when actual obligations and expenditures are totaled. For these programs Congress cannot set annual spending ceilings during the appropriation process.

The President and the Congress can affect the level of expenditures under insurance and public assistance programs by amending the eligibility and payment computation criteria in laws that authorize these programs. The actual amount of benefit payments to be made however, will still be determined by the number of people who are eligible for, apply for, and receive benefit payments based on any amended criteria.

#### ACCOUNTABILITY FOR TRUST FUNDS

Responsibility for maintaining accounting records and accountability for four major trust funds that supported the estimated \$209 billion in retirement, disability, and medical insurance benefits payments in the President's fiscal 1982 budget request is divided among: the Treasury Department, the Internal Revenue Service, and the Department of Health and Human Services. To obtain an overview of total trust fund operations--that is, receipts, disbursements and fund balances--work would have to be done at all three agencies. The Department of Health and Human Services controls and accounts for benefit payment disbursements from the four trust funds and maintains detailed disbursement records for the benefit payments made.

The Internal Revenue Service collects, controls, and accounts for receipts to the four trust funds. Receipts come primarily from FICA and SECA payroll taxes, contributions by states, contributions by covered individuals, federal interbudgetary transfers, and federal general tax revenues. The largest source of income to the trust funds comes from FICA and SECA taxes. These taxes are collected by the Internal Revenue Service and are reported to the Treasury Department. States make their contributions through the Social Security Administration. Federal interbudgetary transfers are reported to the Treasury Department by the federal agencies initiating the transfers. Contributions from federal general tax revenues are collected and recorded by the Treasury Department.

The Treasury Department, as fiduciary, maintains general ledger accounts for the four trust funds that support benefit payments to individuals covered by the federal Old-age and Survivors Insurance, Disability Insurance, and Medicare programs. The four funds are the:

- Old-age and Survivors Trust Fund,
- Federal Disability Trust Fund,
- Federal Hospital Insurance Trust Fund, and the
- Federal Supplementary Medical Insurance Trust Fund.

The Treasury Department maintains trust fund general ledger accounts which are based on receipts reported to it by the Internal Revenue Service and the Social Security Administration and disbursements reported to it by the Department of Health and Human Services. Specifically, at the beginning of each tax year, Treasury estimates how much money FICA and SECA tax collections the trust funds will receive during the year and records these estimates in the trust fund general ledger accounts. Each tax quarter, the Department prepares for Treasury a trust fund letter certifying the FICA and SECA tax receipts recorded by the Social Security Administration in individuals' accounts in its Earning Record System and the data needed to redistribute FICA and SECA tax receipts among the trust funds. Entries in the Earning Records System are based on information reported to the Internal Revenue Service by employers. Treasury, based on the letter received from the Social Security Administration, compares actual receipts with its estimates and adjusts the trust fund general ledger accounts as appropriate. During each month, the Department provides estimates to Treasury of cash required to meet daily trust fund benefit and administrative payments, and, at the end of the month, reports actual disbursements made.

#### CENTRAL FINANCIAL MANAGEMENT SYSTEMS

The Office of the Secretary runs ten central financial management systems that (1) prepare budget requests, (2) provide personnel and payroll services, (3) control cash advances to contractors and grantees, (4) maintain a vendor file, and (5) prepare special reports. The Office of the Secretary also runs the Regional Accounting System to provide standardized accounting and financial reporting for all regional operations. These systems and a description of their purposes are listed in appendix VI.

#### DEPARTMENT ACCOUNTING SYSTEMS

The Department does not maintain a Department-wide accounting system to (1) maintain summary accounts for receipts, disbursements, assets, liabilities, and appropriated funds, (2) report on the status of appropriated funds and other resources, and (3) report on the financial results of program and administrative operations. Instead, Department organizational components operate eight general ledger systems.

The eight systems use a standard, Department-wide chart of accounts (called the umbrella accounting system), subobject classification codes, transaction codes, and input formats for information

exchanged among all eight. In all other aspects of system design--reports produced, computer-based internal controls, and input procedures--the eight are nonstandard systems. All eight general ledger systems are automated, but they use different levels of sophistication of ADP technology. For example, some of the systems use magnetic tape as the basic storage medium, while other systems are designed around modern data base management system concepts. The eight general ledger systems and organizational components serviced are listed in appendix VII.

#### SUPPORTING FINANCIAL MANAGEMENT SYSTEMS

The eight general ledger systems discussed above include summary accounts for appropriated funds, receipts, disbursements, assets, liabilities, and costs. Subsidiary financial management systems include the detailed financial and related quantitative information that support summary accounts. The supporting systems include, for example, disbursement, personal property, grants and contracts management, and loans receivable systems.

Overall, the major organizational components of the Department maintain and operate 63 supporting financial management systems. These systems are summarized below and are included in appendix IV.

<u>Departmental organizational components</u>	<u>Number of supporting financial management systems</u>
Office of the Secretary	2
Health Care Financing Administration	7
Public Health Service:	
Alcohol, Drug Abuse, and Mental Health Administration	1
Center for Disease Control	11
Food and Drug Administration	3
Health Resources and Services Administration	10
National Institutes of Health	18
Social Security Administration	8
Office of Human Development Services	<u>3</u>
Total	<u><u>63</u></u>

Appendix V presents a flowchart of the interrelationships of the systems listed in appendix IV. The next chapter discusses the internal control strengths and weaknesses in the Department's financial management systems and other concerns we have with the Department's approach to financial management.

## CHAPTER 4

### INTERNAL CONTROL STRENGTHS AND WEAKNESSES AND OTHER GAO CONCERNS WITH THE DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS

The financial management structure of the Department of Health and Human Services is composed of 81 manual processes and automated systems that are operated by the Department's organizational components. These systems authorize, record, control, and report on the Department's execution of its budget authority. Specifically, these systems (1) authorize payments and use of departmental resources, (2) make disbursements, (3) record and control receipts, assets, and liabilities, (4) control appropriated funds, and (5) produce internal and external reports on the financial results of program and administrative operations.

In assessing the internal control strengths and weaknesses in the departmental financial management system, we determined that:

- General ledger systems seem adequate to ensure that summary financial information reported by subsidiary systems is accurately, completely, and promptly recorded in the general ledger accounts.<sup>1</sup>
- Disbursement systems for administrative costs (like supplies, rent, utilities, and official travel) seem generally adequate to ensure that disbursements are properly authorized, computed, and completely and accurately reported to the general ledger systems.
- The central personnel/payroll system does not appear adequate to ensure that paycheck amounts are proper and paychecks are issued only to persons entitled.
- Disbursement systems for six benefit payment programs,<sup>2</sup> with fiscal 1982 disbursements totaling about

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<sup>1</sup>These systems maintained general ledger accounts and administratively controlled funds for the Department's organizational components. As discussed in chapter 3, the Department maintains and uses eight accounting systems.

<sup>2</sup>Medicaid Program - fiscal 1982 disbursements - \$18.8 billion. Medicare Program - fiscal 1982 disbursements - \$56.9 billion. Aid to Families with Dependent Children Program - fiscal 1982 disbursements - \$5.7 billion. Old-age and Survivors Insurance Program - fiscal 1982 disbursements - \$130.2 billion. Disability Insurance Programs - fiscal 1982 disbursements - \$22 billion. Supplemental Security Income Program - fiscal 1982 disbursements - \$10 billion.

\$243 billion, generally are inadequate to ensure the propriety of benefit payments made.

--Personal property systems, with the exception of the Food and Drug Administration's, generally appear inadequate to ensure (1) complete, accurate, and timely accounting for and controlling of the Department's personal property and (2) consideration of personal property already on hand in reaching decisions for procuring new property items.

--Grant and contract systems generally appear inadequate to ensure that grantees and contractors (1) do not prematurely draw down advances of federal cash, (2) completely, accurately, and promptly report expenditures of advanced cash, and (3) do not hold excessive balances of Federal cash.

In addition, many of the Department's financial management systems are not designed and operated to efficiently use available computer hardware and software resources. Further, the Department's organizational components operate, in addition to the 81 systems covered in this survey, a number of automated financial management systems that duplicate recording and reporting of information by the 81 systems surveyed by GAO.

We also noted a nonfinancial internal control area that should be addressed in subsequent reviews: that is, the physical control and accountability for drugs, controlled substances, and dangerous biological substances. This area was not covered in our survey because it does not directly pertain to financial management.

#### ACCOUNTING SYSTEMS

The Department operates eight accounting (general ledger) systems<sup>3</sup> with two primary functions:

- to provide departmental managers with the information needed to ensure that the Department does not breach its Congressionally approved spending limits and thus violate the Anti-Deficiency Act,
- to produce periodic reports on (1) the status of appropriated funds, assets, and liabilities, (2) disbursements made out of Treasury maintained trust funds, and (3) the financial results of program administrative operations.

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<sup>3</sup>Office of the Secretary direct access accounting system  
HCFA Accounting, Reporting, and Tracking System  
Financial Accounting System (Social Security Administration)  
Health Accounting System (Health Resources and Services Administration)  
FDA Umbrella Accounting System  
Central Accounting System (National Institutes of Health)  
CDC Umbrella Accounting System  
Regional Accounting System

Generally, the eight general ledger systems provide only for a small part of the Department's overall system of financial internal controls. The general ledger systems receive summary information on the status of assets and liabilities and on the financial results of program administrative operations from subsidiary financial management systems. They generally have adequate controls to ensure that the information received is accurately processed.

These eight systems maintain required general ledger accounts<sup>4</sup> and produce a series of monthly, quarterly, and annual reports on (1) the status of appropriated funds, assets, and liabilities, (2) disbursements made out of four trust funds maintained by the Treasury Department, and (3) the financial results of program and administrative operations. These reports are designed to provide information for administrative control over funds, assist the Treasury Department in maintaining trust fund general ledger accounts, and enable the Department to satisfy external financial reporting requirements.

The Regional Accounting System also maintains subsidiary ledger detailed accounts with controls to ensure the propriety of payments for selected classes of transactions.

The eight general ledger systems seem to include adequate controls to ensure that summary financial information is accurately, completely, and promptly entered into the general ledger accounts. These systems do not include controls to verify the propriety of individual transactions that constitute the summary financial information received. For example, the general ledger systems do not include any controls to test whether individual disbursements reported to them in summary were authorized in accordance with statutory or regulatory provisions. The controls over the propriety of disbursements are appropriately included in the subsidiary financial management systems that support the accounting systems.

Overall, the Department's eight accounting systems provide for only a small part of the Department's overall system of internal financial controls. These systems help guard against violating the Anti-Deficiency Act, but do nothing to preclude improper use of departmental resources.

The controls over the propriety of use of departmental resources are included in financial management systems that support the eight accounting (general ledger) systems. Survey results regarding these controls are presented in the following sections of this chapter. For ease of presentation the supporting financial management systems are grouped as follows:

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<sup>4</sup>All eight general ledger systems use a standard, departmentwide chart of general ledger accounts, subobject classification codes, transaction codes, and input formats, for information exchanged among the eight systems.

- disbursement systems for administrative cost,
- disbursement systems for Medicare, Medicaid, and AFDC Programs,
- disbursement systems for benefit payment programs,
- personal property systems, and
- grant and contract systems.

#### DISBURSEMENT SYSTEMS FOR ADMINISTRATIVE COSTS

The Department's organizational components operate systems to initiate, approve, compute, make and record disbursements for administrative costs like purchases of supplies, official travel, rent, utilities and routine contract services. These systems are a combination of manual and automated processes. In general, they include controls needed to ensure that all administrative disbursements are:

- authorized in accordance with statutory requirements, departmental policies and regulations, and spending plans and authority,
- computed and paid properly,
- made for goods and services actually received,
- recorded promptly, completely, and accurately in detailed accounts, and
- reported, in summary form, to the appropriate accounting system.

Overall, the departmental disbursement systems for administrative costs generally appear to include processing and control procedures that are adequate to ensure that administrative costs are necessary and proper.

#### CENTRAL PERSONNEL/PAYROLL SYSTEM

The Department operates a central personnel/payroll system to (1) maintain personnel and payroll records for all employees, (2) prepare and issue paychecks, (3) provide summary payroll costs to accounting systems, and (4) prepare needed internal and external personnel and payroll reports. The system does not seem to include the needed internal controls to ensure that paychecks are accurate.

The system handles two broad categories of employees: civilian employees and Public Health Service (PHS) commissioned officers (doctors, dentists, nurses, and other professionals who work in PHS medical installations). The system also processes monthly stipends

to medical, dental, and nursing students participating in the Health Resources and Services Administration's (HRSA's) National Health Service Corp's (NHSC's) Scholarship Program.

The Central Personnel/Payroll System maintains personnel and payroll records and prepares paychecks based on the following information:

- Personnel offices in the Department's major organizational components submit pay entitlement information.
- Timekeepers in the Department's major organizational components submit time and attendance information for civilian employees. It is not submitted for commissioned officers.
- Payroll liaison offices in the Department's major organizational components submit payroll transactions (tax withholding exemptions, for example).
- HRSA's automated NHSC Scholarship Payroll System provides scholarship stipend information.

The Central Personnel/Payroll System uses computer passwords, computer terminal numbers, transaction codes, and extensive computer edit checks to control and validate the information received. These automated controls seem generally adequate to ensure the accuracy of information entered into the system.

The Central Personnel/Payroll System design, however, includes options allowing pay clerks to (1) compute and issue paychecks outside the automated personnel/payroll process and related controls and (2) bypass computer controls and edit checks and enter pay entitlement information directly into the master pay records to subsequently be used in computing pay amounts. In addition, the system does not include an automated means of tracking transaction information rejected by computer edits to ensure the prompt correction and resubmission for the processing of rejected information. It also accepts and enters into the files "dummy" Social Security numbers, and does not have an automated means of tracking these numbers to ensure that they are corrected promptly.

Overall, the internal controls in the Department's Central Personnel/Payroll System appear inadequate to ensure that (1) payroll transaction information is completely, accurately, and promptly captured and recorded in the master payroll records and used in computing paycheck amounts and (2) paychecks are only issued to entitled persons.

In commenting on the financial management profile, Department officials stated that our risk analysis focused on having automated systems check the results of manual processing that in their opinion, manual controls could replace automated controls on manual processing steps. Consequently, Department officials do not fully agree with our overall conclusions that the Personnel/Payroll System is inadequate. However, Department officials stated that they

plan to do a formal risk analysis of the controls in the Personnel/ Payroll system to evaluate the adequacy of these controls (See app. XII).

DISBURSEMENT SYSTEMS FOR MEDICARE,  
MEDICAID, AND AFDC PROGRAMS

The Medicare, Medicaid, and AFDC Programs accounted for about \$81 billion of the \$243 billion in estimated insurance and public assistance benefit payments in the President's fiscal 1982 budget request. The financial management systems operated by the Department for these three programs are not designed to include any processing procedures and controls to ensure that benefit payments are computed and paid in accordance with legislated eligibility and payment computation criteria. These procedures are supposed to be included in disbursement systems operated by third parties (private contractors, states, and local governments). In an effort to ensure the propriety of benefit payments made by third parties, the Department routinely reviews samples of benefit payments made and conducts periodic audits of third party systems operations. GAO has questioned the extent to which these Department efforts provide effective control. The Department's financial systems for the Medicaid, Medicare, and AFDC Programs

- provide third parties with spending authority and with the authority to obtain federal cash advances to make benefit payments and defray administrative costs,
- accept reports on benefit payments and administrative expenditures from third parties,
- maintain historical program financial records,
- maintain statistical records on program usage and benefit payments made, and
- provide summary information to Department accounting systems on the financial results of program and administrative operations.

Third party disbursement systems are to include the processing and control procedures to (1) draw advances of federal cash, (2) accept applications for program benefits, (3) determine applicants' eligibility for benefits, (4) authorize and compute individual benefit payment amounts, (5) issue benefit payment checks, (6) determine program administrative costs, and (7) report the financial results of program and administrative operations and the financial status of the programs to the Department. There are about 120 private contractors for the Medicare Program and hundreds of state and local government public welfare agencies and offices under the Medicaid and AFDC Programs.

The Department attempts to control day-to-day program financial operations at third party offices through several programs monitoring benefit payments made. For example, the Department

monitors the operations of Medicare contractors through its Contractor Performance and Evaluation Program. It monitors the accuracy of Medicaid payments through its State Assessment Programs. Both monitoring programs involve selecting samples of benefit payments made by the third parties and recalculating the benefit payments due. Both programs also maintain automated records on the results of the recalculations.

In addition to the monitoring programs, the Department conducts periodic audits of third party system operations. These audits include (1) quality assurance reviews of benefit payments, (2) inspector general audits of administrative expenses claimed by third parties, and (3) desk reviews of expenditure reports filed with the Department.

Quality assurance reviews involve desk reviews of samples of quality control audits of benefit payments made through the third parties or by private accounting firms. The inspector general audits involve only administrative expenses and are done generally every 3 years. Rarely, will a third party be audited on an annual basis. The desk reviews of samples of expenditure reports try to identify any unreasonably high expenditure items.

GAO has studied the Department's day-to-day monitoring programs of third party financial operations and has questioned the effectiveness of these programs in controlling the propriety of benefit payments made. For example, a GAO survey completed in July 1983 of the Medicare Contractor Inspection and Evaluation Program disclosed serious design flaws and procedural weaknesses which impair the program. Other GAO studies have questioned the effectiveness of the Department's periodic audits of third party operations.

#### DISBURSEMENT SYSTEMS FOR BENEFIT PAYMENT PROGRAMS

The Old-age and Survivors Insurance (OSI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs accounted for about \$162 billion of the \$243 billion in estimated insurance and public assistance benefit payments in the President's fiscal 1982 budget request sent to Congress. The Department's disbursement systems for these programs are composed of an interrelated series of huge, complex manual and automated processes. These systems capture and record information needed to make benefit payments; authorize, compute, and issue payments; and provide summary financial information on program costs to the Department's accounting and Treasury's trust fund systems. These disbursement systems have operated for many years and have been modified thousands of times. GAO and the Department's inspector general have issued many reports on operating and internal control deficiencies in these systems.

Old-age and Survivors and Disability  
Insurance Program Disbursement Systems

For the OSI and DI programs, GAO and the Department's inspector general have reported on system and internal control problems regarding (1) the issuance of Social Security Numbers, (SSNs) (2) the recording of individual earnings histories, and (3) the authorization and computation of benefit payments. A brief discussion of these issues follows.

In 1982, GAO reported that the Department's system to record and control the issuance of Social Security Numbers (SSN's)<sup>5</sup> had weaknesses that resulted in issuing duplicate numbers, delaying issuance of numbers, and errors in verifying numbers. During 1973-1979, the Department discovered 3 million original applications for numbers which had never been processed. It also identified a group of about 24 million records with duplicate number's representing different people.

Both GAO and the Inspector General reviewed, on several occasions, the system of recording individuals' earnings histories which is one of the bases for computing the amount of benefit payments. The reviews disclose serious system and internal control weaknesses. For example:

- Controls to ensure that individuals' earnings information received are actually posted to automated files is absent.
- It is possible to override computer edits and enter unedited information into the automated files.
- The controls over automated files are inadequate to ensure that all information is properly processed.

The inaccuracies in individuals' earnings histories have resulted in the issuance of erroneous benefit payments.

Both GAO and the inspector general have reported on operating and internal control deficiencies in the Department's systems to compute and issue OSI and DI benefit payments. The work disclosed that:

- Internal controls are weak or nonexistent and automated processing steps and controls can be manually overridden.
- Computer program changes are not fully tested and the impact of changes on the total system is unknown.
- Methods for entering information into the computer for processing are inadequate and the computer files contain erroneous information.

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<sup>5</sup>Complete and Accurate Information Needed in Social Security's Automated Name and Number Files (HRD-82-18, Apr. 28, 1982).

- Erroneous input information identified by computer edits is not adequately controlled and erroneous information is not completely corrected and reentered into the computer for processing.
- More than 30 percent of claims cannot be processed by normal automated procedures and must be processed manually. Also, about 6 million changes to existing benefits routinely paid must be processed manually.
- Fifty percent of the individual earnings histories needed to support a claim decision must be manually reviewed and corrected.
- System documentation is inadequate and Department personnel cannot determine what the systems will do when erroneous information is entered into the system.

The system operating and internal control weaknesses result in over and underpayments, delayed payments, and payments to beneficiaries who have died.

In commenting on this financial management profile, Department officials stated that our summary on controls in the retirement, survivors, and disability disbursement systems is misleading because it gives the impression that these systems are out of control. Department officials commented that a large number of transactions are processed correctly. (See app. XIII.) While we agree that a large number of transactions are processed correctly, the problems in these disbursement systems are of sufficient magnitude--24 million records with duplicate or triplicate Social Security numbers, but representing different people--to support our overall conclusions regarding inadequate controls in these disbursement systems.

#### Supplemental Security Income Disbursement System

GAO reported on operating and internal control weaknesses in the SSI disbursing system. These weaknesses resulted in over \$25 million in erroneous benefit payments.

- Manual and computer overrides of processing steps that verify application information for benefit payments caused erroneous information to be accepted and processed resulting in about \$6.4 million in erroneous benefit payments.
- Incomplete verification of benefit payments already being received by SSI applicants under OSI and DI programs caused about \$6.3 million in erroneous SSI benefit payments.
- Incomplete coordination of concurrently filed applications for OSI, DI, and SSI benefit payments caused about \$7.2 million in erroneous SSI benefit payments.

In addition, over \$5.4 million of erroneous SSI benefit payments were made because post eligibility events were not processed or not processed promptly.

Computer programming weaknesses in the SSI disbursing system allowed erroneous information to be processed. In tests of these computer programs, GAO processed 1,555 initial claims and 3,288 post eligibility test transactions showing that over 25 percent of the system's computer edits did not function properly. Because the field office procedures manual disagrees with SSI computer processing confusion exists as to the appropriate action needed to correct information rejected by computer edits. Furthermore, the field office personnel can override many of the system's edit controls, thereby allowing incorrect, incomplete, or erroneous data to be entered and processed by the computer.

According to a Department official, numerous changes have been made to the SSI system which have corrected many of the reported deficiencies. However, the official could not state specifically or provide documentation as to how conditions were improved.

#### PERSONAL PROPERTY SYSTEMS

Department organizational components operate 10 personal property systems. These systems are designed to maintain detailed information on personal property and to support financial control accounts in the Department's accounting systems. The Department's policies and procedures for personal property require that:

- personal property be inventoried annually;
- inventory results be reconciled with detailed personal property records, differences be investigated, and entries adjusted, as appropriate;
- detailed property records be reconciled with financial control accounts in the accounting systems, differences investigated, and entries adjusted, as appropriate.

Our survey generally showed, with the exception of the Food and Drug Administration and the Center for Disease Control, that the personal property systems do not follow the Department's policies and procedures. Overall, the systems do not ensure:

- complete, accurate, and timely accounting for and controlling of the Department's personal property, and
- consideration of personal property already on hand in making procurement decisions for new property items.

Examples follow.

The Department's Atlanta Regional Office operates an automated property accounting system for personal property held and

used by the Department's 10 regional offices. We visited 8 of the 10 regional offices and found that inventories are done sporadically and property records and financial control accounts are not reconciled.

In the Atlanta Regional Office, for example, the last reconciliation was done in 1976, and, as of January 1983, detailed property accounts for the region showed \$1 million in property on hand while financial control accounts showed a balance of \$3 million.

The Social Security Administration operates an automated property system to account for about \$164 million in personal property. GAO just completed an audit of this system and found that:

- An annual inventory was last taken in 1974.
- It takes about 6 months to enter a property transaction into the system.
- Detailed property accounts have not been reconciled to financial control accounts in the accounting system, and the two sets of accounts are in disagreement.

The Office of the Secretary operates an automated property accounting system to maintain detailed property records for personal property held and used by the Office of the Secretary. Our survey of this system disclosed that:

- Acquisitions of personal property are recorded in the detailed property accounts as well as in financial control accounts in the Office of the Secretary accounting system. Dispositions of property, however, are only recorded in the detailed property accounts.
- Detailed personal property records and general ledger financial control accounts in the accounting system have not been reconciled and large differences exist.

In commenting on this financial management profile, the Department's inspector general stated that (1) the Department's personal property should be inventoried annually and (2) weaknesses exist in property controls (see app. XV). The Regional Director, Region VIII, who commented on this financial management profile for all Department regional offices, stated that the profile correctly reports that the Department's property systems are inadequate, inventories are done sporadically, and property records and financial control accounts are not reconciled. (See app. XVI.)

#### GRANT AND CONTRACT SYSTEMS

The Department awarded about \$59 billion in contracts and grants during fiscal 1982. The Department has split the responsibilities for accountability for and control over the contracts and grants among the organizational components of the Department and the Office of the Secretary. This division of responsibilities

causes a loss of control over cash advances to contractors and grantees. As a result, contractors and grantees often draw down and hold excessive balances of federal cash.

The Department's major organizational components operate five contract and grant management systems. These systems record the initial authorization and award of a contract and/or grant and maintain detailed records concerning expenditure limits and performance milestones. The information in these systems on the amount of contracts and grants is also recorded in the eight accounting systems, and the Departmental Federal Assistance Financing System (DFAFS) operated by the Office of the Secretary. There are however, some Head Start grants, that are completely controlled and accounted for by the regional accounting system and are an exception to the process discussed.

DFAFS accounts for and controls cash advances to contractors and grantees and the expenditure of advanced funds. Specifically, DFAFS performs the following functions:

- Advances cash to contractors and grantees by either issuing a Treasury check or by establishing a letter of credit with the Treasury.
- Maintains records for each contractor or grantee on the aggregate of contracts or grant awards, cash advances, and expenditures of advanced cash.
- Reports aggregate cash advances and expenditures by contractor or grantee to the appropriate Departmental accounting system.

The division of responsibilities for accounting for and controlling contracts and grants has had these results:

- Contract and grant managers did not receive information on contractor and grantee cash advances and expenditures in time to (1) monitor contractor and grantee current financial operations and (2) preclude contractors and grantees from prematurely drawing down cash advances and holding excessive balances of federal cash.
- The Department incurs excessive recordkeeping cost due to the operation of duplicate sets of accounting systems for contracts and grants (departmental organizational component grant and contract management systems and DFAFS).

In addition, DFAFS does not record and report cash advances and expenditures by individual contract or grant. Instead, it records and reports all cash advances received and expenditures made by each individual contractor or grantee under all contracts and grants held. Most contractors and grantees hold more than one contract or grant. As a result, DFAFS reports do not easily permit organizational component managers to monitor the financial operations and status of an individual contract or grant.

In 1979, GAO reported on the system deficiencies in DFAPS mentioned above and concluded that, because of these deficiencies, Departmental contractors and grantees held about \$249 million in excess federal cash which increased interest on the public debt by nearly \$8.3 million annually.<sup>6</sup> The Department generally agreed with the findings in the report and stated that it was developing a new departmental grants payment and control and cash management system to replace DFAPS. This system has not yet been implemented.

Overall, the Department financial management systems for contracts and grants appear inadequate to ensure that grantees and contractors (1) do not prematurely draw down cash advances, and (2) do not hold excessive balances of federal cash. In addition, the Department's financial management structure for contracts and grants is cumbersome and inefficient in that it requires the maintenance of duplicate sets of accounting records.

In commenting on the financial management profile, the internal control officer, Office of Inspector General, agreed that the letter of credit system includes weaknesses that make it difficult to minimize the outstanding balances of contractor program funds (See app. XV). The finance internal control officer stated that since GAO's report was issued in 1979, DFAPS was modified to report advances on a grant-by-grant basis for the major public assistance programs (Medicaid and AFDC for example) and that when the new Payment Management System (PMS) is implemented all advances will be reported on a grant-by-grant basis (see app. XVII, attachment A). Further, the finance internal control officer agreed that the Department's financial management structure for contracts and grants requires maintenance of duplicate sets of records. He also stated that PMS is designed to eliminate duplicate sets of records.

#### TWO OTHER OBSERVATIONS CONCERNING THE DEPARTMENT'S APPROACH TO FINANCIAL MANAGEMENT

We have two other observations concerning the Department's overall approach to financial management: (1) inefficient use of available computer hardware and software resources and (2) duplicate financial management systems. We also believe that the Department's approach to the physical control and accountability for drugs, controlled substances, and dangerous biologic substances should be reviewed. This area was not surveyed because it does not directly pertain to financial management.

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<sup>6</sup>HEW Must Improve Controls Over Billions In Cash Advances  
(FGMSD-80-6, Dec. 28, 1979).

Inefficient use of available hardware and software resources

The Department is one of the largest users of computer hardware and software resources in the federal government.<sup>7</sup> While the computer equipment used by the Social Security Administration needs to be replaced with modern equipment,<sup>8</sup> the equipment available to the other organizational components of the Department is designed to use (1) modern capabilities to electronically communicate information via computer terminals and communications lines and (2) modern computer information handling techniques--data base management systems (DBMS).<sup>9</sup> Currently, many of the Department's automated financial management systems are not designed to efficiently use available computer hardware and software resources to efficiently get information to managers for use in managerial decision-making and controlling resources.

Most of the Department's computer hardware systems are designed to accept information via communications lines, yet many of the Department's financial management systems do not efficiently use this capability. For example:

- The HCFA Accounting and Reporting Tracking System uses computer terminals to enter information into the computer. The computer terminals, however, are located in a central accounting office rather than in the offices where financial transactions originate. As a result, financial information is first recorded on paper and then sent into the central accounting office for entering into the computer. It would be more efficient to move the computer terminals into the offices where financial transactions originate, eliminating the need for paper records.
- The Department's Central Personnel/Payroll System is designed to accept personnel and payroll transaction information by computer terminal. Many of these computer terminals are located in the offices that create the transactions and are used to efficiently capture and record these transactions. The Personnel/Payroll System, however, does not effectively use computer terminals to get processed payroll

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<sup>7</sup>As of Sept. 30, 1981, the Department had 523 computer central processing units in operation.

<sup>8</sup>The Department has recognized that the Social Security Administration's computer equipment is incapable of meeting its current and future data processing needs. The Department is implementing a 5-year plan to acquire modern, high-speed computer equipment to support the Social Security Administration's major benefit payment programs.

<sup>9</sup>DBMS are complex sets of computer programs designed to efficiently capture and record information in computer files and to make this information available to other programs for processing.

and personnel information back to managers who need it. Instead, the system produces an enormous volume of printed reports. The Personnel/Payroll System routinely produces more than 420 hardcopy reports and is capable of producing about an additional 500 special request reports.

Many of the Department's computer hardware systems are designed to use DBMSs to efficiently capture and record information and make it available for processing. However, many of the Department's financial management application systems are not designed to use a DBMS.

The Department's Central Personnel/Payroll System, for example, is run on computer equipment that has available a DBMSs that could be used to maintain a single personnel/payroll masterfile. But the Central Personnel/Payroll System software is not designed to use the DBMS, and, instead, maintains two separate personnel and payroll masterfiles. Both files contain much of the same information. As a result, computer storage resources are used to record and store the same information twice.

#### Duplicate financial management systems

The Department manages its automated systems on a decentralized basis that allows its five major operating components to design and use their own automated financial management systems without formally considering other financial management systems already in operation. This has fostered the development of duplicate systems.

--The Department's Central Personnel/Payroll System, operated by the Office of the Secretary, is designed to provide personnel and payroll services to all employees in all the organizational components of the Department. The organizational components, however, operate 12 personnel systems that record the same information that is recorded in the central system and provide their managers with essentially the same information in the central system.

--The Food and Drug Administration's Umbrella Accounting System is designed to maintain general ledger accounts and administratively control appropriated funds for all component bureaus of the Administration. The bureaus, however, operate four additional systems to administratively control appropriated funds at the bureau level. The bureau systems are reconciled to the Umbrella Accounting System on a monthly basis.

--The Regional Accounting System, operated by the Office of the Secretary, is designed to provide accounting and financial reporting services for all the Department's 10 regional offices. The regional offices, however, have designed and are using several automated financial management systems that duplicate functions performed by the Regional Accounting System. For example, this system provides for fund control

for regional operations and prepares reports such as the SF224 on the status of funds. One region has its own system--SF224 Funds Control System--to prepare the SF224 report.

Internal controls for drugs,  
controlled substances, and  
dangerous biologic substances

We believe that the Department's physical controls and accountability for drugs, controlled substances, and dangerous biologic substances warrant attention. While this area does not directly relate to financial management controls, it should be addressed separately because of the inherent risks associated with the drugs, controlled substances, and dangerous biologic substances should they be lost or released outside the Department.

The National Institutes of Health and Alcohol, Drug Abuse, and Mental Health Administration routinely purchase and use, either directly or through contractors, large amounts of pharmaceuticals, narcotics, and other controlled substances for clinical and research purposes. In addition, the Center for Disease Control manufactures, stores, and uses, as part of its medical tests and experiments, a variety of dangerous biological agents which, if accidentally released into the environment, could cause widespread, devastating incidence of disease in the general population.

We did not survey the systems that recorded and controlled drugs, narcotics, controlled substances or the manufacture, storage, and clinical and/or experimental use of biological substances. These systems, however, should be evaluated in a separate review to assess the adequacy of controls over dangerous biological substances to prevent their unauthorized use or accidental release into the environment.

## CHAPTER 5

### THE DEPARTMENT'S CURRENT

#### INITIATIVES TO IMPROVE

#### FINANCIAL MANAGEMENT

At the start of fiscal year 1984 the Department had several financial management improvement initiatives underway. These included three Department-wide projects under the Office of the Secretary:

- The Standard Accounting System is under consideration as a replacement to the Department's operating component's and the Office of the Secretary's accounting systems (a total of eight).
- The Payment Management System is designed to replace the departmental Federal Assistance Financing System and the Central Registry System.
- The Central Personnel/Payroll System is being studied for redesign into a single integrated data base system.

In addition to these Department-wide initiatives, the organizational components have financial management initiatives underway which are designed to expedite the processing of financial information, eliminate duplicate systems, and enhance control over assets and liabilities. The Department's financial management improvement efforts are in various stages of development. A determination as to whether these system initiatives achieve their design goals will have to be made after they are operational.

#### STANDARD ACCOUNTING SYSTEM

The Standard Accounting System is designed to use modern telecommunications and database management techniques to capture, record, and report financial information. Specifically, the Standard Accounting System is designed to:

- Provide accurate financial information to Department managers by computer terminal.
- Produce official documents through the computer at the same time that source data is entered into the system.
- Reduce the need for manual records and processing steps.
- Interface with other automated systems of the Department and Treasury.
- Provide managers at all levels with the capability to use the system to monitor and control appropriated funds and other resources.

In 1970 GAO approved the Department of Health and Human Service's "Departmental Accounting Manual." In 1978, under a Secretarial directive to standardize departmental accounting policy--that is, to implement the "Departmental Accounting Manual," development work was begun on the Standard Accounting System. According to agency officials, this system was implemented in the Office of the Secretary on October 1, 1983.

#### PAYMENT MANAGEMENT SYSTEM

The Payment Management System is designed to replace the Departmental Federal Assistance Financing System and improve Department's control over federal cash advances to contractors and grantees. The system was the corrective action promised in response to a 1979 GAO report<sup>1</sup> on design, operation, and internal control deficiencies, and limitation in the departmental Federal Assistance Financing System. The system is designed to provide departmental managers with detailed information needed to monitor contractors' and grantees' advances expenditure rates, and unexpended balances of federal cash advances. Its focus will be to help departmental managers ensure that contractors and grantees do not draw down and hold excessive balances of federal cash. Some key features of the Payment Management System are:

- new procedures to compare cash disbursements reported by contractors and grantees with expenditures finally accepted by the program offices in the Department's organizational components,
- new procedures to prevent deobligation and reuse of advanced funds by contractors and grantees,
- a requirement for contractors and grantees to report cash disbursements instead of expenditures,
- a streamlined process to identify contractors and grantees, and
- accounting for multi-year awards on a budget period basis rather than a cumulative project basis.

The system is in the final development stages and scheduled for implementation in fiscal year 1984. It has not yet been pilot tested.

#### CENTRAL PERSONNEL/PAYROLL SYSTEM

The Department has initiated a project to review its Central Personnel/Payroll System and to develop requirements for a new system. The Department is in the process of awarding a contract to a

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<sup>1</sup>HEW Must Improve Control Over Billions In Cash Advances, (FGMSD-80-6, Dec. 28, 1979).

private consulting firm for this study. The Department initially expects to have the new Personnel/Payroll System in place in 1985. The new system will be designed to

- use modern database management techniques to maintain a single payroll/personnel master file,
- reduce the number of hard copy reports and make greater use of computer terminals to provide information to managers,
- streamline entering personnel and payroll transaction information into the computer, and
- reduce manual processing steps.

#### OTHER INITIATIVES

Seven other system improvement initiatives are underway by the Department's organizational components. These initiatives are designed to expedite processing of financial information, eliminate duplicate systems, and enhance control over assets and liabilities. A brief discussion of these efforts follows.

- The National Institutes of Health intends to improve its accounting system through the use of database management techniques. The objectives are to (1) eliminate redundant processing steps, (2) reduce costs, and (3) increase accuracy and timeliness of financial information produced.
- The Health Resources Services Administration intends to design, develop, and implement new automated accounts receivable and accounts payable systems. These systems will use data base management techniques to streamline processing of accounts receivable and accounts payable transactions.
- The Center for Disease Control intends to totally redesign the financial reports produced by its accounting system. It also intends to upgrade its accounting system to provide for an automated reconciliation of general ledger control accounts and subsidiary ledger detailed accounts. This initiative has been placed on hold by Reform 88.
- The Food and Drug Administration intends to upgrade its accounting system to use computer terminals to enter transaction information into the computer for processing. This will eliminate the need for hard copy transaction coding documents and will eliminate duplicate manual processes. The target date for initiating implementation is fiscal year 1984, with completion some time after the fiscal year.
- The Office of Human Development Services intends to upgrade its Grants Management Information System to enable it to analyze grantee balances of advanced federal cash to help

managers identify grantees who are holding excessive balances of federal funds. This enhancement was placed in initial operation late in fiscal year 1983.

--The Health Care Financing Administration intends to develop an automated cash management system to replace its current manual system to better assist managers in identifying grantees who hold excessive balances of advanced federal funds.

--The Social Security Administration is implementing a 5-year computer equipment modernization plan to upgrade its equipment and automate many of the manual processes currently used to compute benefit payments. In SSA's 1983 annual report to the Congress, this 5-year ADP modernization plan was described as the "top administrative priority of the Social Security Administration". It is designed to address long-standing deficiencies in the administration's computer systems and is designed to solve the accounting system problems discussed on pages 36-39 of this Financial Management Profile. This 5-year plan was not reviewed during this survey because work is still underway. An evaluation of this effectiveness in solving the administration's accounting system problems will have to wait until the plan is fully implemented and operational. See appendix XIII.

## CHAPTER 6

### RANKING OF THE DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS

#### ACCORDING TO RISKS IN EACH SYSTEM

Based on our experience from reviews of accounting systems over the past several years, we developed a managerial tool to rank an agency's financial management systems in terms of vulnerability toward waste, fraud, and mismanagement. Using this tool, each system is assessed in terms of ten risk factors (characteristics) and each factor is rated as having high, medium, or low risk. Each system is then given a composite score based on the scores received for the ten risk factors, and the systems are ranked by the composite scores. The systems are then grouped into three categories--high, medium, or low vulnerability toward waste, fraud, and mismanagement.

We ranked the vulnerability of 73 of the Department's 81 financial management systems. Our results showed three systems as high risk, 32 systems as medium risk, and 38 systems as low risk.

We analyzed each system by considering business risks and audit risks. We defined business risk factors as the basic characteristics of a system and the nature of funds and resources controlled by a system; and we defined audit risk factors as the results of prior audits of a system's operations and the related findings that have not been resolved. Furthermore, we also considered the internal control strengths and weaknesses disclosed by our survey in assessing audit risk.

#### BUSINESS RISK FACTORS

The six business risk factors and the criteria for assigning high, medium, or low risks are as follows.

1. Purpose of system      Systems that authorize use of agency funds and resources were ranked high. Systems accounting for assets and liabilities were ranked medium. Systems recording summary financial information on the results of operations were given low risk rankings.
  
2. Age of system          Systems operating for less than 1 year were considered high risk because newer systems have more problems or "bugs" to work out. The older systems should have fewer problems and be more stable. The systems in operation between 1 and 3 years were ranked medium and those operating for more than 3 years were rated low.

3. Documentation  
available for  
systems

If no documentation was available or the available documentation was not updated to reflect changes made to the system after it was put into operation, the system was ranked high risk. If available system documentation included all but the two most recent system changes, the system was rated medium. Systems with current documentation were ranked low.

4. Degree of  
automation and  
capabilities  
built into  
system design

Completely manual systems or systems combining manual and automated processes in which the automated processes could not fully verify the results of manual processing, were ranked high risks because people could randomly circumvent manual control and usually do not process information as consistently as an automated system. Systems combining manual and automated processes in which automated processes can fully verify the results of manual processing, were ranked medium because the automated processes act as a double check of the results of manual processing and could detect random circumvention of manual controls and inconsistent processing of information. Fully automated systems for which the results of processing could be verified by the results of processing by other automated systems were ranked low. An automated system will process information in a consistent manner. If a logic error was detected in an automated system and the error was corrected, the automated system would consistently process data in the proper manner after the logic correction was made.

5. Sources for  
system input

Systems that receive input information only from sources outside the agency but cannot compare this input with agency generated information as a means of checking the accuracy of input information, were rated high risk because the agency lacks control over

the accuracy of input information. Systems which receive input information from sources outside the agency, but can compare this input against agency-generated information as a means of checking the accuracy of input information, were rated medium. Systems which receive input information from sources only within the agency were rated low because the agency has total control over the accuracy of input information.

6. Dollar value  
controlled by  
system

Systems controlling more than \$5 billion were ranked high. Systems controlling \$150 million to \$5 billion were medium and those controlling less than \$150 million, low.

AUDIT RISK FACTORS

The four audit risk factors and the criteria for assigning high, medium, or low risk were as follows:

1. Recency of audit                      Systems never audited were ranked high risks. Systems audited over 2 years ago were ranked medium and those audited during the past 2 years were ranked low.
  
2. Unresolved audit findings              Systems with two or more unresolved audit findings and systems with one significant unresolved audit finding--a finding that precludes the system from meeting its stated goals--were rated as high risks. Systems with one nonsignificant unresolved audit finding were ranked medium; those with no unresolved audit findings were ranked low.
  
3. Known system problems                      Systems with two or more known system problems and systems with one significant known system problem--a problem that precludes the system from meeting its stated goals--were ranked high risks. Systems with one nonsignificant known system problem were ranked

medium; those systems with no known system problem were ranked low.

4. Results of  
internal  
control survey

Systems for which we identified significant internal control problems--internal control problems that precluded the system from detecting and reporting errors in the information being processed--were rated high risks. Systems for which we identified internal control problems but which could detect and report errors in the information being processed were rated medium. Systems for which we identified no internal control problems were rated low.

COMPOSITE SCORES AND RISK RANKING

The Department's 73 financial management systems ranked were assigned a composite reliability score based on the low, medium, and high risk scores each system received for the ten risk factors discussed above. The systems were then ranked according to overall low, medium, or high risk based on the composite reliability scores.

A system's composite reliability score was assigned as follows:

--First, low, medium, and high risk scores were converted to numeric values. A high risk score was given a numeric value of 3, a medium risk score given a value of 2, and a low risk score a value of 1.

--Second, these weights were developed for each of the to risk factors used in rating the individual systems.

(1)	Purpose of system	5.00
(2)	Age of system	3.71
(3)	Documentation available for system	4.57
(4)	Degree of automation and control capabilities built into system design	3.29
(5)	Source of input for system	4.00
(6)	Dollar value controlled by system	5.00
(7)	Recency of audit	4.00
(8)	Unresolved audit findings	4.14
(9)	Known system problems	5.00
(10)	Results of internal control survey	4.86

Appendix VIII reviews the statistical methods used to develop the weights for the 10 risk factors.

--Third, each system was given a composite score based on the number of high, medium, and low risk scores assigned for the risk factors and the weights discussed above. Composite scores could range from a minimum score of 43.57 to a maximum score of 130.71 as follows:

Risk factor	MINIMUM SCORE			MAXIMUM SCORE		
	Numeric value for low score	Weight	Composite score	Numeric value for high score	Weight	Composite score
1	1	5.00	5.00	3	5.00	15.00
2	1	3.71	3.71	3	3.71	11.13
3	1	4.57	4.57	3	4.57	13.71
4	1	3.29	3.29	3	3.29	9.87
5	1	4.00	4.00	3	4.00	12.00
6	1	5.00	5.00	3	5.00	15.00
7	1	4.00	4.00	3	4.00	12.00
8	1	4.14	4.14	3	4.14	12.42
9	1	5.00	5.00	3	5.00	15.00
10	1	4.86	<u>4.86</u>	3	4.86	<u>14.58</u>
			<u>43.57</u>			<u>130.71</u>

--Fourth, the Department's 73 financial management systems surveyed were ranked according to overall low, medium, and high risk based on the composite series assigned each system as follows:

High risk	(108.95 - 130.71)	3
Medium risk	(65.38 - 108.94)	33
Low risk	(43.57 - 65.37)	37

Appendix IX reveals the methodology used to develop the range of composite scores for each of the three overall risk categories.

Table 1 summarizes the scores each of the Department's 73 financial management systems received for the 10 risk factors and their composite scores. Table 2 summarizes the overall risk ranking for the 73 systems.

TABLE 1

RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of system 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recency of audit 4.0	Unresolved audit findings 4.41	Known system problems 5.0	Results of internal control survey 4.96	Number of highs	Number of mediums	Number of lows	Composite reliability score
FINANCIAL MANAGEMENT SYSTEMS														
DEPARTMENT-WIDE														
Regional accounting	H	L	L	M	M	H	H	L	L	M	3	3	4	83.72
Budget information	L	M	L	I	M	H	H	L	L	L	2	2	6	64.38
A-11 budget	L	M	L	L	L	H	H	L	L	L	2	1	7	65.28
Central personnel payroll	H	L	M	M	L	M	L	M	H	H	3	4	3	90.29
Departmental federal assistance financing	H	L	H	L	H	H	M	H	H	H	7	1	2	112.71
Central registry	L	I	M	L	L	L	H	L	L	L	1	1	8	56.14
Office of data processing reporting and billing	M	I	M	L	L	I	H	L	L	M	1	3	6	66.0
Outlay analysis tracking	L	I	M	L	L	L	H	L	L	M	1	2	7	61.0
HHS-owned detail file (real property)	M	L	M	L	L	L	H	L	L	M	1	3	6	66.0
Financial assistance reporting	L	L	M	L	L	L	H	L	L	M	1	2	7	61.0
Departmental contracts information	L	I	M	L	L	L	H	L	L	M	1	2	7	61.0
OFFICE OF THE SECRETARY														
Office of the Secretary accounting	M	L	L	L	L	M	H	L	L	M	1	3	6	66.43
Property (personnel)	M	L	H	M	L	L	H	L	H	H	4	2	4	88.72
Working capital fund	H	L	M	L	L	L	H	L	L	M	2	2	6	71.0

TABLE 1  
RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of system 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recency of audit 4.0	Unresolved audit findings 4.14	Known system problems 5.0	Results of internal control survey 4.86	Number of highs	Number of mediums	Number of lows	Composite reliability score
<u>PUBLIC HEALTH SERVICE</u>														
Health Resources and Services Administration														
Health accounting	M	L	L	I	L	M	H	L	L	L	1	2	7	61.57
Supply control program (supplies)	M	L	L	I	L	L	H	L	L	L	1	1	8	56.57
Nonexpendable control program (personal property)	M	L	I	L	L	L	H	L	L	L	1	1	8	56.57
National Health Service Corps site billing	M	I	I	L	M	L	H	L	L	L	0	4	6	60.57
National Health Service Corps equipment inventory	M	I	I	L	L	L	H	I	L	M	1	2	7	61.43
National Health Service Corps scholarship fiscal	H	I	L	L	H	L	H	L	L	M	3	1	6	74.43
Indian Health Service stores	M	I	I	L	I	L	H	L	L	L	1	1	8	56.57
Facility engineering automated management	M	I	I	I	H	L	H	L	L	L	2	1	7	64.57
Indian Health Service contract health service management information	H	I	I	L	I	L	H	L	L	L	2	0	8	61.57
Indian Health Service Medicare/Medicaid manual	M	I	I	H	L	L	H	L	L	L	2	1	7	63.15

TABLE 1  
RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of System 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recency of Audit 4.0	Unresolved audit findings 4.14	Known system problems 5.0	Results of internal control survey 4.86	Number of highs	Number of mediums	Number of lows	Composite reliability score
Indian Health Service Medicare Medicaid automated system	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Food and Drug Administration														
FDA umbrella accounting	M	L	L	M	L	M	H	L	L	L	1	3	6	64.86
Property accountability	Not Evaluated													
Certification accounting														
Program management														
National Institutes of Health														
NIH Central accounting	M	L	L	L	L	M	H	L	L	L	1	2	7	61.57
Nonexpendable personal property	M	L	M	L	L	M	H	L	L	L	1	3	6	66.14
Materials management	M	H	L	L	L	M	H	L	L	L	2	2	6	68.94
Information for management planning analysis and coordination	H	M	L	L	L	M	H	L	L	L	2	2	6	70.28
Shops stores billing	M	L	L	L	L	L	M	L	L	L	0	2	8	52.57
Supply operations branch billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Division of Computer Research and Technology (DCRT) Project Accounting														
Personal property billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Design billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Glassware billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57

TABLE 1

RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of system 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recovery of audit 4.0	Unresolved audit findings 4.14	Known system problems 5.0	Results of internal control survey 4.86	Number of highs	Number of mediums	Number of lows	Composite reliability score
Graphics billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Large research annual billing	M	L	H	H	L	L	H	L	L	M	3	2	5	69.29
Photography billing	M	L	L	L	L	L	H	L	L	M	1	2	7	61.43
Printing and reproduction billing	M	L	L	L	L	L	H	L	L	M	1	2	7	61.43
Scientific equipment rental billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Small annual billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Tissue culture and bacteriological media billing	M	L	L	L	L	L	H	L	L	M	3	2	5	77.15
NCI budget	M	I	H	H	L	L	H	L	L					
Biomedical engineering and instrumentation branch billing	M	I	L	L	L	L	H	L	L	L	1	1	8	56.57
Center For Disease Control	M	I	M	M	L	M	H	L	L	M	1	5	4	74.29
CDC umbrella accounting	M	I	M	L	L	M	H	L	L	L	1	2	7	61.14
Miscellaneous recurring obligation	M	L	L	L	L	M	H	L	L	L	1	2	7	61.57
Cash control	M	L	L	L	L	L	H	L	L	H	3	0	7	71.29
Travel advance	M	L	L	L	L	L	H	L	L	H	2	2	6	70.86
Accounts receivable	M	L	M	L	L	L	H	L	L	L	1	1	8	56.57
Property reconciliation	M	L	L	L	L	L	H	L	L	L	3	1	6	72.29
Real property	M	L	H	H	L	L	H	L	L	L	1	1	8	56.51
Property management	M	L	L	L	L	L	H	L	L	L	1	1	8	65.71
Warehouse inventory	M	L	H	L	L	L	H	L	L	L	2	1	7	61.43
Engineering services control	M	L	L	L	L	L	H	L	L	M	1	2	7	61.43

TABLE 1

RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of system 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recency of audit 4.0	Unresolved audit findings 4.14	Known system problems 5.0	Results of internal control survey 4.86	Number of highs	Number of mediums	Number of lows	Composite reliability score
Biological products inventory control	Not Evaluated													
Computer resources accounting and billing	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
Alcohol, Drug Abuse, and Mental Health Administration														
Drug Abuse Research Projects information and supply	L	L	L	L	L	L	H	L	L	L	1	0	9	51.57
<u>OFFICE OF HUMAN DEVELOPMENT SERVICES</u>														
Grants management information	H	I	I	M	L	M	M	H	H	H	4	3	3	93.86
Administration on Aging financial status reporting	H	L	L	M	I	M	H	L	L	H	3	2	5	79.58
Property accounting	M	I	L	M	L	L	H	L	L	H	2	2	6	69.58
<u>HEALTH CARE FINANCING ADMINISTRATION</u>														
HCFA accounting reporting and tracking	H	H	H	L	L	H	H	L	L	M	5	1	4	92.99
Letters of credit	M	I	H	H	L	H	H	L	L	M	4	2	4	87.15

TABLE 1

RISK RANKINGS OF DEPARTMENT'S  
FINANCIAL MANAGEMENT SYSTEMS

	Purpose of system 5.0	Age of system 3.71	Documentation available for system 4.57	Manual or automated system 3.29	Sources of input for system 4.0	Dollar values controlled by system 5.0	Recency of audit 4.0	Unresolved audit findings 4.14	Known system problems 5.0	Results of internal control survey 4.86	Number of highs	Number of mediums	Number of lows	Composite reliability score
Medicaid budget and expenditures	L	L	L	M	M	M	H	L	L	M	1	4	5	68.72
Medicare cash management	M	L	L	M	M	H	H	L	L	L	2	3	5	73.86
Office of direct reimbursement claims	H	L	L	L	M	M	H	L	L	L	2	2	6	70.57
Division of health services studies claim processing and management information	M	L	L	L	H	L	H	L	L	L	2	1	7	64.57
HCFA's automated budget information	Not Evaluated													
Inventory control	M	L	L	L	L	L	H	L	L	L	1	1	8	56.57
SOCIAL SECURITY ADMINISTRATION														
Financial accounting	M	L	L	M	L	H	H	L	L	L	2	2	6	69.86
Cost analysis	M	L	L	L	L	M	H	L	L	L	1	2	7	61.57
Property supply	M	L	L	M	L	M	L	H	H	H	3	3	4	84.86
Earnings record	H	L	L	L	H	H	H	L	H	H	6	0	4	99.29
Enumeration	H	L	L	M	L	L	L	H	H	H	4	1	5	84.86
RSID benefit payment process	H	L	H	M	H	H	L	H	H	H	7	1	2	112.00
Black Lung	H	L	L	M	H	H	H	L	L	M	4	2	4	87.72
Supplemental security income	H	L	H	M	H	H	M	H	H	H	7	2	1	116.00
Budget Management	Not Evaluated													

TABLE 2

COMPOSITE RELIABILITY RANKINGS FOR THE DEPARTMENT'S  
81 FINANCIAL MANAGEMENT SYSTEMS

High risk systems

Departmental federal assistance financing (OS)  
RSDI benefit payment process (SSA)  
Supplemental security income (SSA)

Medium risk systems

Earnings record (SSA)  
Central personnel/payroll (OS)  
Grants management information (OHDS)  
HCFA accounting, reporting, and tracking (HCFA)  
Office of Secretary personal property (OS)  
National Health Service Corps scholarship fiscal (HRSA)  
Large research animal billing (NIH)  
Tissue culture and bacteriological media billing (NIH)  
Travel advance (CDC)  
Real property (CDC)  
Administration on Aging financial status reporting (OHDS)  
Letters of credit (HCFA)  
Property supply (SSA)  
Enumeration (SSA)  
Black lung (SSA)  
Regional accounting (OS)  
Budget information (OS)  
Working capital fund (OS)  
Nonexpendable personal property (NIH)  
Warehouse inventory (CDC)

Materials management (NIH)  
Information for management planning analysis and  
coordination (NIH)  
CDC umbrella accounting (CDC)  
Accounts receivable (CDC)  
Property accounting (OHDS)  
Medicaid budget and expenditure (HCFA)  
Medicare cash management (HCFA)  
Office of direct reimbursement claims (HCFA)  
Financial accounting (SSA)  
Office of data processing reporting and billing (OS)  
HHS owned detail file (OS)  
Office of the Secretary accounting (OS)

Low risk systems

A-11 budget (OS)  
Central registry (OS)  
Outlay analysis tracking (OS)  
Financial assistance reporting (OS)  
Departmental contracts information (OS)  
Health accounting (HRSA)  
Supply control program (supplies) (HRSA)  
Nonexpendable control program (personal property) (HRSA)  
National Health Service Corps site billing (HRSA)  
National Health Service Corps equipment inventory (HRSA)  
Indian Health Service stores (HRSA)  
Facility engineering automated management (HRSA)  
Indian Health Service contract health service management  
information (HRSA)  
Indian Health Service Medicare/Medicaid manual (HRSA)

Indian Health Service Medicare/Medicaid automated (HRSA)  
FDA umbrella accounting (PHS)  
NIH central accounting (PHS)  
Shops stores billing (NIH)  
Supply operations branch billing (NIH)  
Division of computer research and technology project  
accounting (NIH)  
Design billing (NIH)  
Glassware billing (NIH)  
Graphics billing (NIH)  
Photography billing (NIH)  
Printing and reproduction billing (NIH)  
Scientific equipment rental billing (NIH)  
Small animal billing (NIH)  
Biomedical engineering and instrumentation branch billing  
(NIH)  
Miscellaneous recurring obligation (CDC)  
Cash control (CDC)  
Property reconciliation (CDC)  
Property management (CDC)  
Engineering services control (CDC)  
Computer resources accounting and billing (CDC)  
Drug abuse research projects information and supply  
(ADAMHA)  
Inventory control (HCFA)  
Cost analysis (SSA)  
Division of health services studies claim processing  
and management information

Systems not evaluated

Property accountability (FDA)

Certification accounting (FDA)

Program management (FDA)

Personal property billing (NIH)

NCI budget (NIH)

Biological products inventory control (CDC)

HCFA's automated budget information

Budget management (SSA)

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
 REQUESTED FISCAL YEAR 1982 BUDGET AUTHORITY RELATED  
 TO SOURCES OF FUNDS

Program/organization/description	Budget authority	Appropriations	SOURCES OF FUNDS					Unobligated balance avail.
			Trust funds	Nonfederal funds	States	Individuals	Interbudgetary transfers	
----- (thousands) -----								
Road and Drug Administration-general operations	\$ 369,354	\$ 367,974	\$ -	\$ -	\$ -	\$ -	\$ 1,380	\$ -
Road and Drug Administration-public enterprise fund	9,166	-	-	9,166	-	-	-	-
Health Services Administration	1,612,730	1,528,689	-	7,500	-	-	76,541	-
Health Services Administration-Indian health services	690,287	654,892	18,000	13,976	-	-	3,419	-
Health Services Administration-Indian health facilities	116,907	116,907	-	-	-	-	-	-
Center for Disease Control	357,280	327,280	-	600	-	-	29,400	-
Alcohol, Drug Abuse, and Mental Health Administration	1,068,021	1,061,555	-	-	-	-	6,466	-
Saint Elizabeth's Hospital	130,246	105,779	312	23,205	-	-	950	-
Health Resources Administration	345,158	341,331	-	-	-	-	3,827	-
Health education loans	-	-	-	-	-	-	-	-
Nurse training funds	-	-	-	-	-	-	-	-
Medical facilities guarantee loan fund	44,138	35,000	9,138	-	-	-	-	-
Assistant Secretary for Health Retirement pay and benefits for commissioned officers	202,491	173,839	8,675	150	-	-	-	-
	106,172	106,172	-	-	-	-	19,827	-
Health maintenance organization loan & guarantee fund	102,356	15,644	86,712	-	-	-	-	-
Service and supply fund	44,729	-	-	-	-	-	44,729	-
Miscellaneous consolidated working fund	1,000	-	-	-	-	-	-	-
Trust funds	4,620	4,620	-	-	-	-	-	1,000
<u>Health Care Financing Administration</u>								
Program management	1,116,011	134,025	981,986	-	-	-	-	-
Miscellaneous consolidated working funds	-	-	-	-	-	-	-	-

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DEPARTMENT OF HEALTH AND HUMAN SERVICES  
REQUESTED FISCAL YEAR 1982 BUDGET AUTHORITY RELATED  
TO SOURCES OF FUNDS

<u>Program/organization/description</u>	<u>Budget authority</u>	<u>Appropriations</u>	<u>SOURCES OF FUNDS</u>					<u>Unobligated balance avail.</u>
			<u>Trust funds</u>	<u>Nonfederal funds</u>	<u>States</u>	<u>Individuals</u>	<u>Interbudgetary transfers</u>	
			----- (thousands) -----					
Payments to health care trust funds	\$ 14,519,120	\$14,519,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Medicaid	18,801,508	18,801,508	-	-	-	-	-	-
Federal hospital insurance trust fund	39,101,120	1,055,120	31,961,000	-	3,582,000	25,000	2,478,000	-
Federal supplementary Medical insurance trust fund	17,770,000	13,464,000	6,000	-	-	3,867,000	433,000	-
	-	-	-	-	-	-	-	-
<u>Social Security Administration</u>								
Payments to Social Security trust funds	848,698	848,698	-	-	-	-	-	-
Special benefits to coal miners	1,107,029	1,105,765	-	-	-	-	1,264	-
Supplemental security income program	10,035,352	7,937,552	-	-	2,085,000	-	12,800	-
Assistance payments program	5,731,298	5,731,298	-	-	-	-	-	-
Cuban refugee assistance program	652,157	652,157	-	-	-	-	-	-
Payments to states for child support	450	450	-	-	-	-	-	-
Cuban and Haitian entrants reception and processing	27,100	27,100	-	-	-	-	-	-
Cuban and Haitian entrants domestic assistance	88,000	88,000	-	-	-	-	-	-
Old-age & Survivor's Insurance trust fund	130,038,463	5,748	114,266,000	-	12,718,000	-	3,256,715	-

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
 REQUESTED FISCAL YEAR 1982 BUDGET AUTHORITY RELATED  
 TO SOURCES OF FUNDS

Program/organization/description	Budget authority	SOURCES OF FUNDS						Unobligated balance avail.
		Appropriations	Trust funds	Nonfederal funds	States	Individuals	Interbudgetary transfers	
----- (thousands) -----								
Old-age & Survivor's Insurance trust fund	\$ 208,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal disability trust fund	22,033,000	-	19,281,000	-	2,114,000	-	677,000	-
Federal disability trust fund	39,000	-	-	-	-	-	-	-
Program and financing	3,114,583	3,140,420	-	6,161	-	-	14,377	3,625
<u>Human Development Services</u>								
Social services	3,091,100	3,091,100	-	-	-	-	-	-
Human development services	2,222,786	2,220,528	-	-	-	-	-	2,258
Work incentives	384,982	384,982	-	-	-	-	-	-
<u>Departmental Management</u>								
Departmental management	180,566	150,907	8,000	192	-	-	21,467	-
Office of Inspector General	90,015	80,515	6,000	16	-	-	3,484	-
Office for Civil Rights	28,267	25,899	2,350	18	-	-	-	-
Office of Consumer Affairs	2,651	2,649	-	2	-	-	-	-
Policy research	25,499	21,550	-	-	-	-	3,949	-
Working capital fund	13,307	-	-	-	-	-	13,307	-
Consolidated working fund	-	-	-	-	-	-	-	-
Grants management fund	-	-	-	-	-	-	-	-
<u>National Institutes of Health</u>								
National Cancer Institute	1,042,261	1,041,761	-	50	-	-	450	-
National Heart, Lung, and Blood Institute	596,554	596,454	-	10	-	-	90	-

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DEPARTMENT OF HEALTH AND HUMAN SERVICES  
 REQUESTED FISCAL YEAR 1982 BUDGET AUTHORITY RELATED  
 TO SOURCES OF FUNDS

Program/organization/description	Budget authority	Appropriations	Trust funds	SOURCES OF FUNDS				Unobligated balance avail.
				Nonfederal funds	States	Individuals	Interbudgetary transfers	
----- (thousands) -----								
National Institute of Dental Research	\$ 76,570	\$ 76,447	\$ -	\$ -	\$ -	\$ -	\$ 123	\$ -
National Institute of Metabolism and Digestive Diseases	390,536	390,536	-	-	-	-	-	-
National Institute of Neurological and Communicative Disorders and Stroke	281,282	281,181	-	60	-	-	41	-
National Institute of General Medical Studies	362,035	362,035	-	-	-	-	-	-
National Institute of Allergy and Infectious Diseases	248,279	248,179	-	-	-	-	100	-
National Institute of Child Health and Human Development	235,859	235,849	-	10	-	-	-	-
National Eye Institute	134,461	134,401	-	-	-	-	60	-
National Institute of Environmental Health Services	117,622	112,498	-	-	-	-	5,124	-
National Institute On Aging	86,149	86,099	-	-	-	-	50	-
Research resources	200,240	192,111	-	-	-	-	8,129	-
National Library of Medicine	51,492	47,692	-	-	-	-	3,800	-
Office of the Director	35,761	23,524	-	-	-	-	12,237	-
Building and facilities	10,310	10,310	-	-	-	-	-	-
National Institutes of Health Management Fund	183,757	-	-	1,500	-	-	182,257	-

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
 REQUESTED FISCAL YEAR 1982 BUDGET AUTHORITY RELATED  
 TO SOURCES OF FUNDS

<u>Program/organization/description</u>	<u>Budget authority</u>	<u>Appropriations</u>	<u>Trust funds</u>	<u>SOURCES OF FUNDS</u>					<u>Unobligated balance avail.</u>
				<u>Nonfederal funds</u>	<u>States</u>	<u>Individuals</u>	<u>Interbudgetary transfers</u>		
----- (thousands) -----									
Consolidated working fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Service and supply fund	106,191	-	-	-	-	-	106,191	-	-
International Center for Advanced Study In Health Sciences	10,212	9,612	-	-	-	-	600	-	-
Adjustments: The \$3,140,420 for program financing for SSA includes \$50,000 obligational au- thority that lapses at the end of fiscal year 1982	50,000	-	-	-	-	-	-	-	-
<b>Total</b>	<u>\$280,694,288</u>	<u>\$82,177,462</u>	<u>\$166,635,173</u>	<u>\$ 62,616</u>	<u>\$20,499,000</u>	<u>\$ 3,892,000</u>	<u>\$ 7,421,154</u>	<u>\$ 6,883</u>	

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
RECAPITULATION OF ESTIMATED PAYROLL EXPENSE (FISCAL YEAR 1982)  
BY ORGANIZATIONAL UNIT

<u>Organizational Unit/Program</u>	<u>Number of employees</u>	<u>Estimated fiscal year 1982 payroll expense</u>
Food and Drug Administration	7,056	\$ 226,605
Food and Drug Administration - public enterprise fund	234	6,525
Health Services Administration	10,885	309,798
Health Services Administration - Indian health services	10,819	264,720
Health Services Administration - Indian health facilities	869	16,310
Center for Disease Control	4,175	109,284
National Institutes of Health	12,062	405,538
Alcohol, Drug Abuse, and Mental Health Administration	1,952	72,448
Alcohol, Drug Abuse, and Mental Health Administration- Saint Elizabeth's Hospital	4,113	103,361
Health Resources Administration	978	36,573
Assistant Secretary for Health	1,699	60,106
Assistant Secretary for Health - service & supply fund	609	18,530
Health Care Financing Administration	5,238	151,392
Social Security Administration - program & financing	76,852	1,882,039
Social Security Administration - disabled coal miners	206	4,661
Social Security Administration - refugee assistance	144	4,667
Social Security Administration - assistance payments program	1,076	33,006
Social Security Administration - Cuban & Haitian entrants	88	2,790
Social Security Administration - Cuban & Haitian entrants	10	271
Social Security Administration - research statistics	26	869
Human Development Services	1,507	52,417
Human Development Services - Work Incentives Program	236	7,279
Human Development Services - departmental management	3,978	124,241
Office of the Inspector General	1,093	32,993
Office for Civil Rights	690	17,536
Office of Consumer Affairs	54	1,776
Policy research	15	493
Working capital fund	143	3,901
Consolidated working fund	0	0
Grants management fund	0	0
	<u>146,807</u>	<u>\$3,950,129</u>
	*****	*****
Total	146,807	\$3,950,129

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
SUMMARY OF COMPUTER CENTERS

<u>Major organizational component</u>	<u>Location of computer center</u>	<u>Number of computer systems</u>	<u>Number of computer centers</u>	<u>Central processing units</u>
Office of the Secretary	Seattle, WA	1	1	1
Office of the Secretary	Washington, DC	3	2	14
Social Security Administration	Baltimore, MD	24	3	26
Public Health Service	Rockville, MD	80	4	169
Public Health Service	Washington, DC	3	5	22
Public Health Service	Silver Spring, MD	1	6	4
Public Health Service	Little Rock, AR	1	7	12
Public Health Service	Bethesda, MD	1	8	1
Public Health Service	New Orleans, LA	2	9	2
Public Health Service	Carville, LA	1	10	2
Public Health Service	Somers, NY	1	11	2
Public Health Service	Baltimore, MD	5	12	15
Public Health Service	San Francisco, CA	3	13	6
Public Health Service	Seattle, WA	1	14	2
Public Health Service	Norfolk, VA	1	15	2
Public Health Service	Albuquerque, NM	2	16	4
Public Health Service	Aberdeen, SD	1	17	1
Public Health Service	Anchorage, AK	1	18	1
Public Health Service	Billings, MT	1	19	1
Public Health Service	Oklahoma City, OK	1	20	1
Public Health Service	Phoenix, AZ	7	21	29
Public Health Service	Window Rock, AR	1	22	2
Public Health Service	Tucson, AZ	1	23	1
Public Health Service	Hyattsville, MD	1	24	2
Public Health Service	Triangle, NC	1	25	3
Public Health Service	Los Angeles, CA	13	26	13
Public Health Service	Atlanta, GA	13	27	17
Public Health Service	Morgantown, WV	22	28	30
Public Health Service	Cincinnati, OH	6	29	7
Public Health Service	Bethesda, MD	82	30	126
Health Care Financing Administration	Baltimore, MD	<u>4</u>	<u>31</u>	<u>5</u>
Total		<u>285</u>	<u>31</u>	<u>523</u>

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
FINANCIAL MANAGEMENT STRUCTURE

DEPARTMENT-WIDE SYSTEMS  
OPERATED BY THE OFFICE  
OF THE SECRETARY

Budget information  
A-11 budget  
Central personnel/payroll  
Departmental federal assistance financing  
Central registry  
Office of data processing reporting and billing  
Departmental contracts information  
Outlay analysis tracking  
HHS owned detail file (real property)  
Financial assistance reporting  
Regional accounting

OFFICE OF THE SECRETARY  
SYSTEMS

Office of the Secretary accounting  
Property (personal property)  
Working capital fund

PUBLIC HEALTH SERVICE SYSTEMS

Health Resources and Services  
Administration

Health accounting  
Supply control program (supplies)  
Nonexpendable control program (personal property)  
National Health Service Corps site billing  
National Health Service Corps equipment inventory  
National Health Service Corps scholarship fiscal  
Indian Health Service stores  
Facility engineering automated management  
Indian Health Service contract health service management  
information  
Indian Health Service Medicare/Medicaid manual  
Indian Health Service Medicare/Medicaid automated

Food and Drug Administration

FDA umbrella accounting  
Property accountability inventory (personal property)  
Certification accounting  
Program management (budget development)

National Institutes of Health

NIH central accounting  
 Nonexpendable personal property  
 Materials management (supplies and drugs)  
 Information for management planning analysis and  
 coordination  
 Shops stores billing  
 Supply operations branch billing  
 Division of computer research and technology project  
 accounting  
 Biomedical engineering and instrumentation branch billing  
 Personal property billing  
 Design billing  
 Glassware billing  
 Graphics billing  
 Large research animal billing  
 Photography billing  
 Printing and reproduction billing  
 Scientific equipment rental billing  
 Small animal billing  
 Tissue culture and bacteriological media billing  
 NCI budget (budget development)

Centers For Disease Control

CDC umbrella accounting  
 Miscellaneous recurring obligation  
 Cash control  
 Travel advance  
 Accounts receivable  
 Property reconciliation  
 Real property  
 Property management  
 Warehouse inventory  
 Engineering services control  
 Biological products inventory control  
 Computer resources accounting and billing

Alcohol, Drug Abuse and Mental  
Health Administration

Drug abuse research projects information and supply

OFFICE OF HUMAN  
DEVELOPMENT SERVICES

Grants management information  
 Administration on Aging financial status reporting  
 Property accounting

HEALTH CARE  
FINANCING ADMINISTRATION

HCFA accounting reporting and tracking

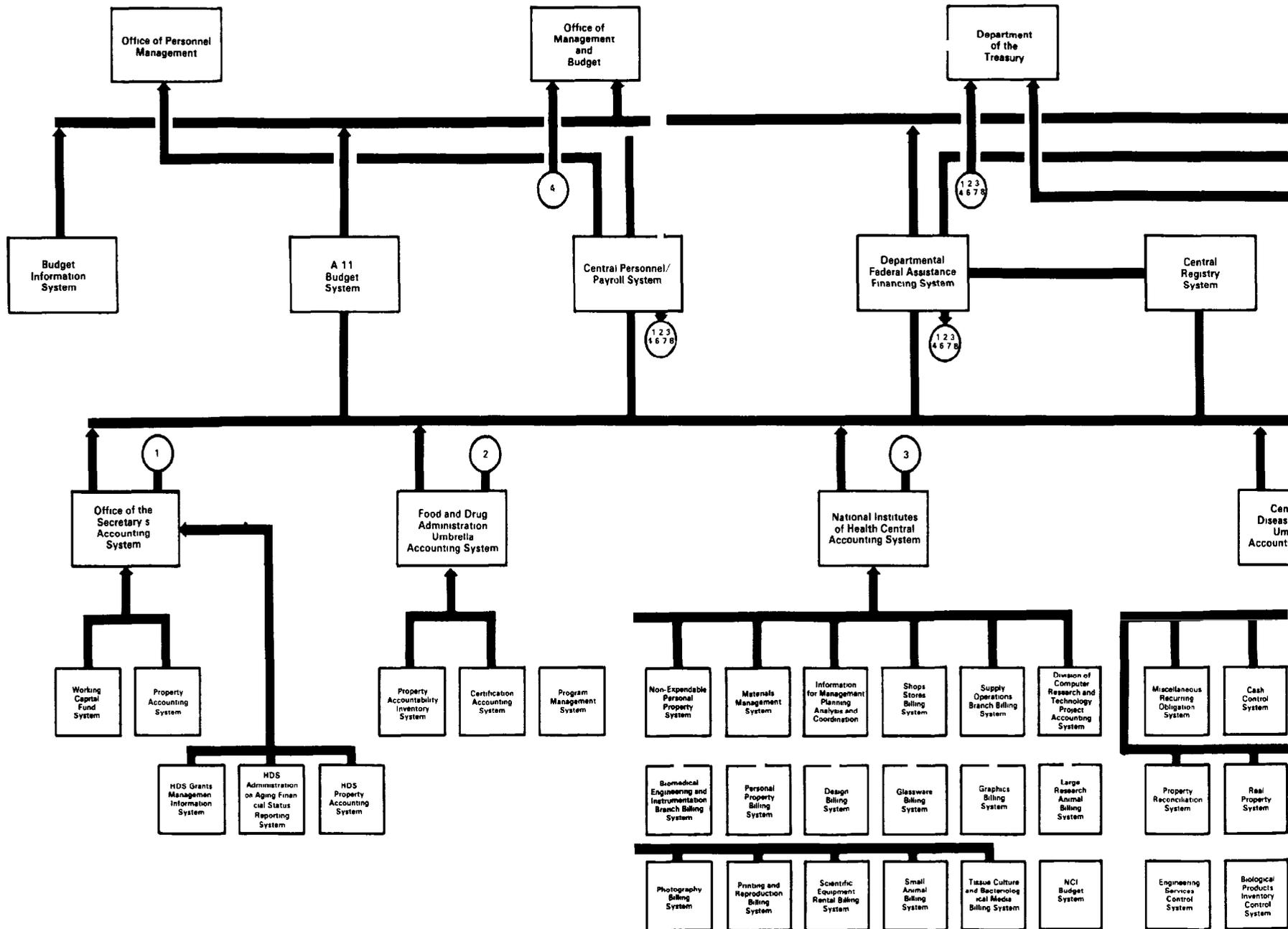
Letters of credit  
Inventory control  
Medicaid budget and expenditures  
Medicare cash management  
Office of direct reimbursement claims processing  
Division of health services studies claim processing and  
management information  
HCFA'S automated budget information (budget development)

SOCIAL SECURITY ADMINISTRATION

Financial accounting  
Cost analysis  
Property supply  
Earnings record  
Enumeration  
Black lung  
Supplemental Security Income  
RSDI payment  
Budget management (budget development)

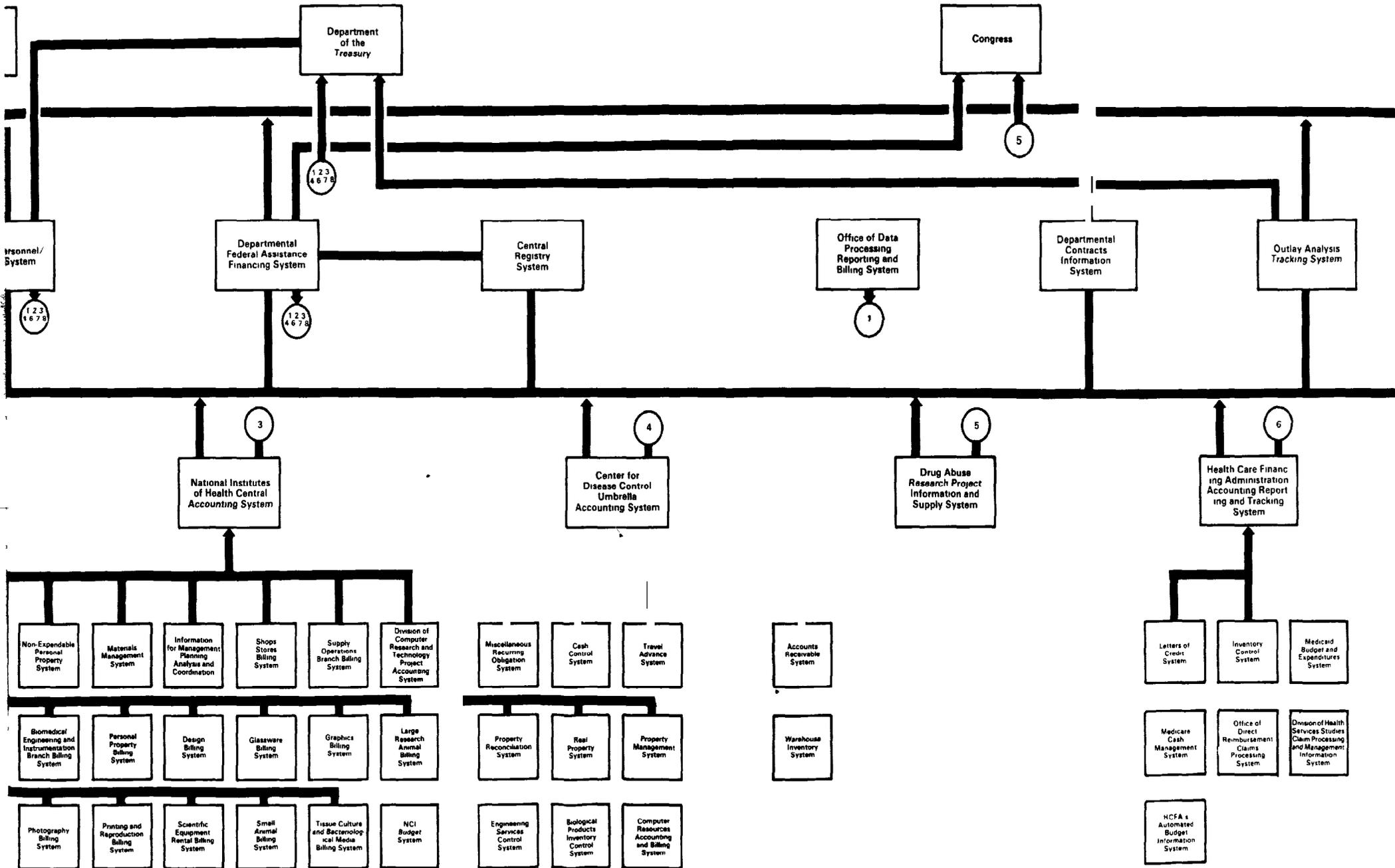
Total: 81 systems

APPENDIX V





# CHART OF THE FINANCIAL MANAGEMENT STRUCTURE DEPARTMENT OF HEALTH AND HUMAN SERVICES



ices and prepares a report required by the General Services Administration.

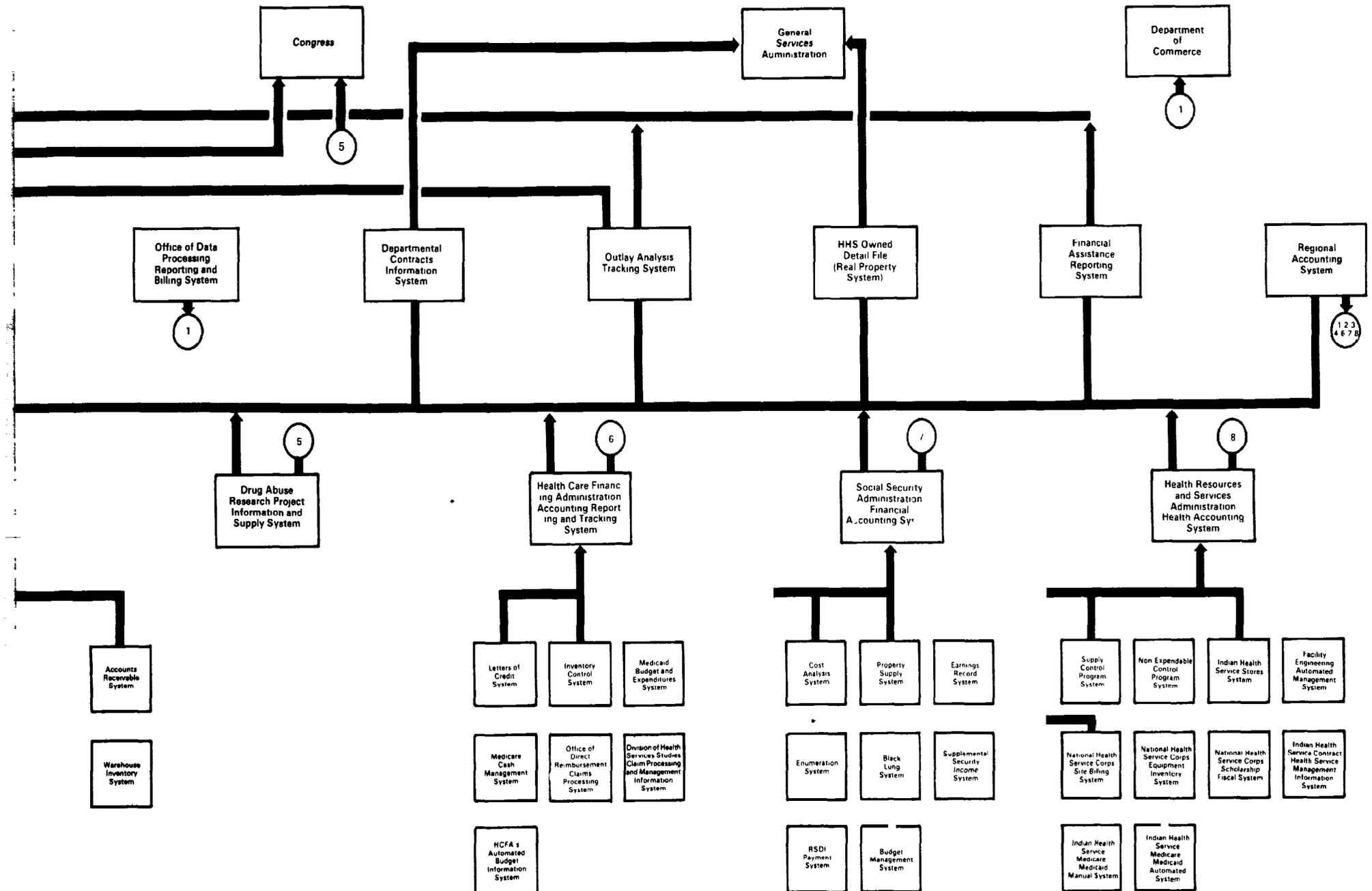
Outlay Tracking

Maintains Department-wide records on total obligations versus expenditures and prepares a report for Office of Management and Budget required under OMB Circular A-112.

Regional Accounting

Records all regional accounting transactions and prepares all financial reports required internally and externally. Interfaces with payroll systems and overall general ledger systems in each departmental component to provide accounting data.

# CHART OF THE FINANCIAL MANAGEMENT STRUCTURE OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES



METHODOLOGY FOR COMPUTING WEIGHTS  
FOR TEN RISK RANKING FACTORS

Weights for each of the 10 risk factors were derived by taking the mean of the "importance" ratings determined by seven GAO auditor/evaluators knowledgeable about assessing the vulnerability of accounting systems waste, fraud, and mismanagement. Three of the seven raters were members of the project's staff, and the canonical correlation between the ratings of project and nonproject raters was 86. The rating scale used was the following:

- 1) Very important
- 2) Unimportant
- 3) Neither important nor unimportant
- 4) Important
- 5) Very important

The weights derived by this procedure were:

<u>Risk factor</u>	<u>Weight</u>
Purpose of system	5.00
Age of system	3.71
Documentation available for system	4.57
Degree of automation and control capabilities built into system design	3.29
Sources for system input	4.00
Dollar value controlled by system	5.00
Recency of audit	4.00
Unresolved audit findings	4.14
Known system problems	5.00
Results of internal control survey	4.86

The mean of the weights was 4.36 and only two weights were between 3.00 and 4.00. This indicates that the raters considered the ten risk factors as important measures of the degree of vulnerability of the agency's financial management system to waste, fraud, and mismanagement.

It is only legitimate to use the mean score of the raters as a weighting factor if the ratings are reliable. Ratings are considered reliable when the raters produce similar and consistent results when rating the same factors or conditions. Therefore, we measured the reliability of the ratings before using the mean score across raters as the weight for each risk factor. A formula for calculating the reliability of ratings derived by averaging the ratings of individual raters is:

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CENTRAL FINANCIAL MANAGEMENT SYSTEMS

<u>SYSTEM NAME</u>	<u>SYSTEM PURPOSE</u>
Budget information	Prepares the annual departmental budget request.
A-11 budget	Prepares the annual budget request for ADP and telecommunications costs.
Central personnel/payroll	Provides personnel and payroll services for Department.
Departmental federal assistance financing	Records and controls cash advances to and expenditures reported by all departmental contractors and grantees.
Central registry	Maintains an automated registration system for all organizations and individuals (together with geographic location data) receiving grants and contracts from the Department.
HHS owned detail file	Records and controls all costs related to real property owned by the Department.
Office of data processing, reporting and billing	Records the cost of ADP services centrally provided to departmental components and bills the components for these services.
Financial assistance reporting	Maintains a data base of departmental obligations for all domestic assistance programs. Prepares a cumulative quarterly obligation report for the executive agent of the Office of Management and Budget and produces publications on annual financial assistance by geographic area.
Departmental contracts information	Maintains a record of all departmental contracts for the purchase of goods and serv-

METHODOLOGY FOR SELECTING COMPOSITE SCORE RANGES  
TO CLASSIFY DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS  
AS TO OVERALL LOW, MEDIUM, OR HIGH RISK

The 73 of the 81 financial management systems operated and used by the Department of Health and Human Services were classified as to overall low, medium, or high risk based on the composite score assigned each system. Composite scores were based on (1) risk ratings of low, medium, or high for each 10 risk factors and (2) the weights developed for each of the 10 risk factors. (See App. VIII). To compute the composite scores, the risk rating factors of low, medium, or high for the 10 risk ranking factors were converted to numeric values: low = 1, medium = 2, and high = 3.

Based on the numeric values for the risk ratings for the 10 risk factors and the weights for the 10 risk factors, any system could have a composite score ranging between a minimum possible score of 43.57 and a maximum possible score of 130.71.

<u>Risk factor</u>	<u>Top score for low risk ranking range</u>			<u>Top score for medium risk ranking range</u>			
	<u>Numeric value low</u>	<u>Weights</u>	<u>Composite score</u>	<u>Numeric value high</u>	<u>Weights</u>	<u>Composite score</u>	
1	1	5.00	5.00	3	5.00	15.00	
2	1	3.71	3.71	3	3.71	11.13	
3	1	4.57	4.57	3	4.57	13.71	
4	1	3.29	3.29	3	3.29	9.87	
5	1	4.00	4.00	3	4.00	12.00	
6	1	5.00	5.00	3	5.00	15.00	
7	1	4.00	4.00	3	4.00	12.00	
8	1	4.14	4.14	3	4.14	12.42	
9	1	5.00	5.00	3	5.00	15.00	
10	<u>1</u>	<u>4.86</u>	<u>4.86</u>	<u>3</u>	<u>4.86</u>	<u>14.58</u>	
Composite scores:			<u>43.57</u>				<u>130.71</u>

The range of composite scores from 43.57 to 130.71 was divided into three overall risk rankings of low, medium, and high as follows:

- The low risk ranking range ran from the minimum composite score of 43.57 to the composite score of 65.37 determined by using a numeric value of 1.5 for each of the 10 risk factors.
- The medium risk ranking range ran from 65.37 (the next composite score after the top score for the low risk range) to the composite score of 108.94 determined by using a numeric value of 2.5 for each of the 10 risk factors.

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
ACCOUNTING SYSTEMS

<u>System name</u>	<u>Organizational components operating the system</u>	<u>Organizational components served by the system</u>	<u>ADP center where system is run</u>
Office of the Secretary accounting	Office of the Secretary	Office of the Secretary Office of Human Development Services	Washington, DC
HCFA accounting, reporting, and tracking	Health Care Financing Administration	Health Care Financing Administration	Baltimore, MD
Financial accounting	Social Security Administration	Social Security Administration	Baltimore, MD
Health accounting	Health Resource and Services Administration	Health Resources and Services Administration Office of Assistant Secretary for Health Alcohol, Drug Abuse, and Mental Health Administration	Rockville, MD
FDA umbrella accounting	Food and Drug Administration	Food and Drug Administration	Rockville, MD
Central accounting	National Institutes of Health	National Institutes of Health	Bethesda, MD
CDC umbrella accounting system	Center for Disease Control	Center for Disease Control	Atlanta, GA
Regional accounting	Office of the Secretary	Regional offices	Washington, DC

TECHNICAL SUMMARIES SUPPORTING  
THIS FINANCIAL MANAGEMENT PROFILE  
OF THE DEPARTMENT OF HEALTH AND  
HUMAN SERVICES

Office of the Secretary Financial Management  
Systems

Department-wide Budget Development Systems and  
Time Frames

Central Personnel/Payroll System

Regional Accounting System

Social Security Administration Financial  
Management Systems

Health Care Financing Administration Financial  
Management Systems

National Institutes of Health Financial  
Management Systems

Health Resources and Services Administration  
Financial Management Systems

Food and Drug Administration Financial Management  
Systems

Office of Human Development Services Financial  
Management Systems

Center for Disease Control Financial Management  
Systems

$$r_{kk} = \frac{V_r - V_e}{V_r}, \text{ where } k \text{ equals the number of raters; } V_r$$

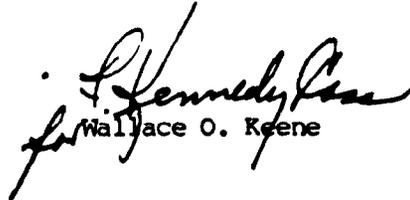
equals rater variance, and  $V_e$  equals error variance. (See Guilford, J. P., Psychometric Methods, New York: McGraw-Hill, 1954, pp. 395-398.) Applying the above formula to the ratings of our seven evaluator/auditors produced a reliability coefficient of .86.

concerning the SAS, we recommend that GAO update the sections of the report which address the Department's plans for improving its financial management structure.

GAO Note:

The financial management profile states, on page 40, that the Standard Accounting System (SAS) is under consideration as a replacement for the Department's eight existing accounting systems.

If you have any questions or wish to discuss this further please call me at 245-6941. Thank you.

  
Wallace O. Keene

--The high risk ranking range ran from 108.95 (the next composite score after the top score for the medium risk range) to the maximum composite score of 130.71.

	Top score for low risk <u>ranking range</u>			Top score for medium risk <u>ranking range</u>		
<u>Risk factor</u>	<u>Numeric value of 1.5</u>	<u>Weights</u>	<u>Composite score</u>	<u>Numeric value of 2.5</u>	<u>Weights</u>	<u>Composite score</u>
1	1.5	5.00	7.50	2.5	5.00	12.50
2	1.5	3.71	5.57	2.5	3.71	9.28
3	1.5	4.57	6.86	2.5	4.57	11.43
4	1.5	3.29	4.94	2.5	3.29	8.23
5	1.5	4.00	6.00	2.5	4.00	10.00
6	1.5	5.00	7.50	2.5	5.00	12.50
7	1.5	4.00	6.00	2.5	4.00	10.00
8	1.5	4.14	6.21	2.5	4.14	10.35
9	1.5	5.00	7.50	2.5	5.00	12.50
10	1.5	4.86	<u>7.29</u>	2.5	4.86	<u>12.15</u>
Composite scores:			<u>65.37</u>	<u>108.94</u>		

### B. Recency of Audit

GAO designates systems as high risk which have never been audited. Systems audited over two years ago were rated medium and those audited during the past two years were rated as low risk. Based on a GAO recommendation, the Inspector General completed an audit of the central personnel/payroll system in February 1983, therefore, we believe that GAO should assign a low rating on this factor.

#### GAO Note:

This audit was completed after our survey work on the Department's central personnel/payroll system was completed. Table 1 in chapter 6 has been revised to assign a rating of low risk to the Department's personnel payroll system for the audit risk factor.

### C. Results of Internal Survey

GAO designated systems as high risk in which it identified major internal control weaknesses. GAO defined systems as medium risk systems if the system could detect and report errors to management. Systems with no internal control weaknesses were ranked low.

GAO has ranked the central personnel/payroll system as high risk on this criterion. Our disagreement with GAO is on the philosophy of how to protect our system from producing inaccurate or fraudulent payments. The GAO study team believes that internal control systems to detect error or fraud should be a mechanical part of the automated system.

The GAO study team was particularly concerned that the 1/3 of 1% of our payments which were made manually were not adequately protected by management. Our current risk reduction strategy is based on two principle tactics. First, since GAO's survey we have automated our manual payment process. The new process provides more sophisticated edits before the payment is made and enables us to update these payments into our system more quickly. Our second major approach to the internal control area is an elaborate set of supervisory control procedures for the few payments which must be made outside the automated process. Each first line supervisor must personally approve all manual payments up to \$5,000. A second line supervisor must approve amounts between \$5,000 and \$10,000. The Director, Pay Systems Division must personally approve all manual payments in excess of \$10,000. In addition, the Director, Pay Systems Division, reviews all manual payments after they have been made. As a further check, each responsible office is notified of a manual payment through the umbrella accounting system flow-back process. We believe that these controls fully satisfy the spirit of GAO's definition of a medium risk system.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the Secretary

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**Memorandum**

Date . . . 30 1983

From Director, Office of Computer  
and Information Systems

Subject Comments on the GAO Draft Survey Report

To Hap Hadd  
Acting Director, Office of Management Analysis

With minor exceptions, we agree with GAO's findings in the subject report which summarizes earlier individual GAO survey reports on the financial management structure of each OPDIV in the Department. We commented on the earlier reports as GAO produced them. I have the following specific comments on the summary report:

1. The GAO report now correctly states that there is one centralized Departmental Payroll/Personnel System with a number of subsystems. The earlier report, on the Office of the Secretary (OS) financial systems, stated that there were fourteen systems.

GAO Note:

No comment necessary

2. In our comments on inaccuracies in the earlier OS report, we pointed out that: (1) the A-11 Budget System is not a separate system but is instead a subsystem of the Budget Information System and (2) that the A-11 Budget is not a request for funds. The purpose of the A-11 Budget system is to produce an exhibit which displays the ADP and Telecommunications portion of the HHS budget. The current GAO report repeats the original inaccuracies and should be corrected to accurately describe the A-11 system.

GAO Note:

The financial management profile, on page 16, states that the Office of the Secretary operates a Department-wide budget development system that includes two major subsystems: the automated budget information and A-11 budget subsystems. The profile further states that for ease of discussion the budget information and A-11 budget subsystems will be presented as two separate systems.

3. The information concerning the Department's plans to replace its eight existing accounting systems with the Standard Accounting System (SAS), now under development in the Office of Finance, was correct as of the end of October; however, new plans are now in preparation. The Department will have one Uniform Accounting System, but that system may not be the SAS. The SAS is one of the alternatives which a Departmental task team is considering. Because of the change

five to ten years. In addition, the Team was aware of two other contractual efforts to redesign the payroll system and integrate the payroll and personnel systems.

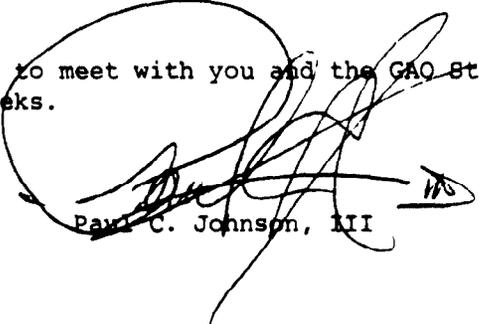
GAO Note:

This financial management profile clearly states on pages 41 and 42, that the Department has established a project to review its central personnel/payroll system to develop requirements for a new system. The profile also states that the Department is in the process of awarding a contract to a private consulting firm for the study and that the Department initially expects to have the new system in place by 1985. This new system will be designed to:

- use modern data base management techniques to maintain a single personnel/payroll masterfile,
- reduce the number of hard copy reports and make greater use of computer terminals to provide needed information to managers,
- streamline entering personnel and payroll transaction information into the computer, and
- reduce to a practical minimum manual processing steps.

We believe that the financial management profile, as it is currently written, fully and fairly recognizes the Department's efforts to redesign its central personnel/payroll system.

We look forward to the opportunity to meet with you and the GAO Study Team on these matters over the next few weeks.



Paul C. Johnson, III



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the Secretary

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**Memorandum**

Date **DEC 25 1983**

From Director, Employee Systems Center

Subject Comments on GAO's Draft: "Survey of the Financial Management Structure of the Department of Health and Human Services"

To Andrew Kapfer, Director  
Division of Accounting Systems and Procedures

This memorandum is in response to your request for comments on GAO's draft survey. Our primary concern is the overall "high risk composite reliability score" which GAO assigned to the Central Personnel/Payroll System. We believe that GAO should assign a medium risk composite reliability score to the central personnel/payroll system based on a reasonable application of GAO's own criteria. GAO also made several statements about the sophistication of the system and our approach to internal controls which we do not believe fairly represent the system or the plans which we discussed with the study team last July.

I. The Proposed Composite Reliability Score is Inaccurate

GAO used a ten factor analytical approach to assign high, medium and low risk ratings to 73 of the Department's 81 Financial Management Systems. GAO designated seven high risk systems including the central personnel/payroll system. We believe that GAO applied its own criteria inaccurately in assessing the following three factors.

A. Manual or Automated System

GAO evaluated the risk of each system on the basis of the number of functions which were automated. GAO considers highly automated systems less risky than systems which involve manual steps. The central personnel/payroll system is completely automated which would qualify for a low risk rating under the GAO criterion. Nevertheless, GAO assigned a medium risk rating to the personnel/payroll system. Each pay period the system automatically issues 145,000 payments. Only 400 or 1/3 of 1% of our payments are made manually largely due to late actions by the personnel offices. We are unaware of any comparable federal sector payroll system that is more fully automated than our current approach. Therefore, we believe that our system deserves a low rating on this factor.

GAO Note:

The financial management profile states on pages 27 through 29 that the Department's personnel/payroll system is a highly automated system, but that manual procedures exist to routinely by-pass automated controls to enter manually determined pay entitlement and pay amount information directly into the automated system. We still believe a medium risk rating for the Department's personnel/payroll system for this risk factor is appropriate.

in the report were more fully described. This information was made available to the GAO auditors during that part of the survey conducted at SSA headquarters.

GAO Note:

The financial management profile has been changed to address the above concern. See page 43.

3. Statements in the summary of Retirement, Survivors and Disability Insurance Disbursement Systems on pages 44 to 46 are misleading. The impression is given that SSA's earnings and benefit payment systems are out of control. No effort is made to put the situation in perspective by comparing the extent of the control problems and the errors that result to the total number of actions that are processed correctly. We believe this handling is misleading and can lead to inaccurate and adverse publicity. Solutions to problems in the disbursement systems are being aggressively pursued.

GAO Note:

The financial management profile has been changed to address the above concern. See page 32.

4. Listed below are additional comments which suggest alternative phrases to clarify or correct existing report language:

-- Page 6 - Change the explanation of the Supplemental Security Income program to read: "Supplemental Security Income Program which provides an income supplement to aged, blind, and disabled individuals who have limited income and resources."

GAO Note:

The financial management profile has been changed to address the above concern. See page 4.

-- On page 9, the report states "Actual benefit payments were only known at the end of fiscal 1982 which were as follows:" This implies that SSA could not provide more recent data when, in fact, benefit outlays are available shortly after a month ends. We suggest that this sentence read ... "Actual benefit payments for fiscal 1982 were as follows:"

GAO Note:

The financial management profile has been changed to address the above concern. See page 6.

Our overall conclusion is that GAO's ranking of the central personnel/payroll system as high risk does not reflect an equitable application of its own standards. Our analysis argues that the overall composite reliability score for the central personnel/payroll system should be 18 rather than 21. Therefore, the system qualifies for GAO's medium risk rating.

GAO Note:

The financial management profile, chapter 6, page 45, states that one of the risk ranking criteria used was "Degree of automation and capabilities built into system design." A high risk ranking for this risk factor was defined as follows: "Completely manual systems or systems combining manual and automated processes in which the automated process could not fully verify the results of manual processing were ranked high because people could circumvent manual controls and usually do not process information as consistently as an automated system." We still believe that this is a valid position.

Subsequent to submitting this draft to the Department for comment, GAO's Program Evaluation and Methodology Division validated the ranking factors used and the weights assigned each factor in arriving at composite scores for each rated system. As a result of this revalidation process, changes were made to the weighting factors assigned each risk factor. As a result of the changes in weighting factors, the Department's personnel/payroll system received an overall medium risk composite score. See table 2 in chapter 6 of this financial management profile.

II. Other Concerns

The GAO Study Team asserts that the "Central Personnel/Payroll System did not appear adequate to ensure that paycheck amounts are proper and pay checks were only issued to entitled persons". We cannot agree. Our philosophy of internal control is addressed earlier under the discussion of results of the internal survey. However, in order to test our understanding we have planned to conduct a formal risk analysis of the system using a third party contractor. We expect the results during this fiscal year.

The Study Team also made a number of observations about the sophistication of the current personnel and payroll system. The team used the number of hard copy reports, lack of an active data base management system and the need for OPDIV subsystems as evidence that improvement was necessary. While we do not disagree that improvement is necessary, we are surprised by the Team's lack of emphasis of the strategy to remedy these difficulties which is currently underway. Specifically, we have just completed an indepth study of the needs of the personnel/payroll system over the next

Congress to evaluate the consequences of any decisions. To this extent, expenditures are not really "open ended" or "out of control." We suggest that this thought be incorporated into pages 27-29 of the report. The recent debates about bringing these expenditures under control to reduce the Federal budget deficit, etc., attest that options are available.

GAO Note:

The financial management profile has been changed to address the above concern. See page 20.

- On page 30, the report indicates that States make the Social Security contributions through the Internal Revenue Service. Change IRS to the Social Security Administration. At the bottom of that page, change the last line to read "Internal Revenue Service and the Social Security Administration and disbursement reported to it by the ..."

GAO Note:

The financial management profile has been changed to address the above concern. See page 21.

- On page 31, the purpose of the Quarterly Trust Fund Letter is not completely stated. This letter is also used to advise Treasury how to distribute the receipts into the proper trust funds. Change the second full sentence to read " ... that certifies wages and earnings recorded by the Social Security Administration in individuals' accounts in its Earnings Record System and data needed to redistribute FICA and SECA tax receipts among the trust funds." Change the last sentence of that paragraph to read-- "During each month, the Department provides estimates to Treasury of cash required to meet daily trust fund benefit and administrative payments and, at month end, reports actual disbursements made."

GAO Note:

The financial management profile has been changed to address the above concern. See page 21.

- On page 32 (also v and 21), the report mentions that the Department has eight separate accounting systems which are standard only in that they use a Department-wide chart of accounts. This is incorrect. In addition to using common general ledger accounts, HHS Operating Divisions also use:
  - standard subobject classification codes to assure that costs, commitments, obligations and accrued expenditures are reported consistently,



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Social Security Administration

Refer to SMF-4

**Memorandum**

Date **1983** AM-1

From Acting Deputy Commissioner  
for Management and Assessment

Subject Comments on GAO Draft Report, "Staff Study of the Financial Management  
Structure of the Department of Health and Human Services" (Your Memorandum  
Dated 11/3/83)--INFORMATION

To Director, Division of Accounting  
Systems and Procedures

As you requested we have reviewed the GAO draft survey report and offer the following comments.

1. The report contains no recognition of SSA efforts, or for that matter Department-wide efforts, to implement an Internal Control System intended to identify control points, evaluate the strength or weakness of controls in place and bring about corrective actions as necessary. SSA has made significant progress in strengthening internal controls, in response to the requirements of OMB Circular A-123 and the provisions of the Federal Managers' Financial Integrity Act (FMFIA). Our overall efforts, planned over the years 1983 through 1987, cover internal controls in general, and more specifically internal controls in accounting systems. Under provisions of the FMFIA, we reviewed in 1983 SSA's General Ledger System. We will be reviewing our remaining accounting systems, including the disbursement systems for benefit payment programs, by 1987. SSA's significant internal control efforts are germane to the GAO study and merit prominent mention in sections of the report dealing with initiatives underway to improve financial management.

GAO Note:

The financial management profile has been changed to address the above concern. See page 14.

2. Inadequate recognition is given in the draft report to the importance of SSA's 5-year Systems Modernization Plan. Although a description of the effort is included among "Other Initiatives within the Department's Organizational Components" (page 62), no real sense of the significance of the project in improving SSA operations is conveyed. Improvement of SSA ADP systems through the Systems Modernization Plan was described as "the top administrative priority of the Social Security Administration" in our 1983 Annual Report to Congress. The modernization effort addresses longstanding deficiencies in SSA computer systems, such as those described in the draft report. We believe that the report would present a more accurate picture if the importance and magnitude of the modernization effort, its major programs and progress to date, and its projected impact on the systems problems identified



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of  
Human Development Services

## Memorandum

DEC 7 1983

TO : Andrew J. Kapfer  
Director, Division of Accounting  
Systems and Procedures, OS

FROM : *Joseph A. Motto*  
Joseph A. Motto  
Director, Office of Management Services

SUBJECT : GAO Draft Survey Report

The following comments are submitted on the GAO Draft Survey Report on the Financial Management Structure of the Department of Health and Human Services in accordance with your memorandum dated November 3, 1983.

1. Reference ADP Resources Used by the Department - Page 12 -  
The survey does not recognize that HDS has its own computer center.

GAO Note:

GAO recognizes that OHDS has its own computer center. However, the center is used primarily for preparing management information reports for OHDS management not financial reports and related obligation and expenditure data for the various OHDS programs.

2. Reference Chapter 6 and Table 1 - Risk Ranking of Department's Financial Management Systems, Page 74 - The findings are apparently based upon Technical Summary J of Appendix VIII, page 94. We were informed by GAO that a report on Technical Summary J was scheduled for completion in January 1984. GAO stated that we should use the draft report that was prepared in July. As you will recall we recommended that the reviewer return to HDS and discuss his understanding of the HDS systems with the managers in order that the report could be corrected. Until we see Technical Summary J it is difficult to comment on the findings.
  - a. GMIS - GMIS does not authorize the use of HDS resources. GMIS records and processes the results of other actions that authorize the use of resources. We are not aware of an audit report on GMIS itself. The most recent audit in 1982 dealt with all grant management practices in HDS. The deficiencies noted in that report have been corrected. If GAO has other reports in mind we would like to be advised of them. To comment on "Known System Problems" and "Results of Internal Control Survey" we will have to review the final Technical Summary J when it becomes available.

- On pages 9, 10, and 27 the report states that SSA pays benefits to people who "applied for and received benefits." In this context, it appears that application must be made each year, which is not correct. We suggest that this be changed to read "... number of people who meet initial and continuing eligibility criteria ..."

GAO Note:

The financial management profile was changed to address the above concern. See pages 5, 6, and 19

- Page 10 - Change the third sentence in the first full paragraph to read: "In advance of making the disbursement, the Administration bills each State an amount equal to its anticipated share of program costs."

GAO Note:

The financial management profile was changed to address the above concern. See page 6.

- On page 24, the report states that SSA's budget request for benefit payments are based on historic growth rates and economic factors rather than on actual benefit payments made when the budget request is submitted to OMB. This statement should be deleted because it is erroneous. GAO has confused procedures used to develop long-term estimates with those used to develop short-term estimates. Recent actual benefit payments are, in fact, an extremely important starting point for SSA's budget requests. Short-term estimates are based upon them and are increased or decreased to reflect cost-of-living increases and changes in the number and mix of people on the benefit rolls. Actuaries and statistical experts develop both short- and long-term estimates and use all generally accepted tools of the "trade."

GAO Note:

The financial management profile was changed to address the above concern. See page 17.

- On pages 27-29 (also iv and 27), the report mentions that the Congress can only control about 13 percent of HHS' budget because benefit programs are "open-ended," i.e., an estimate of expenditures rather than a proposed spending level which it could approve, modify or disapprove during the appropriation process. While this is generally true, GAO should amend the report to state the steps that the President and the Congress take to control these expenditures. HHS can and does provide reliable estimates of expenditures under current law. These can, if unacceptable, be controlled by passing legislation to change eligibility criteria, computation criteria including cost-of-living allowances, etc. HHS provides reliable estimates for legislation proposals to enable

Departmental Management  
Office of Inspector General  
Office of Civil Rights  
Office of Consumer Affairs  
Policy Research  
Working Capital Fund  
Consolidated Working Fund  
Grants Management Fund

GAO Note:

For the purpose of this survey we used the fiscal year 1982 Presidential budget request because the fiscal year 1982 spending levels had not been approved by the Congress when we initiated our survey. In regard to 3b, appropriate changes have been made to appendix I.

4. Reference Appendix III, Summary of Computer Centers, Page 86 - This listing does not include HDS computer centers.

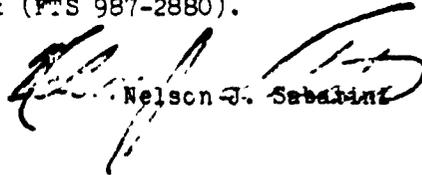
GAO Note:

See GAO response to point 1.

- standard codes to enter transactions to assure that they affect the general ledger accounts, subobject classification codes and appropriations consistently and
- standard input formats when data are exchanged between HHS accounting systems.

GAO substantially understates the degree of uniformity that exists in HHS. Reports issued from the eight systems can be consolidated without fear of the data being inconsistent.

If you or members of your staff have any questions on this response, please contact Matthew Schwientek (FIS 987-2880).



Nelson J. Sabatini

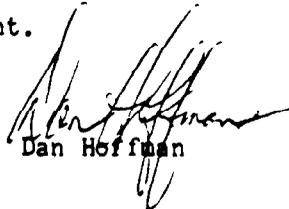
GAO Note:

Appropriate changes to the financial management profile have been made to address the above concerns. See pages 15 and 21.

through the Systems Modernization Plan was described as "the top administrative priority of the Social Security Administration" in our 1983 Annual Report to Congress. The modernization effort will address longstanding critical deficiencies in our computer systems, such as those spelled out in the draft report. We believe that better balance could be achieved in the report, if details concerning the importance and size of the effort, its major programs and progress to date, and especially its impact on the systems problems identified in the report, were also addressed. Such details were available to the GAO auditors during that part of the survey conducted at SSA headquarters.

Finally, we want to raise the question of how these survey findings will be used, especially in relationship to Federal Managers' Financial Integrity Act (FMFIA) requirements for annual reviews of and reports on both internal controls and accounting systems. Although the objectives of this survey are spelled out in the draft report, it is not at all clear what use is to be made of the findings. When the GAO team introduced the survey, we were told that the findings would be used to plan GAO audits over the next 5 years. However, as the on-site survey neared conclusion, the GAO representatives informed us that was no longer the case. They were unable at that time to correlate the survey and its future use with ongoing efforts such as the Internal Control System Project spearheaded by the Office of Management and Budget and those efforts required under provisions of the Federal Managers' Financial Integrity Act (FMFIA). We wish to again raise the question of relationship and coordination among the various individual review efforts, such as this survey, and ongoing comprehensive programs of improvement which span a 5-year period. In this case, the survey has documented numerous problems, many if not all of which are already being addressed through the Systems Modernization Plan or efforts associated with the Internal Control System or the Federal Managers' Financial Integrity Act (FMFIA). We believe that the relationship of this survey to those ongoing programs needs to be clearly defined, if we are to avoid duplication of effort and the potential for waste of scarce resources.

Thank you for the opportunity to comment.



Dan Hoffman

GAO Note:

The financial management profile has been changed to reflect the concerns raised. See page 43 of the profile.

- b. AoA Financial Status Reporting System - This system does not authorize the use of resources. The approved State Plan is the instrument which authorizes the State to receive funds. The FSRS computes the amount of funds that each State will receive based upon the formula and the amount of funds available. Again to comment on the "Results of Internal Control Survey" we will have to review the final Technical Summary J when it becomes available.
- c. Property Accounting System - To comment on the "Results of the Internal Control Survey" we will have to review the final Technical Summary J when it becomes available.

GAO Note:

GAO provided a draft summary on OHDS's responsibilities, activities and financial management structure to appropriate officials for their review and comment. Oral comments were received. These comments will be considered in preparing the final summary and where GAO deems appropriate, changes will be made.

3. Reference Appendix I, FY 1982 Budget Authority Related to Source of Funds, Page 82 -

- a. The funds as stated were requests made before the present administration. The correct figures for HDS are as follows:

<u>Programs</u>	<u>GAO Stated Appropriation (000)</u>	<u>Actual Appropriation (000)</u>
Social Services	\$ 3,091,100	\$ 2,400,000
Human Dev. Services	2,220,528	2,204,688
Work Incentives	384,982	280,760

- b. The following programs are not related to Human Development Services. In our opinion the presentation appears to indicate that they are part of HDS:

Table 1 "summarizes the scores for each of the Department's 76 financial management systems." The referenced table, however, includes 81 systems, 8 of which were not evaluated; therefore, only 73 systems were ranked. The apparently contradictory references to 73 and 76 systems should be corrected or clarified.

GAO Note:

The financial management profile has been revised to address the above comments. See page iii.

Page 64

Appendix II reports incorrect position authorization and payroll estimates for OCR in Fiscal 1982. The correct figures are 524 positions and \$15,524 (in 000's).

GAO Note:

For the purposes of this survey we used the fiscal 1982 Presidential budget estimates.

Either I as OCR's Internal Control Officer or Brenda J. Clinton, my alternate, will represent OCR in meetings with GAO to further discuss our comments.

If you have questions regarding our comments, please contact me at 245-7553 or Brenda J. Clinton at 755-4344.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Social Security Administration

Refer to SMP22

**Memorandum**

Date NOV 13 1983

From Director  
Division of Management Planning, OMPA

Subject GAO Draft Report - Survey of the Financial Management Structure of the  
Department of Health and Human Services (In Response to Telephone Request,  
11/16/83)--INFORMATION

To Chief  
Cost Analysis Branch, OFR

Due to the restrictive timeframe for commenting on the subject report, it has not been possible to do an in-depth analysis here or to obtain input from all Internal Control Officers in the SSA components responsible for the systems and processes covered by the report. Nonetheless, we want to make several comments.

The report contains no recognition of SSA efforts, or for that matter Department-wide efforts, to implement an Internal Control System intended to identify control points, evaluate the strength or weakness of controls in place and bring about corrective actions as necessary. SSA has been striving and progressing in the implementation of the System since the Spring of 1982, first in response to the requirements of OMB Circular A-123 and subsequently to the provisions of the Federal Managers' Financial Integrity Act (FMFIA) as well. Our overall efforts, planned over the years 1983 through 1987, cover not only internal controls in general, but also accounting systems in particular. Under provisions of the FMFIA, we reviewed in 1983 SSA's General Ledger System and we will be required to review our remaining accounting systems, including the disbursement systems for benefit payment programs, by 1987. We believe that our internal control efforts are germane to the GAO study and merit prominent mention in the report, at least in those chapters dealing with initiatives underway to improve upon financial management. That part of the GAO team covering SSA in this survey was apprised of our internal control efforts and a separate GAO team has been on-site for several months monitoring our internal control actions in great detail.

GAO Note:

The financial management profile has been changed to reflect the concerns raised. See page 14 of the profile.

Along the same line, it appears that treatment in the draft report of SSA's 5-year systems modernization effort is somewhat light. Although a minimal description of the effort is included among "Other Initiatives within the Department's Organizational Components" (p. 62), no sense of the import of the project is conveyed in the report. Improvement of its ADP systems

5. The report identifies the Contractor Inspector and Evaluation Program (CIEP) which is a broad evaluation program to provide information for HCFA's preparation of the Annual Contractor Evaluation Report (ACER). It appears that the GAO staff who prepared the draft report may have incorrectly correlated the CIEP and the Quality Assurance programs. The Medicaid program calls for sample redeterminations while the Medicare program reviews for payment accuracy - if incorrect, the amount of the incorrect payment is determined.

GAO Note:

Changes have been made in the profile. See page 30.

6. The GAO does not break down property (page 48) by capitalized and non-capitalized property.

GAO Note:

Property systems account for only capitalized property.

7. There is agreement that personal property should be annually inventoried.

GAO Note:

No change required.

8. The draft report is not clear whether the reconciliation of property records and financial controls reflect a physical count or merely the composite of the estimated value.

GAO Note:

The reconciliation of property and financial records reflects the results of taking physical inventories.

9. There is agreement that weaknesses exist in property controls, disbursement controls (travel and procurement) and DFAFS and, as such, subsequent reports from the systems.

GAO Note:

No change required.



Washington, D.C. 20201

NOV 29 1983

TO : Andrew J. Kapfer, Director  
Division of Accounting Systems and Procedures

FROM : ~~Bart J. Crivello, Deputy Director~~  
Office of Management and Policy

SUBJECT: OCR's Comments - GAO Draft Survey Report

Thank you for the opportunity to comment on the draft GAO survey report. OCR is solely a user of and contributor to these financial management systems; therefore, our review is limited to identifying apparent inconsistencies in the report, as follows:

Pages 29-31

The section on "Accountability For Trust Funds," which is divided between HHS, IRS, and Treasury, indicates that IRS collects FICA and SECA taxes. The narrative continues to explain that HHS prepares a quarterly letter to Treasury certifying the FICA and SECA tax receipts recorded by SSA in individuals' accounts. Any connection between the IRS collection of taxes and SSA's entry into the earnings records is not clear. The interrelationships of the separate accounting systems should be clarified.

GAO Note:

Changes have been made to address the above comments. See page 21.

Pages 35 and vi

On page 35 the report states that "disbursement systems for six benefit payment programs, with fiscal 1982 disbursements totalling about \$243 billion, were inadequate to ensure the propriety of benefit payments made." This contradicts summary information on page vi of the DIGEST, which states that a total of seven benefit programs totalling \$243 billion in disbursements had systems' inadequacies. This inconsistency should be corrected.

GAO Note:

The above inconsistency has been corrected. See pages iv and 24.

Pages 68-69

Throughout the report GAO states that HHS has 81 financial management systems. On page 68, however, the report states that 76 systems were surveyed. On page 69 the report states that "the Department's 73 systems surveyed were ranked" by "composite reliability scores." The report states that



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the  
Regional Director  
Region VIII

## Memorandum

Date November 23, 1983

From Director, Regional Administrative  
Support Center, HHS, Region VIII

Subject GAO Draft Survey Report

To Andrew J. Kapfer, Director,  
Division of Accounting Systems and  
Procedures, OASMB

The following are Regional comments relative to the General Accounting Office draft report.

(1) Pages 35 and 48 of the survey indicate that the Department's personal property systems are inadequate; that inventories are done sporadically, and that reconciliations of property records and financial control accounts are not done. With limited exceptions, this statement is generally correct. The recently submitted internal and administrative control statement required by the Financial Managers Integrity Act identified specific problems in at least three Regions. There are also indications that this problem exists in other Regions as well, even though it was not identified as part of the FMI responses.

GAO Note:

Based on the above comment, no changes to the financial management profile are necessary. However, HHS's comment substantiates our position.

(2) Page 36: The report indicates that the accounting systems receive summary information on the status of assets and liabilities, and on the results of program administrative operations from subsidiary financial management systems. This statement is ambiguous, since the information in the Regional Accounting System originates at the authorizing document level. Information in RAS is detailed and supported at the general ledger level by various subsidiary files and ledgers, and not from subsidiary financial management systems as suggested by the draft report.

GAO Note:

Changes have been made to reflect above comments. See page 26.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of Inspector General

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**Memorandum**

Date DEC - 6 1992

From Internal Control Officer

Subject GAO Draft Survey Report - Comments

To Director, Division of Accounting  
- Systems and Procedures

The following comments are made to the proposed Draft Report - Survey of the Financial Management Structure of the Department of Health and Human Services.

1. The report covers problem areas and initiatives toward improvement. The draft report indirectly affirmed these initiatives but did not indicate if, in fact, these initiatives were acceptable.

GAO Note:

Additional work would be required to ascertain if these initiatives, discussed in chapter 5 of this profile, would correct the identified problems.

2. Page 19 of the report indicated that the survey included prior issued Inspector General reports. While the specific reports were not identified, it is recommended that the list of reports be obtained for reference.

GAO Note:

The Inspector General reports are too extensive to list.

3. The figure in paragraph 3, page 28, 1st line, should be \$243 billion.

GAO Note:

The financial management profile has been changed. See page 19.

4. The 1st paragraph, page 28, should be expanded to reflect the organizational levels which impact on Departmental resources.

GAO Note:

We do not believe changing the financial management profile to address this comment would enhance the identification of the financial management structure of HHS.

(7) Page 85: When was Departmental Management moved to Human Development Services?

GAO Note:

Appropriate changes have been made. See app. I.

(8) If there are so many systems in the Regions duplicating RAS, why were they not identified as Office of the Secretary systems on page 86?



Richard L. O'Brien

cc: Robert A. Wilson

GAO Note:

The systems are unique to the regions, and therefore, the Office of Secretary has no involvement in these systems.

10. The Risk Ranking is considered a good tool to identify points at which resources should be earmarked. It is questioned whether the risk should be diminished on an old system - one that may not be as sophisticated or efficient/effective as a new system - with consideration of the "bugs" that might be in a new system. Further, the draft report should indicate the apparent assumption that an automated system has inherent benefits over a manual system despite the possibility of an automated system comprising inaccurate input and subsequent output.

GAO Note:

We agree with the view offered by OIG. However, newer systems, until fully tested, generally have more problems because all of the bugs have not been worked out. In addition, even though older systems may be less economical, cost justification studies are necessary on an individual system basis, to ascertain if this is the case.

11. It is agreed that the Letter of Credit System includes weaknesses that makes it difficult to minimize the outstanding balances of contractor program funds.

  
Thomas C. Croft, Jr.

GAO Note:

No change required.

## ATTACHMENT A

**FINANCE COMMENTS ON THE GAO DRAFT SURVEY REPORT -  
EXECUTIVE SUMMARY OF HHS FINANCIAL MANAGEMENT STRUCTURE****General Comments**

- o On page V and 21 the statement is made that the Department does not maintain a central accounting system but rather operates eight separate accounting systems which are non-standard except for a standard chart of accounts. We point out that the Departmental Accounting Manual approved by GAO in 1970 also provides for standard object classes and transaction codes for processing every type of financial document.

**GAO Note:**

Changes have been made in the profile--see pages iv, 15, and 21.

- o On page 37 the report indicates the Department's accounting systems do not include controls to assure disbursements were authorized in accordance with statutory or regulatory provisions. We do not believe this is a function for an accounting system. If a program officer and/or a contracting officer determine a grant or contract is a proper use of the appropriated funds, the accounting office should not review this decision and second guess the other officials.

**GAO Note:**

The system in and of itself cannot attest to the priority of payment. However, techniques can and should be implemented to validate payments prior to being made.

- o We disagree with the statement on page 50 that the Department's major organizational components operate five contract and grant management systems and these systems report the amount of contracts and grants to the eight accounting systems and to DFAS. Individual grant and contract amounts are entered into the accounting systems directly from grant and contract award documents.

**GAO Note:**

Changes have been made in the profile--see pages 34, 35, and 36.

(3) Page 37: The survey states that the accounting systems, as designed, do not include controls to verify the propriety of summary financial information received. For example, the accounting systems do not include any controls to test whether disbursements reported to them were authorized in accordance with statutory or regulatory provisions. In essence, the controls do exist within the accounting system (RAS) through review, authorization, and approval of the various document level commitments, obligations, etc. It is difficult to imagine how an accounting system, by itself, can make a decision as to the propriety of a disbursement.

GAO Note:

The system itself cannot attest to the priority of a payment. However, techniques can be implemented in a system to ensure consistency of application of criteria necessary for a payment. For example, receiving reports and vendor invoices should be received prior to authorizing a payment for goods received.

(4) Grant and Contract Systems -- Contractors, as a general rule, are not given cash advances; they are normally reimbursed for their allowable expenditures after the fact. The survey (page 50) indicates that the contract and grants management systems operated by the Department report the grant or contract authorization to the accounting system and to DFAPS. In the case of the Regions, the RAS and DFAPS interface with each other to provide authorizations and expenditures.

GAO Note:

The financial management profile has been changed to address above comment. See page 35.

(5) Page 56 of the report states that "The regional offices have designed and are using several automated financial management systems that duplicate functions performed by the Regional Accounting System", but only one example is given. This section should be more specific.

GAO Note:

The supporting technical summary provides additional details concerning this particular area.

(6) The Regional Accounting System is identified as a medium risk system, while the OS accounting system is rated low risk. Why is this the case, since the systems are similar.

GAO Note:

The RAS was ranked as a higher risk because of the larger dollar value controlled and the unnecessary duplication of systems.

GAO Note:

The profile discusses the time frame problems involved in the budget development process--see page 18. In addition, there should be a closer relationship between the budget and accounting system--this is presently required by the Budget and Accounting Act of 1950.

- o On page 28, the statement in the last sentence that insurance and benefit payments are based on estimated expenditures and not a proposed spending level that Congress could approve, etc.,... is unnecessarily negative in that Congress approved the authorizing and appropriation acts for these programs.

GAO Note:

The profile has been changed to address the concern raised by HHS.

Following are our comments on individual systems surveyed.

OS/HDS Accounting System

We concur with the report's findings and the overall low-risk ranking (15) of the OS/HDS accounting system, as one of the Department's eight general ledger and disbursement systems. We agree with GAO's assessment that the system:

- o Is adequate to ensure that summary financial information is accurately, timely, and completely recorded in the general ledger accounts. (page V).
- o Has only moderate risk in terms of internal control weaknesses.

GAO Note:

No change in the profile is necessary.

Standard Accounting System

- o The prototype Standard Accounting System (SAS) is the replacement system for the OS/HDS accounting system which was implemented in Finance (DAO) on October 3, 1983. Because the system was under development at the time of the GAO survey, we recognize that no risk ranking was assigned to SAS.

GAO Note:

No change in the profile is necessary.

- o We disagree with GAO's statement on page 59 that the Department began work on the SAS about 13 years ago when the basic system design was approved by GAO. GAO approved the Departmental Accounting Manual



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

DEC 15 1983

MEMORANDUM

TO : Bill Yanniello

FROM : Finance Internal Control Officer

SUBJECT : Finance Comments on GAO Draft Survey Report -  
Executive Summary on HHS Financial Management  
Structure

We have reviewed the GAO Draft Survey Report - Executive Summary of HHS Financial Management Structure.

The GAO survey includes the following Office of Finance systems: OS/HDS accounting system; the Standard Accounting System (replacement system for OS/HDS accounting system implemented October 1983); the Departmental Federal Assistance Financing System - DFADS (to be replaced in January 1984 by the Payment Management System - PMS); the Regional Accounting System (RAS); the Central Registry System (CRS); the Federal Assistance Reporting System (FARS) and the Outlay Analysis Tracking System.

Comments on GAO's findings on all of these systems are at Attachment A including general comments on the survey findings.

*Joseph J. Perricone*  
Joseph J. Perricone

Attachment

cc: David V. Dukes

GAO Comment (page 51)

DFAFS does not record and report cash advances and expenditures by individual contract or grant. Instead, DAFS records and reports all cash advances received and expenditures made by contractor or grantee under all contracts and grants held. Most contractors and grantees hold more than one contract or grant. As a result, DAFS reports do not easily permit organization component managers to monitor the financial operations and status of an individual contract or grant.

Finance Comment

GAO's statement is only partially correct for the following reasons:

- o DAFS has always collected and reported expenditures on a grant-by-grant (or contract-by-contract) basis. But at the time of a December 1979 GAO audit, DAFS did not record and report advances on that basis which we believe is the reason for GAO's finding.
- o Currently, DAFS records and reports advances for the major Public Assistance Programs (Medicaid, AFDC, etc.) amounting to \$34 billion (or about 85% of DAFS advances) on a grant-by-grant basis. In addition, DAFS has adjusted its method of distributing advances for the remaining programs based on reported expenditures.
- o Under the new Payment Management System (PMS) to be implemented in January as the replacement system for DAFS, all advances will be distributed and reported on a grant-by-grant basis.

GAO Note:

Profile changed to recognize above concerns--see page 35.

We recognize in chapter 5 of the profile that DAFS is to be replaced and that the new system--payment management system--is intended to alleviate the problems currently in DAFS.

GAO Comment (Pages 52 and 54)

"...the Department's financial management structure for contracts and grants is cumbersome and inefficient in that it requires the maintenance of duplicate sets of accounting records. As a result, computer resources are used to record and store the same information twice.

Finance Comment

Our comments (below) are based on the assumption that the duplication GAO is referring to involves (1) duplicate recording of payee information (name and address, etc.) in the Central registry System (CRS) and DAFS/PMS; and (2) duplication of document level award data which is recorded in the OPDIV headquarters and the regional Accounting System (regional grants only) as well as DAFS.

- o On page 50 the report states that DFAFS reports aggregate cash advances and expenditures by contractor or grantee to the appropriate Departmental accounting system. We recommend changing the word "Departmental" to "OPDIV" accounting systems. We also note that the Regional Accounting System as one of the eight accounting systems does not get cash advance data from DFAFS and the expenditure data received from DFAFS is at the document level.

GAO Note:

Appropriate changes have been made in the profile--see pages 34, 35, and 36.

- o In Appendix I, page 82, and Appendix II page 85, the Departmental Management and other OS appropriations are listed under Human Development Services (HDS) and not as a separate OPDIV. This is not correct.

GAO Note:

Changes have been made--see appendix I and appendix II.

- o In Appendix IV page 87 the heading at the top of the first section is wrong. These are not government-wide systems operated by OS. They are department-wide systems.

GAO Note:

Changes have been made to address above comment--see appendix IV.

- o On page 7, and on pages 11 and 12, the report incorrectly states that the Department manages six direct loan programs instead of eight. The following loan programs should be added to the listing on page 11:

- Rural Development Loan Fund
- Community Development Credit Union Rural Loan Fund

GAO Note:

Data in our report, in terms of budget authority was based on the fiscal year 1982 Presidential budget. These two loan programs were not in effect when the Presidential budget was submitted.

- o We note the statements on page iv, second bullet from the bottom and on pages 25 and 26, that the Department's budget request are not based on actual data from the immediately preceding fiscal year. It is impractical to wait until actual data is available to develop the Department's budget request.

- "Purpose of System": GAO gave different rankings to each system yet both systems basically have the same purpose.
- "Manual or Automated System": GAO again assigned different values to the two systems yet they are very similar and both combine manual and automated processes.
- "Source of Input for System": GAO gave different rankings yet both systems receive data from DFAPS, Payroll and from each other so it is difficult to understand why they should be ranked differently in this category.
- "Dollar Values Controlled by System": RAS is apparently ranked too high since FY 83 obligations totalled about \$1.8 billion. According to GAO's description this should equate to a medium ranking but the RAS was given a high ranking in this category.

GAO Note:

These comments were discussed with appropriate agency officials at the exit conference on January 6, 1984, and based on that discussion agency officials agreed with GAO's position. Therefore, no changes in the profile are necessary.

- o On page 36 and 37, the RAS is listed as one of the eight overall accounting systems. The report indicates these systems receive summary data from subsidiary financial management systems. While this is partially true the RAS also has a lot of detail data posted directly into the system from various source documents. The way the GAO report is worded it sounds like the eight overall systems contain no detail data. This is not true, at least for the RAS.

GAO Note:

Changes made in the profile--see pages 25 and 26.

- o On page 37 the report indicates the accounting systems produce monthly, quarterly and annual reports. The RAS also produces daily and weekly reports and has the capability to produce a number of reports on demand.

GAO Note:

Appropriate changes in the profile have been made, see page 25.

- o On pages 21 and 31, we note an inconsistency. On page 21 it is stated that OS operates eleven central systems while on page 31 it is stated that OS runs ten central financial management systems. The difference appears to be the Regional Accounting System (RAS) which is described on page 21 as item number (3) while it is listed on page 31 as "OS also runs" the RAS.

GAO Note:

Appropriate changes in the profile have been made, see pages 15 and 21.

in 1970, not the basic system design. In fact, work on the SAS was not initiated until 1978 under a Secretarial directive to standardize Departmental accounting policy (the Departmental Accounting Manual) into an automated system.

GAO Note:

Appropriate change in the profile has been made to address the above point--see page 41.

Departmental Federal Assistance Financing System (DFAFS)

GAO has made extensive comments in the report on the DFAFS which is scheduled for replacement by the Payment Management System (PMS) in January 1984. Our comments appear below immediately following each of GAO's comments.

GAO Comment (page 49)

The Department has split up the responsibilities for and control over contracts and grants between the organizational components of the Department and the Office of the Secretary. This division of responsibilities causes a loss of control over cash advances to contractors and grantees.

Finance Comment

- o The Department has consolidated not split responsibilities for accounting and cash control over grants. Our approach deals with a recipient organization as a single entity by consolidating cash advances under multiple programs into a single cash advance. This approach is consistent with:
  - "Single audit" concept recently adopted by the audit community;
  - OMB's Federal Assistance Management System (FAMS) project under which a recipient would have a single Federal cognizant agency for accounting and control over all Federal grant funds for that recipient.
- o The "single entity" grants payment system concept has been endorsed by the Federal Paperwork Commission and by Mr. Cornelius Tierney, a recognized authority on governmental accounting, who recognizes the advantages to the grantee of:
  - receiving all of its Federal funds from a single source;
  - minimizing paperwork and other agency grantee procedures;
  - giving both the grantee and the grantor better control over funds outstanding at any one time.

GAO Note:

Our comments, in this particular section are directed more to inadequate administrative control as opposed to accounting control. Administrative control deals with the economy, effectiveness, and efficiency of processing information. Therefore, based upon the data presented, especially in regard to duplicate systems, untimely information, etc., the current DFAFS does not have adequate administrative controls.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service

## Memorandum

Date **DEC 16 1983**

From Director  
Division of Financial Management/ORM/OM

Subject GAO Draft Survey Report - ACTION MEMORANDUM

To Director  
Division of Accounting Systems and Procedures/OS

In response to your memorandum of November 3, 1983, attached are specific comments on the draft copy of the General Accounting Office Survey Report pertaining to the financial management structure of the Department of Health and Human Services.

The GAO Draft Survey Report reconfirms and supports our annual report to the Secretary on the Public Health Service accounting systems as required by the Federal Managers' Financial Integrity Act of 1982. GAO has stated in its summary of internal control strengths and weaknesses that the agency accounting systems seem adequate to ensure that summary financial information is accurate, complete, and recorded in timely fashion in the general ledger accounts.

Mr. Edward K. Wadding, Chief, Financial Systems Branch, 443-4804, will be our representative in meetings with GAO to further discuss the comments.

Attachments A through E are copies of PHS agency responses to the GAO Draft Survey Report.

  
John C. West

Attachments

- o The Payment Management System to be implemented in January 1984 will resolve the duplicate recording described in #1 above by establishing a single registration point with a single data base for payee information.
- o As GAO points out, the problem described in #2 above results in additional computer costs to maintain duplicate computer files. But under PMS, the cost for computer storage for a copy of the OPDIV document information is less than one percent of the PMS ADP budget. If PMS did not have a copy of the document file the cost for processing OPDIV data for PMS-paid grants and contracts would far exceed the additional data storage cost because the structure of the data base and thereby the method of data retrieval is significantly different in PMS compared with OPDIV accounting systems.

In short, the problem is not that duplicate files are maintained by PMS and the OPDIVs but that the data base structure of those systems is not compatible.

An even greater problem which we recognize is the high potential for non-synchronization of data between PMS and the OPDIV accounting systems. Our long-term solution is to implement an Grants Award Module (GAM) to be used by grants and contracts officers in each OPDIV via terminal which would simultaneously record award data in PMS and the OPDIV accounting system at the time of award. Under this approach, the PMS and OPDIV accounting systems records would always be synchronized.

PMS has designed and programmed the necessary logic but cannot be utilized until a GAM is developed and implemented in each OPDIV. Our tentative target for GAM implementation in the OPDIVs is FY 1985. This target may change pending the decisions of a Departmental task group on a development and implementation strategy for a uniform accounting system which would integrate grants payment and accounting systems throughout the Department.

GAO Note:

The profile has been changed to address the above concerns of HHS-- see pages 34, 35, and 36.

Our comments on the remaining Finance systems surveyed by GAO follow.

Regional Accounting System (RAS)

- o We do not agree with the risk ranking assigned to the RAS in Table 1 of the report. When compared with the ranking of the current OS accounting system it appears that GAO staff didn't fully understand one, or maybe both, of the systems. Following are our areas of disagreement by GAO ranking category:

## Finding

3. "Personal property systems appeared generally inadequate to ensure (1) complete, accurate, and timely accounting for and control of the Department's personal property and (2) consideration of personal property already on-hand in reaching procurement decisions for new property items." Pages VI, 35, 48.

## Comment:

--It should be acknowledged that the Food and Drug Administration's system was not included in the review. The Food and Drug Administration complies with both of the above requirements, as follows:

(1)

The Food and Drug Administration's General Ledger property accounts are updated from daily financial transactions entering the system plus transfer documents initiated by the Property Officers. These General Ledger accounts are reconciled periodically to the Property Officers' records.

(2)

Controls are in place to consider all property on-hand before procuring new property.

GAO Note:

Financial management profile changed. See page 33.

## Finding:

4. "Financial structure of the Department." Pages 7, 8.

## Comment:

--The funding for the Department's fiscal 1982 spending authority includes a line item entitled "collection for services rendered to individuals and businesses." If this is meant to encompass miscellaneous user charges only, then a separate line should be added to identify the Food and Drug Administration's Certification Activity which also operates on charges to industry.

GAO Note:

GAO understands this line item to include the Food and Drug Administration's certification activity.

## Finding:

5. The Food and Drug Administration's Umbrella Accounting System is designed to maintain general ledger accounts and administratively control appropriated funds for all component bureaus of the Administration. The bureaus, however, operate four additional systems to administratively control appropriated funds at the bureau level." Page 56.

## Comment:

--The finding should be modified by adding "The bureau systems are reconciled to the agency system on a monthly basis." This addition is needed to indicate that proper internal controls are in effect.

GAO Note:

The financial management profile has been changed. See page 38.

- o In Appendix VI page 92, the system purpose for the RAS should start out by stating "For all OPDIVs served" and at the end of the sentence should delete the words "and externally."

Central Registry System (CRS) and Financial Assistance Reporting System (FARS)

- o In Appendix VI page 91, we note that the system purposes for the Central Registry System and Financial Assistance Reporting System are stated incorrectly and suggest they be changed to read as follows:

- |                                       |  |
|---------------------------------------|--|
| Central Registry System               | - Maintains Automated Registration System for all entities receiving grants and contracts from the Department (organization and individuals) together with geographic location data.   |
| Financial Assistance Reporting System | - Maintains a data base of Departmental obligations for all DHHS domestic assistance programs. Prepares a cumulative quarterly obligation report for the Executive Agent of the Office of Management and Budget and produces the annual Financial Assistance by Geographic Area publication. |

GAO Note:

Appropriate changes have been made in appendix VI.

Outlay Analysis Tracking System

We concur with the ranking of the Outlay Analysis Tracking System.



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

 Attachment B  
 Public Health Service  
 National Institutes of Health

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 Memorandum

Date December 13, 1983

From Director  
Division of Management Survey and Review, NIH

Subject NIH's Comments on the GAO Draft Survey Report

To Edward K. Wadding  
Chief, Financial Systems Branch/DFM/ORM/OM

Please find attached NIH's comments on the General Accounting Office's (GAO) Draft Survey Report.

Mr. Samuel George, Assistant Director Finance, Division of Financial Management, Building 31, Room B1B63, 496-3368, will represent NIH in the meetings with GAO to discuss the comments.

The Director of NIH concurs with these comments.

If you have any questions, please contact this office on 496-5586.

*Howard Hyatt*  
Howard Hyatt

Attachment

cc:  
 Mr. Calvin Baldwin  
 Mr. Norman Mansfield  
 Mr. Philip Amoruso  
 Mr. Richard Miller  
 Mr. Samuel George  
 Mr. Charles Williams  
 Mr. John Hartinger  
 OD Staff  
 EOs  
 Mr. Navarro, PHS  
 Mr. Fenstermaker, GAO



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Attachment A  
Public Health Service

## Memorandum

Date NOV 30 1983

From Associate Commissioner for Management and Operations, FDA

Subject GAO Draft Survey Report entitled, "Executive Summary--Survey of the Financial Management Structure of the Department of Health and Human Services"

To Financial Systems Branch/DFM/ORM/OM

The Food and Drug Administration has the following comments on the GAO Draft Survey Report pertaining to Departmental Systems.

## Finding:

1. "FDA Mission Statement, Page 5.

## Comment:

--The Statement should be changed to read: "FOOD AND DRUG ADMINISTRATION - MISSION (HF). The mission of the Food and Drug Administration (FDA) is to protect the public health of the Nation as it may be impaired by foods, drugs, biological products, cosmetics, medical devices, ionizing and nonionizing radiation-emitting products and substances, poisons, pesticides, and food additives. FDA's regulatory functions are geared to insure that: Foods are safe, pure, and wholesome; drugs, medical devices, and biological products are safe and effective; cosmetics are harmless; all of the above are honestly and informatively packaged; and that exposure to potentially injurious radiation is minimized."

GAO Note:

Financial management profile changed. See page 3.

## Finding:

2. "The Department does not maintain a central accounting system. Instead, it operates eight separate accounting systems. They are non-standard systems except for a standard chart of accounts."

## Comment:

--The Accounting Systems have much more in common than a standard chart of accounts. (1) CAN number explosion tables, (2) Object classes and definitions, and (3) Transaction codes-the governing controls in the system. In addition, the basic input to the system is 75% standard, the balance being data that is pertinent to a particular organization.

GAO Note:

Financial management profile changed. See pages 15 and 21.

Congress only four months into the year immediately preceding the budget year. It is, therefore, impossible to integrate such systems; however, the latest actual data available are used for the budget process.

GAO Note:

GAO recognizes that budget development time frames present a problem to the Department. This area is discussed on pages 18 and 19 of the profile.

Page 2 - Director, Division of Management Survey and Review, NIH

GAO DETERMINATION:

The organizational components' budget development systems are manual systems except for the systems at the National Cancer Institute, Food and Drug Administration, and the Social Security Administration. These latter agencies use automated budget development systems.

The Social Security Administration's budget system for administrative expenditures is directly linked to its accounting system. The budget development systems used by the other organizational components of the Department are stand-alone systems without any direct link to their accounting systems.

NIH RESPONSE:

The Budget Formulation and Presentation Support System (BFPSS) of the National Cancer Institute, while not directly linked, is integrated with the NIH Central Accounting System through monthly transfers to disk storage of actual obligations to date for the Institute. The data includes subobject classifications, programmatic areas, and organizational subdivisions. Several computer routines have been developed by the Institute's Financial Management Branch to produce Institute-specific reports providing trend analysis. One of the routines, the BFPSS, reads data into report format needed by budget formulation, which is used from the Preliminary Budget Request through the OMB submission to the Congressional justifications for each fiscal year.

Since the GAO acknowledges that the National Cancer Institute budget development system (as well as seven other systems) was not evaluated as part of the study, we recommend they not be included in the the Report. As an alternative, a generalized statement regarding the survey's findings could more clearly acknowledge that the eight systems were not reviewed and no conclusions drawn concerning them should be used.

GAO Note:

No change needed in the profile since there are no comments on the NIH budget systems.

**Finding:**

6. The Food and Drug Administration intends to upgrade its accounting system to use computer terminals to enter transaction information into the computer for processing. This will eliminate the need for hard copy transaction coding documents and will eliminate duplicate manual processes. These enhancements are expected to be in place in fiscal 1984. Page 61.

**Comment:**

--The target date for initiating implementation is fiscal year 1984 but Agency-wide operation will not be in effect until fiscal year 1985.

**GAO Note:**

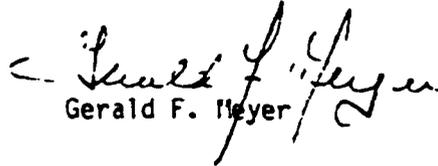
The financial management profile has been changed. See page 42.

**Finding:**

7. Budget development systems--except for the Social Security Administration's system for administrative expenses--are not integrated with accounting systems. Page 21.

**Comment:**

--The Food and Drug Administration uses Financial Operating Plans as its principal management tool for controlling expenditures and other Budget Execution processes. These plans are entered into the accounting system and adjusted as necessary. These reports are available in detail and summary reports for various levels of management.

  
Gerald F. Meyer

**GAO Note:**

GAO's review of the budget process related to the budget development process and not the budget execution phase. GAO recognizes that the Department's accounting systems track the appropriated funds received from the Congress.

We believe that if there is a deficiency in the departmental systems, it is in the area of data communication.

GAO Note:

Changes have been made in the profile to address the above concerns. See pages 15 and 21.

GAO DETERMINATION:

The eight accounting systems are supported by the 65 subsidiary financial management systems—like personal property, and grants and loans receivable systems—that maintain detailed records that support summary accounts in the eight accounting systems.

NIH RESPONSE:

The GAO has identified eighteen separate accounting systems at the NIH which is very misleading. The NIH has one overall accounting system which is in the process of being converted to the ADB which integrates all accounting processes, general ledger as well as the subsidiary components (ledgers) that support the overall system. Of the eighteen accounting systems listed for the NIH, fifteen are individual billing systems of industrial/commercial types of activities that are operated under the Service and Supply Fund. All of these subordinate systems are being integrated as a part of the overall financial management system. Interfaces have been developed to tie these subsidiary ledger systems to the overall general ledger structure. As an example, the grant awards system at the NIH feeds obligations through computer-readable formats into the accounting system.

GAO Note:

NIH can state it has one accounting system and numerous subsystems, if it so desires. From a GAO perspective, we were concerned with identifying NIH's financial management structure in accordance with the definition discussed in chapter 2. Therefore, we still believe that NIH's financial management structure consist of the systems or subsystems identified by our survey.

GAO DETERMINATION:

Internal control strengths and weaknesses and other GAO concerns with the Department's financial management systems.

NIH RESPONSE:

Over the past seven years, the NIH has been developing major components of the NIH ADB. A major component of this system is the financial management component. The internal control concepts and features that have been directed through the release of the Financial Integrity Act and OMB's Circular A-123, have been incorporated in the new data



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service  
National Institutes of Health

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**Memorandum**

**Date** December 13, 1983

**From** Director, Division of Financial Management, NIH

**Subject** NIH Comments on GAO's Draft Survey Report (Financial Management Structure of DHHS) (82-G-44)

**To** Director, Division of Management Survey and Review, NIH

The following comments and discussions relate to the subject draft report.

The comments that follow are presented in a manner that corresponds with the issues and concerns that were presented in the GAO draft report. Each major issue as documented in the GAO report will be presented and followed by a response from the NIH.

GAO DETERMINATION:

The Department's budget development systems, except for the Social Security Administration's System--are not integrated with the accounting systems.

NIH RESPONSE:

It is difficult for the NIH to determine what is meant by integrating the Department's budget development system with an accounting system. The NIH, as well as the other agencies within the DHHS, use actual accounting data to support the budget formulation process. Various models are applied to the actual data developed through the accounting process to establish projections to support the agency's budget.

GAO Note:

Although actual data is used in the budget formulation process, it is not the most recent fiscal year data. Instead budget requests are generally based on (1) historic average costs and growth rates for program and administrative expenditures and (2) economic factors such as the estimated inflation rate.

GAO DETERMINATION:

Budget requests are not based on the actual financial results of the immediately preceding year's program and administrative operations.

NIH RESPONSE:

This cannot be accomplished at the NIH or any other agency because the time frames that have been established by OMB and DHHS preclude any agency from using actual accounting data for the most current year preceding the budget year. The budget, after all, is submitted to

NIH RESPONSE:

The NIH does not believe that this is the direction that should be taken by the Department or any other department. Such a decision should be based on the most cost-effective system that supports the specific programs for which it is designed. This concept envisions a standard accounting structure (system) throughout all the departmental operations. This in effect says that each major agency must modify its approach to managing programs and conform to the standard accounting structure. The NIH believes that a better approach would be to design a system for each major unique program; for example, biomedical research or Social Security's System would be tailored to meet the unique organizational program and operational requirements of each major program with the capability of communicating required standard data elements to be recorded in a Departmental data repository for use in managing the Department. The NIH believes the approach of the Department would be an extremely expensive endeavor, time consuming, and would lead to a system that would not be cost effective and would not support the managers at major program operating levels.

GAO Note:

Chapter 6 of the profile clearly addressed NIH's concern.

GAO DETERMINATION:

Ranking of the Department's Financial Management Systems according to risks in each system.

NIH RESPONSE:

Although the NIH understands and appreciates the need for establishing risk factors for evaluating financial management systems, it does not believe that some of the criteria used by the GAO correctly identify the real level of risk involved. For example, the GAO criteria for risk relating to age of the system indicates that the older systems should have fewer problems and be more stable as far as changes are concerned. Most of the systems reviewed by the GAO are ten or more years old and use antiquated computer technology. Therefore, they are very uneconomical, and it is difficult to maintain synchronization between systems, thus making them vulnerable as to fraud, waste,

GAO DETERMINATION:

Congress can control about 13 percent of the Department's budget authority through the appropriation process.

NIH RESPONSE:

It is assumed that NIH's funding falls within 13 percent. Each of the Research Institutes of NIH receives an appropriation for each fiscal year and the NIH budget authority is controlled by Congress.

GAO Note:

GAO agrees with NIH's position.

GAO DETERMINATION:

The Department does not maintain a central accounting--general ledger/administrative control of funds--system. Instead, it operates eight separate accounting systems. They are non-standard systems except for a standard chart of accounts.

NIH RESPONSE:

All agencies of the DHHS, including the NIH, operate accounting systems that include many standard features that are prescribed by the DHHS. They include much more than the standard chart of accounts. Some of these standard features are listed below:

1. Standard general ledger chart of accounts.
2. Standard object and subobject classifications.
3. Standard definitions.
4. Standard code structures used throughout the automated system.
5. Standard accounting record layout for each accounting transaction.
6. Standard data elements that must be recorded and maintained in the system to meet DHHS' guidelines.
7. Standard structures for the administrative control of the funds following the "CAN" system established by the DHHS.

Everything in the NIH accounting system conforms with the standard features prescribed by the Department with the exception of the Data Processing methodology and the internal file structures that are established to meet the unique requirements of the biomedical research program. It is not understood; therefore, what point GAO is making in this determination.

The NIH accounting system is being designed to become an integral part of the NIH Administrative Data Base (ADB) which supports all major administrative functional areas. It has the capability of communicating required and standard data to the Department through electronic communication techniques.



DEPARTMENT OF HEALTH & HUMAN SERVICES  
HEALTH RESOURCES AND SERVICES ADMINISTRATION

Public Health Service

## Memorandum

Date : 12 OCT 1978

From : Associate Administrator for Operations and Management

Subject : General Accounting Office Draft Survey of the Financial Management Structure, Department of Health and Human Services

To : Deputy Assistant Secretary for Health Operations and Director, Office of Management, OASH

The review of the subject document, cited above, did not identify any new areas of concern. The consensus of those who participated in the review of the draft report is that the Health Resources and Services Administration (HRSA) fared well in the study. The General Accounting Office (GAO) ranked, according to the reliance that can be placed on them and the protection afforded by the related internal controls, each of the Department's 81 financial management systems. Of the 11 HRSA systems identified, the GAO ranked ten as low risk and the final one as medium risk.

We do have two comments, while they may only indirectly pertain to the HRSA accounting system, we offer them for your consideration. The comments are:

- o The statement that the eight accounting systems within the Department are "non-standard systems except for a standard chart of accounts" is very misleading. The eight systems that make up the "Umbrella Accounting System" have many other uniform features; e.g., the transaction codes and entries, report formats, etc., and in our opinion these additional areas should be identified.

GAO Note:

Changes have been made--see pages 15 and 21.

- o The GAO states in the report that the "accounting systems seem to include adequate controls to ensure that financial summary information is accurate," but that the systems as designed "do not include controls to test whether disbursements reported to them were authorized in accordance with statutory or regulatory provisions." While we agree that the basic controls over the propriety of payments are in the subsidiary financial management systems, we believe this practice supports the division of labor as an internal control. In addition, within the accounting system there is the basic audit check that a valid obligation exists and that the required receiving report and invoice is on hand and matched to the obligation before any expenditure is made and recorded in the accounting system.

Staff questions may be referred to Lloyd H. Fagg, Director, Division of Fiscal Services on 443-2990.

  
James A. Walsh

Attachment

base development. The system contains an assurance package which ensures reconciliation and synchronization between the general ledger control accounts and all supporting ledger files and records. The concept of separation of duties has been provided in the automated system along with the many files and tables that control the access to systems and edit data entering system at the point of origin.

GAO Note:

Changes in the profile are not necessary since NIH is not specifically addressed.

GAO DETERMINATION:

Two other concerns with the Department's approach to financial management

- (1) Inefficient use of the available computer hardware and software resources, and
- (2) Duplicate financial management systems.

NIH RESPONSE:

The NIH is using modern state-of-the-art computer hardware and software resources in the development of the ADB to include the Financial Management System. As to duplicate financial management systems, the NIH has incorporated all of the standard features that have been required by the DHHS, bearing in mind that the system must be compatible with the Department's needs to aggregate data to the highest Departmental level for management decisions.

The NIH approach to systems development conforms to the state-of-the-art in the computer industry and major corporations in the American market place. The NIH further believes that to design a single system for the Department which includes common hardware and software would not follow the experience of American business and would hinder the design of systems that require unique features to support major programs such as biomedical research and social security programs. Such heterogeneous functions mandate unique systems in Government comparable to what has become a business practice in the market place.

GAO Note:

Changes in the profile are not necessary since NIH is not specifically addressed.

GAO DETERMINATION:

Initiatives the Department has underway to improve upon financial management. The GAO report has identified three major systems initiatives in the Department which mandate the design of the centrally-developed standard systems to replace all of the accounting systems throughout the Department.

- (c) Congress can control only about 13 percent of the Department's budget authority through the appropriation process.

RESPONSE: Congress does control all budget authority because they pass and can change the laws that establish medicare, medicaid and etc.

GAO Note:

Changes made. See page 20.

- (d) The Department does not maintain a Central accounting--general ledger/administrative control of funds--system. Instead, it operates eight separate accounting systems. They are non-standard systems except for a standard chart of accounts.

RESPONSE: Uniformity now exists within HHS as prescribed in the HHS Accounting Manual. Common structure includes general ledger accounts, defined data elements, transaction codes, object class codes, common accounting number (CAN), input record formats, appropriation codes, accounting station symbols and data elements derived from the CAN explosion.

Agencies can provide information to HHS in standard format.

GAO Note:

Changes made. See pages 15 and 21.

2. On Page VI, paragraph 3, the following statement is made:

"Personal property systems appeared generally inadequate to ensure (1) complete, accurate, and timely accounting for and control of the Department's personal property and (2) consideration of personal property already on-hand in reaching procurement decisions for new property."

RESPONSE: This statement does not apply to CDC as the GAO review of CDC's internal control of personal property did not list this as a weakness.

GAO Note:

See change on page 33.

3. On Page 17, paragraph 4 the following statement is made:

"Most agencies operate several financial management systems."

RESPONSE: This statement should be changed to state that most agencies operate several subsidiary financial management systems.

GAO Note:

CDC can state it has one accounting system and numerous subsystems, if it so desires. From a GAO perspective, we were concerned with identifying CDC's financial management structure in accordance with the definition discussed in chapter 2. Therefore, we still believe that CDC's financial management structure consist of the systems or subsystems identified by our survey.

and mismanagement. It would seem that newer state-of-the-art systems that have been fully tested should be of lower risk.

  
Norman D. Mansfield

GAO Note:

We agree with the view offered by NIH. However, newer systems, until fully tested, generally have more problems because all of the bugs have not been worked out. In addition, even though older systems may be less economical, cost justification studies are necessary on an individual system basis, to ascertain if this is to be the case.

6. On Page 52, paragraph 2, second sentence, the following statement is made:

"In addition, we are also concerned with the Department's approach to the physical control and accountability for drugs, controlled substances, and dangerous biologic substances."

RESPONSE: This statement should not be in the financial report as the report has not established a relationship between the statement and the survey of the Financial Management Structure. The statement could be included in the cover letter transmitting the report.

GAO Note:

Controls over resources and inventories are essential to financial management to ensure that all organization goals are achieved in an efficient, effective, and economical manner.

7. Page 53, paragraph 3 states the following:

"The HCFA Accounting and Reporting Tracking (HART) System use computer terminals to enter information into the computer. The computer terminals, however, are located in a central accounting office rather than in the offices where financial transactions are originated. As a result, financial information is first recorded on paper records which are sent into the central accounting office for entering into the computer. It would be more efficient to move the computer terminals into the offices where financial transactions are originated, eliminating the need for paper records.

RESPONSE: Title 1, Chapter 3, Section 13.1 of the Policy and Procedures Manual for Guidance of Federal Agencies states that the General Accounting Office is required by 31 U.S.C.74 to preserve all accounts which have been finally adjusted, together with all vouchers, certificates, and related papers, until disposed of as provided by law. "However, under 31 U.S.C. 67(6) the Comptroller General may require agencies to retain such records when he determines that the audit shall be conducted at places where the accounts and records of such agency records are normally kept. Also, under 44 U.S.C. 33.9 fiscal, property, and other records of administrative agencies pertaining to claims, demands and accounts may not be disposed of without the written approval of the Comptroller General until such claims demands, and accounts have been settled and adjusted by the General Accounting Office.

If GAO is recommending that paper records should be eliminated then the GAO Manual should be changed.

GAO Note:

The profile does not make any recommendations. The statement referred to is for documentation and internal control purposes.



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service  
Centers for Disease Control

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Memorandum

Date November 23, 1983

From Director, Financial Management Office

Subject GAO Draft Survey Report - Action Memorandum

To Chief, Financial Systems Branch, PHS  
Room 18-A, 5600 Fishers Lane  
Parklawn Building  
Rockville, Maryland 20857

The following comments are presented in response to the GAO Draft Survey Report:

1. On Pages IV and V of the GAO Draft Survey Report, the following statements are made:
  - (a) The Department's budget systems --except for the Social Security administration's system - are not integrated with the accounting systems.

RESPONSE: All the accounting data used in budget development is derived from reports generated by the accounting system. The accounting data in the accounting system forms the base of all CDC budgets.

GAO Note:

Although actual data is used in the budget formulation process, it is not the most recent fiscal year data. Instead budget requests are generally based on (1) historic average costs and growth rates for program and administrative expenditures and (2) economic factors such as estimated inflation rates.

- (b) Budget requests are not based on the actual financial results of the immediately preceding year's program and administrative operations.

RESPONSE: This statement should state that due to deadlines established by OMB and Congress that it is impossible to use the immediate preceding years' actual financial results for budget requests.

GAO Note:

We recognize the time frame problem as discussed on pages 18 and 19 of the profile.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service

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**Memorandum****Date****From** Director, DFM/ADAMHA**Subject** GAO Draft Survey Report**To** Chief, Financial Systems Branch, DFM/ORM/OM

We have reviewed the GAO Draft Survey Report transmitted by Mr. Forbush's memorandum of November 16. ADAMHA found this report informative regarding the function of the Department's accounting operation, but we have no comments on issues that relate specifically to ADAMHA.

The Accounting Officer/ADAMHA will represent ADAMHA in any meetings with GAO on their report. The position is currently under recruitment; however, the Acting Accounting Officer, Rena Morris, will be the contact person until the position is filled. She can be reached on 443-4403.



Kent L. Augustson

4. On Page 21, the following statements are made:

- (a) "Budget development systems --except for the Social Security Administration's system for administrative expenses--are not integrated with accounting systems.

RESPONSE: See response to 1(a).

GAO Note:

See response to 1(a).

- (b) Congress can control only about 13 percent of the Department's budget authority through the appropriation process."

RESPONSE: See response to 1(c).

GAO Note:

See response to 1(c).

- (c) The Department does not maintain a central accounting--general ledger/administrative control of funds--system. Instead, it operates eight accounting systems. They are non-standard systems except for a standard chart of accounts which is called the Umbrella Accounting System."

RESPONSE: See response to 1(d).

GAO Note:

See response to 1(d).

5. On page 37, paragraph 2 the following statement is made:

"The accounting systems seem to include adequate controls to ensure that summary financial information is accurately, completely, and timely entered into the general ledger accounts. These systems, as designed, do not include controls to verify the propriety of summary financial information received. For example, the accounting system do not include any controls to test whether disbursements reported to them were authorized in accordance with statutory or regulatory provisions. Controls over the propriety of disbursements are included in the subsidiary financial management systems that support the accounting systems."

RESPONSE: These appear to be a misunderstanding of what makes up the accounting system. Subsidiaries are part of the accounting system and voucher examiners have responsibility for insuring that disbursements were authorized in accordance with statutory and regulatory provisions.

GAO Note:

Page 13 clearly defines the definition we used to develop the financial management structure of the Department.

**Comments on HCFA's Accounting, Reporting, and Tracking System (HART) System**

GAO concludes, in its composite survey report, that HART was a "HIGH" risk financial system. This rating was derived by applying the findings of the HCFA survey to a predetermined set of Business and Audit Risk criteria.

A comparison of the composite survey and the HCFA survey indicates that the composite survey does not accurately reflect the facts presented in the HCFA survey. As best we can determine, the cause of the inaccuracy is the method in which the composite was developed and prepared. The composite was prepared by a different GAO audit team than the audit team that conducted the HCFA survey. We were informed by the auditor-in-charge of the HCFA and SSA survey that his staff did not participate in preparing the composite survey. Consequently, the audit team developing the composite survey misinterpreted data in the HCFA survey when it applied the survey results to the rating criteria.

**GAO Note:**

The ranking system was revised to incorporate a weighting factor for the business and audit risks criteria. Applying the revised ranking system changed the HART system to a medium risk financial system. The final rankings and criteria were coordinated with the on-site audit team, which agreed with the results of the ranking system.

**Application of HART Survey Results to Rating Criteria**

The following comments are directed to specific ratings HART received which we have determined to be incorrect.

**1. Purpose of System**

GAO rated HART as a "HIGH" risk in this category. That rating designates a system that authorizes agency funds and resources.

HART does not authorize the use of agency funds or resources. HART records and reports the status of funds and resources. The control implied by this rating is entrusted to those individuals/components charged with that responsibility (i.e., Allotees/Allowees, etc.).

Additionally, based on our staff's knowledge of the other accounting systems throughout the Department, HART does no more or less system-level controlling of funds and resources than those other systems.

Based on system-level controls throughout the Department, all systems should have the same rating inasmuch as they perform the same basic function. Therefore, HART should be rated as "MEDIUM" risk in the "Purpose of System" category. This rating corresponds to the 7 other major accounting systems in the Department.

**GAO Note:**

The rating for HART system has been changed to medium risk based upon our re-evaluation of the 10 ranking factors.

8. Page 54, third paragraph, states the following:

'We have noted that the physical controls and accountability for drugs, controlled substances, and dangerous biologic substances warrant attention.

GAO Note:

See response to item 6.

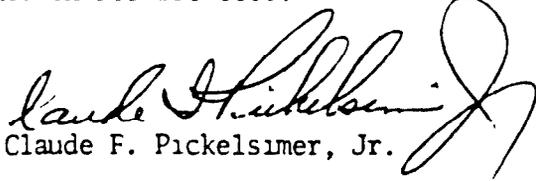
RESPONSE: See response to Item 6.

9. Page 61, the following statement is made:

"The Centers for Disease Control (CDC) intends to totally redesign the financial reports produced by its accounting system. It also intends to upgrade its accounting system to provide for an automated reconciliation of general ledger control accounts and subsidiary ledger detailed accounts.

RESPONSE: This initiative has been placed on hold by Reform 88.

The undersigned has been designated to represent CDC at any meetings to discuss our comments and can be reached on FTS 236-6600.

  
Claude F. Pickelsimer, Jr.

GAO Note:

Report changed to reflect current CDC status on system enhancement. See page 42.

**Comments on Division of Health Services Studies Claim Processing and Management Information System**

GAO concludes that this system was a "MEDIUM" risk financial system based on the dollar values controlled. Since this particular system controls payments of less than \$150 million annually, the "dollar value controlled" ranking should be corrected to reflect a "LOW" risk systems designation.

As a result of this change, the composite reliability score is reduced from sixteen to fifteen; thereby placing the overall Division of Health Services Studies payment system in the "LOW" risk category.

**GAO Note:**

This was considered in revising the ratings of the systems and the overall rating has been changed from a medium risk to a low risk.

**General Comments**

1. GAO has based a great number of conclusions on a superficial survey to rank systems and not on a detailed audit. If GAO intended to rate financial systems throughout the Department, it should have conducted an in-depth analysis to support its conclusions. The survey only identifies potentials, not absolutes.

**GAO Note:**

We do not feel that our survey was of a superficial nature. In addition, we fully recognize that the weaknesses we identified in some systems are potential problems and further detailed work would be necessary to substantiate the degree to which the problems exist. However, our survey also disclosed problems that Department officials agree exist.

2. The overall tone of the composite survey appears to be negative when applied to the HART system. HART is rated as a "HIGH" risk system. GAO cites HART as an example of the Department's inefficient use of hardware/software. The report does not highlight the fact that the auditors who reviewed HART were highly impressed and complimentary of the system nor the fact that other Government agencies have implemented or are interested in using HART as their accounting system.

**GAO Note:**

As previously stated, the overall ranking of HART has been revised to a medium risk system. In addition, HCFA officials agreed that the HART system was not documented in accordance with FIPS publication 38. Further, management has not performed a risk analysis as required by OMB Circular A-71.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Health Care  
Financing Administration

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**Memorandum**

Date **JAN 9 1984**

From **Carolyn K. Davis, Ph.D.**  
Administrator  
Health Care Financing Administration

Subject **GAO Survey of the Financial Management Structure of the Department of Health and Human Services—INFORMATION**

To **John J. O'Shaughnessy**  
Assistant Secretary for Management  
and Budget

As requested by Mr. Andrew J. Kapfer of your staff, attached for your consideration is a copy of our comments on those aspects of the GAO's survey with which we are concerned. In addition, it is our understanding that your office will be preparing a consolidated response on behalf of the Department. In that regard, we would welcome a copy of the response when it is completed.

We appreciate being afforded the opportunity to review the survey and hope you will find our comments useful. Should your staff have any questions or require any additional information, please contact Ron Miller of the Office of Executive Secretariat on FTS 934-7490.

Attachment

GAO Note:

The financial management profile in chapter 5 lists the system projects the Department had underway at the time of our survey and a brief description of each project. The profile also states that an independent evaluation of the effectiveness of these projects to solve financial management problems at the department will have to wait until the system projects are implemented and are operating. No judgments are made in the profile as to the effectiveness of any of the Department's system initiatives.

6. The following comments relate to the GAO system rating criteria:

- A. On Pages 37 and 38 GAO makes the statement, "Overall the Department's eight accounting systems provide for only a small part of the Department's overall system of financial and internal controls. These systems help guard against violating the Anti-Deficiency Act, but do nothing to preclude improper use of Departmental resources."

The "Purpose of System" rating criteria applies a "HIGH" risk rating to systems that authorize use of agency funds and resources. Therefore, the GAO rating criteria for the "Purpose of System" is contradictory. It states that the Department's eight accounting systems should preclude improper use of Department resources; however, if they did they would be rated as "HIGH" risk because they would authorize and control funds and resources.

GAO Note:

The financial management profile, pages 29-30, in discussing the major HCFA program, Medicare, states that the systems which authorize, compute, and issue individual benefit payments under this program are operated by third party contractors and not HCFA. The only control HCFA has over the Medicare program funds is to authorize overall funding levels for Medicare benefit payments to the third party contractors. This fund control is part of the HART system. Consequently, from HCFA's point of view, the main control over funds that support individual Medicare benefit payments is in the HART system. Therefore, we computed the dollar values controlled by the HART system at \$56.9 billion which supports a high risk rating.

- B. The GAO implies that new financial systems are "HIGH" or "MEDIUM" risk systems. We do not agree with this criteria. New systems use better technology, have better controls, are devoid of patches for historical changes, require less manual intervention and are less susceptible to manipulation.

GAO Note:

This survey at the Department of Health and Human Services was the first major field test of GAO's newly developed Controls and Risk Evaluation (CARE) audit approach. For the initial application of this audit approach, we developed the ten risk factors as risk measurement systems for agency financial systems. As GAO gains further experience in using the CARE approach, we may modify, add to, or delete individual risk ranking factors.

## 2. Age of System

HART received a "HIGH" risk rating in this category. That rating denotes a system in operation less than one year. HART went operational October 1, 1981. Therefore, the system has been operational more than two years.

Using GAO's criteria, HART should be rated as a "MEDIUM" risk system inasmuch as this rating denotes a system in operation between one and three years.

### GAO Note:

Our survey started at the Health Care Financing Administration (HCFA) in September 1982 and at that time the HART system had been in operation for less than one year. We, however, have changed the rating for this rating factor for the HART system from high to medium. In addition, since the draft of this financial management profile was submitted to HCFA for comment, GAO's Program Evaluation and Methodology Division revalidated our risk ranking and composite risk score methodologies. As a result of the revalidation, the HART system received an overall risk ranking of medium risk instead of the initial ranking of high risk.

## 3. Documentation Available for System

HART received a "HIGH" risk rating in this category. That rating denotes a system not documented or where the documentation is significantly out-of-date.

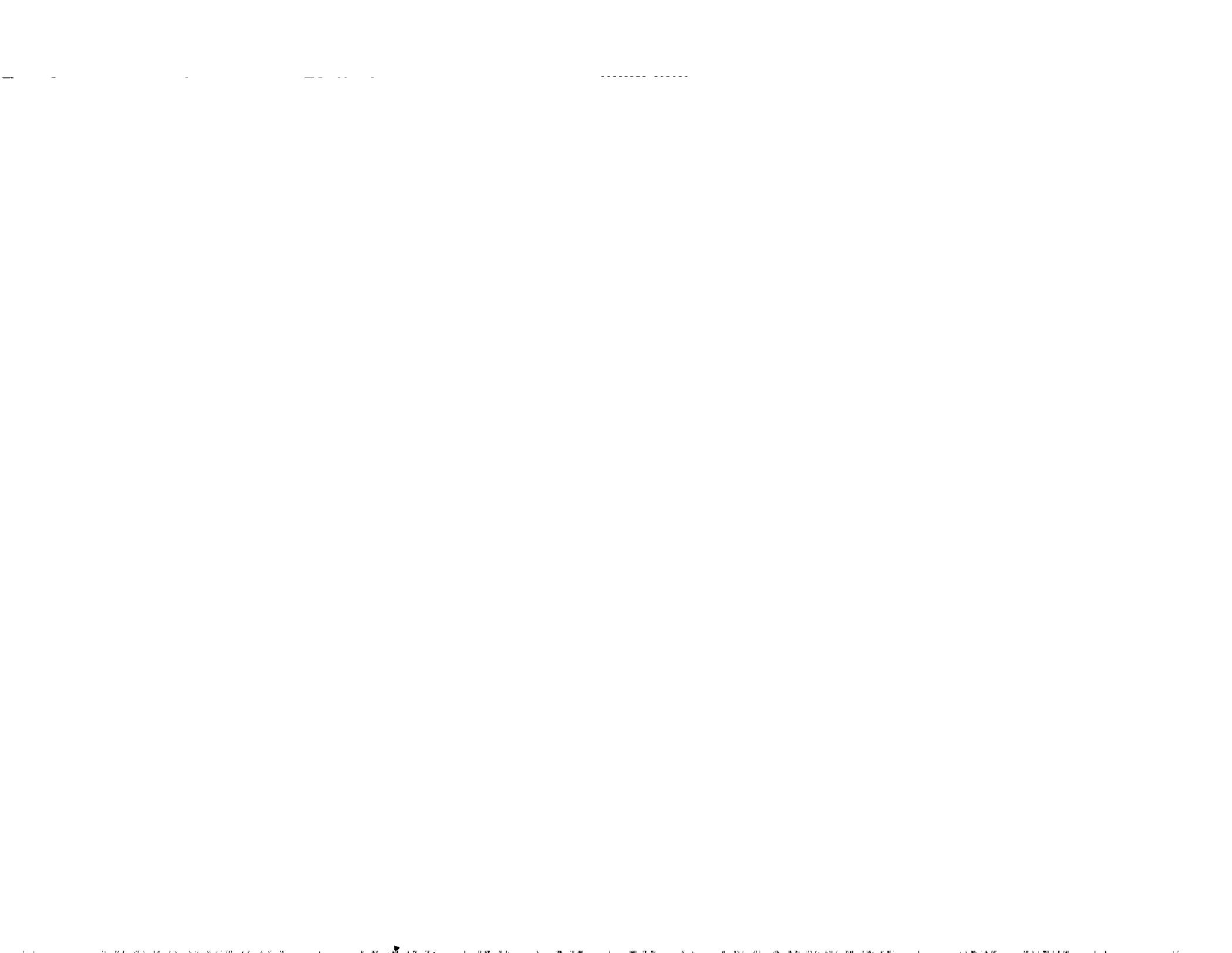
HART's documentation falls mainly in the "MEDIUM" category. That rating denotes a system in which the documentation experienced recent changes and needs to be recorded.

Documentation was available at the time of the survey and that documentation took the form of system and program specifications and user guides.

Additionally, HART is an application of the Departmental Accounting Manual and, as such, follows those standards and procedures. This documentation was extensively used by GAO to review both the HART system and accounting operations. The Departmental system received GAO approval in 1970 and is part of our documentation.

### GAO Note:

Our survey disclosed that system users manuals had been developed for the HART system. However, the crucial items of documentation covering systems operation like overall and detailed system flowcharts, Database Management System data dictionaries, and narrative descriptions of system operations had not been developed. In fact, the Maritime Administration requested that HCFA provide it with and allowed it to use the HART system as its official accounting system. HCFA agreed to provide the Maritime Administration with the HART system for its use if Maritime Administration developed and provided HCFA with the system documentation not currently available. Without the documentation, the documentation risk ranking for HART is high.



3. On Page 23 GAO cites HART as an example of the Department's inefficient use of system hardware/software. It said HART computer terminals are located in the central accounting office rather than in the offices where financial transactions originate.

We do not understand how GAO, based strictly on a survey, can conclude that this is a weakness. The current HART hardware configuration is designed to place emphasis on internal control. HCFA does intend to eventually place terminals in Bureaus/Offices for input of commitments and query, but not for obligations and disbursements. Also, GAO has failed to consider the cost effectiveness of what it proposes.

GAO criticizes an OPDIV on a particular issue; but, it does not show a comparison to other OPDIVs or to generally accepted Government-wide standards. For example, GAO suggests that HCFA is the only OPDIV or agency that does not have distributed terminals. The fact is that HCFA is the only agency in HHS, and one of the few in Government, that could distribute terminals and input data in an interactive mode.

GAO Note:

The financial management profile on page 37, clearly states that the HART system, as currently operated, accepts input from computer terminals but these terminals are located in the central accounting office. Locating the terminals in the central accounting office requires staff in HCFA bureaus' and offices, that initiate financial transactions, to transcribe transaction information from transaction documents to other documents and to forward these documents to the central accounting office for entering of transaction information into the HART system by computer terminal. This mode of operations requires an unnecessary data transcription step which is inefficient and introduces an unneeded chance for error.

4. The first paragraph on page 42 makes reference to a "Contractor Inspection and Evaluation Program". The correct reference is "Contractor Performance and Evaluation Program" (CPEP). Additionally, to accurately describe the Department's monitoring programs, the 4th sentence should read: "Both monitoring programs involve selecting samples of processed claims and assuring that all responsibilities of third party contractors are performed correctly, including proper and accurate payment."

GAO Note:

The profile has been changed to reflect the above comment. See page 30.

5. On pages 58-59 GAO states that "The Standard Accounting System (SAS) is designed to use modern telecommunications and data base management techniques to capture, record, and report financial information." It even cites specific features within the design. GAO talks of SAS as the "end all" in accounting systems. In fact, if GAO had looked closer, SAS is apparently in trouble, poorly designed, and is currently going through a re-evaluation and may never become operational Department-wide.

7. The following comments relate to items under "Financial Management Structure of Department":

- A. GAO states that "The Department does not maintain a central accounting — general ledger/administrative control of funds — system."

Is GAO suggesting one comprehensive system for the Department? If so, how can they justify such a system considering the diversity and complexity of the various operations and programs within the Department/ The implication of this statement is inconsistent with the Department's current action of reconsidering the single system concept. If the survey had been of sufficient detail, GAO would have questioned the credibility of the single system concept in HHS.

GAO Note:

The objectives for our survey are clearly stated in chapter 2 of this financial management profile. One of the objectives of the survey was to identify the systems that make-up the Department's financial management structure. The statement that the Department has eight general ledger systems instead of a central general ledger system is simply a statement of the current status of systems at the Department. The financial management profile does not take an advocacy position for either the eight separate general ledger systems or for a single, central general ledger system.

- B. The GAO states "Accountability for four trust funds, which supported about \$209 billion in benefit payments during fiscal 1982, is divided between the Department of Health and Human Services, the Internal Revenue Service, and the Treasury Department." It further states that this is a problem. We question how it can draw this conclusion. The Internal Revenue Service collects FICA tax and deposits it with Treasury. Treasury, in turn, invests the monies. The Department disburses the funds on behalf of the beneficiaries. How can it call this a problem considering the fact that these agencies are organized to perform the above functions/ What is wrong with this method if it is efficient and economical and provides appropriate internal controls?

GAO Note:

The financial management profile on pages 20-21, simply states that accountability for trust funds is divided among three agencies: the Department of Health and Human Services, the Treasury Department, and the Internal Revenue Service. The profile also simply concludes that in order to obtain a full overview of the accounting for trust funds work would have to be done at all three agencies. The profile does not make a judgment that the current method of accounting for trust funds is improper.

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