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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

OCT 18 1972

Dear Mr. Bartelsmeyer:

We have examined selected aspects of the financial management system of the Federal Highway Administration. Our examination included an evaluation of administrative procedures and internal controls, tests of individual financial transactions, a review of pay and leave operations, and an evaluation of automatic data processing controls.

We found that the Administration's procedures and internal controls were generally effective and that the selected transactions we examined were generally processed in a satisfactory manner. We noted the following matters, however, which we believe warrant your attention.

QUESTIONABLE EXPENDITURE OF
APPROPRIATED FUNDS

We noted a questionable expenditure of appropriated funds for an audit of the Highway Administration Federal Credit Union. We found that auditors from the Administration's Office of Audits and Investigations performed the audit of the credit union during the period April to December 1969, at a cost of about \$9,000. The cost of the audit was charged to the appropriation 69-20X 8102(05) "Administration--Financing of the Federal Highway Administrator's Staff." We found no evidence the appropriation was reimbursed for this cost.

We were informed by members of your staff that the audit was requested by the president of the credit union and approved by the director of the Administration's Office of Audits and Investigations. Administration records made available to us did not show the reason why the request was approved or why the auditors performing the work were not limited in the amount of time they could use, particularly since previous audits of the credit union had been completed in relatively short periods during evenings and weekends.

We have been unable to identify any provision of law which would allow Administration personnel to perform an audit of the credit union on either a reimbursable or a nonreimbursable basis. In the absence of such authority, it appears that action should be taken to reimburse the appropriation for the cost of the audit.

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We noted that, during an audit of the Administration's 1969 payroll operations, internal auditors of the Department of Transportation's Office of Audits raised a question concerning the legality of the Administration's using appropriated funds to pay salary costs for the audit of the credit union. This point, however, was not included in the Office of Audits' final audit report and therefore may not have been appropriately resolved.

We would appreciate receiving your comments concerning this matter, including information on what statute or provision of the appropriation act provided authority for Administration personnel to perform the audit and, in the event you determine that authority for the audit did not exist, your plans for recovering the cost of the audit from the former members of the credit union or its successor, the Transportation Federal Credit Union (which purchased the assets of the Highway Administration Credit Union before it was liquidated in May 1972).

NEED TO STRENGTHEN PAY
AND LEAVE PROCEDURES

Our pay and leave review included an examination of time, pay, and leave records for 50 selected employees (1-percent sample) for the pay period ended May 13, 1972, and for the leave year ended January 8, 1972, an examination of pay actions for other selected periods, and an evaluation of pay and leave procedures and administration.

We found that, in general, the Administration's timekeeping and payroll procedures insured that employees' pay and leave were computed, recorded, and processed accurately in accordance with applicable laws and regulations. We noted several areas, however, in which we believe the procedures should be strengthened.

Incorrect computations
of pay increases

We noted three instances in which pay increases under Executive Order 11637, December 22, 1971, were computed incorrectly. These errors were made in computing pay increases for employees who had been previously reduced in grade during a reduction in force but who were still receiving their former salaries under the "saved pay" principle.

As an example, the salary of a grade GS-14 employee who was receiving saved pay at the rate for a grade GS-15/3 was incorrectly raised by adding the rate increase for a grade GS-14/10 to his saved GS-15/3 rate, resulting in a new annual salary of \$27,354. Under the formula prescribed by Federal Personnel Manual letter 531-42, dated December 27, 1971, this employee's salary should have been increased to \$27,289, the new rate for a grade GS-15/3.

We discussed this matter with members of your staff who stated that these errors had resulted from a misinterpretation of applicable regulations by the Administration's Office of Personnel and Training.

Recommendation

We recommend that you require Administration officials to

- determine the number of instances in which pay increases following reductions in grade with saved pay were incorrectly computed,
- adjust the pay of the employees involved, and
- take action to clarify applicable regulations to Administration personnel and impress upon them the need for greater care in preparing personnel actions affecting employees' pay in unusual situations such as the one discussed above.

Incorrect computations of employees' income tax withholdings

The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual) (6 GAO 16.3) states that statutory deductions for income tax shall be supported by a certification by each employee of the number of exemptions claimed.

We found that Federal income tax withholdings were in disagreement with the employees' most recent exemption certificates for seven of the 50 employees whose records we reviewed. In addition, State income tax withholdings were not computed in accordance with current State withholding tax tables in 26 of 42 cases reviewed.

An Administration official told us that many State income tax withholdings were incorrect because they had not been updated to reflect all relevant changes in State laws and employees' pay. Administration officials could not explain why some Federal tax withholdings did not agree with employees' exemption certificates.

We believe the substantial number of errors in the computation of withholding taxes indicates a lack of adequate supervision over this function.

Recommendations

We recommend that you require Administration officials to

- determine the extent to which employees' withholding tax deductions are incorrect,

- adjust employees' pay accounts to correct all erroneous tax withholdings,
- emphasize to payroll clerks the need for greater accuracy in processing employees' exemption certificates, and
- take steps to insure that more effective supervision is given to this area in the future.

Excessive charges to
military leave

The Federal Personnel Manual (chapter 630, subchapter 9) states that nonworkdays falling within a period of absence for military duty are to be charged against military leave. The Comptroller General has held (B-141593, January 7, 1960) that, although an employee may be granted annual leave for any period of absence for military duty if he so desires, he should be charged military leave for any nonworkdays intervening between the beginning and end of the leave of absence for military duty when there is a commingling of annual and military leave.

We found that one employee had mixed military and annual leave during two periods of absence for military duty but was not charged military leave for intervening weekends. As a result, in a subsequent (third) leave of absence for military duty during the leave year, the employee was granted 4 days of military leave (valued at \$278) in excess of the statutory maximum of 15 calendar days a year.

In the current leave year, time and attendance reports for May 14 to June 10, 1972, indicate that this employee again mixed military and annual leave over a 2-week period but was not charged military leave for the intervening weekend.

Our review of the Administration's timekeeping procedures showed that time and attendance reporting instructions did not provide guidance to timekeepers on the charging of military leave for nonworkdays.

Recommendations

We recommend that you require Administration officials to

- recover the \$278 overpayment made in this instance for excess military leave,
- determine whether similar overpayments were made to this employee during the 1969 and 1970 leave years, and
- revise the Administration's time and attendance reporting instructions to provide more specific guidance for handling of military leave.

Inadequate control over the
collection of juror fees
received by employees

The GAO Manual (7 GAO 15.6) provides that juror fees paid to Government employees by State or municipal courts for serving on juries while on court leave from their agencies are to be remitted to their agencies for deposit in the Treasury to the credit of the appropriation or fund from which the employees were paid their compensation as Government employees.

We found that, although the Administration's procedures provided for the prompt deposit of juror fees remitted by employees serving as jurors while on court leave, the Administration did not have systematic control procedures to insure that all such fees were remitted by the employees. Because no separate record was kept of court leave shown on individual time and attendance reports, the Administration lacked assurance that juror fees were remitted by all employees who had been granted court leave.

After we brought this matter to the attention of the chief of the Payroll and Employee Records Section, control procedures were established in the payroll office to insure that juror fees are remitted by all employees granted court leave. Although this is a step in the right direction, we believe an additional control should be established to insure that the total amounts of juror fees received by employees are remitted to the Administration.

— Recommendation

We recommend that you strengthen the Administration's controls over the collection of juror fees by requiring documentary evidence of the amount of such fees received by employees be provided so the correctness of amounts remitted to the Administration can be verified.

Undeliverable paychecks and
savings bonds not returned
promptly for cancellation

Treasury Department Circular 143, dated February 12, 1968, requires that paychecks and savings bonds which should not or cannot be delivered by Government departments, establishments, and agencies are to be returned to the issuing disbursing office within 5 days after receipt (they may be held for 30 days when employees are on leave).

During our review, we found 15 undelivered paychecks and one undelivered savings bond which had been held in the Payroll and Employee Records Section from 2 to 46 months. Section personnel were unaware of the requirement for promptly returning undeliverable paychecks and bonds to the disbursing office.

We discussed this matter with the chief of the Accounting Policy and Procedures Branch who stated that procedures will be established in the payroll office to insure that all undeliverable paychecks and savings bonds are returned promptly to the disbursing office in accordance with the requirements of the Treasury Department circular.

NEED FOR IMPROVEMENTS IN
AUTOMATIC DATA PROCESSING CONTROLS

Internal controls are needed in automatic data processing (ADP) systems to insure that the systems accept and process only valid data, that they process such data completely and accurately, and that they produce reliable information, records, and reports. We noted the following weaknesses in internal controls in the Administration's ADP system.

Inadequate program documentation

Complete and comprehensive program documentation is essential to the continued operation and success of any ADP system. Adequate program documentation provides written procedures for operating personnel to follow and affords a basis for management, auditors, and outside agencies to examine and understand system operations.

We noted that the documentation for many of the Finance Division's ADP programs was incomplete or out of date. Many of the programs had been initially prepared in the 1950's, and the documentation for these programs had not been revised to reflect significant changes in program instructions and program language.

We discussed this matter with officials of the Computer Services Division, who agreed that all ADP program documentation should be complete and current. The Assistant for Systems and Operations stated that program documentation will be revised and rewritten in conjunction with the Division's current effort to revise its computer programs.

Error listings not retained
and evaluated

We noted that listings of errors detected by machine edits of data processing operations for the Finance Division were not retained and evaluated to determine error patterns, causes, and trends.

We believe the evaluation of error experience could be useful to the Administration's management to identify types of errors with high rates of incidence, investigate the causes of these errors, and take action to prevent or correct them at an earlier processing point.

We discussed this matter with the Chief of the Computer Services Division who agreed that the retention and periodic evaluation of error listings could be useful. He indicated this procedure would be used on a trial basis.

Inadequate control over
access to tape library

The safeguarding of data processing files is essential to insure that only authorized changes are introduced into computer programs or historical records. We noted that access to the Administration's magnetic tape library was controlled by a librarian during the 8 a.m. to 4 p.m. shift and by a processing scheduler during the 4 p.m. to midnight shift.

We found, however, that access to the library was not adequately controlled during the midnight to 8 a.m. shift, when there was no librarian or scheduler on duty and the outside door to the library was left unlocked. As a result, computer programs and records were not adequately safeguarded against tampering by unauthorized persons during this shift.

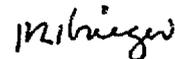
We discussed this matter with the chief of the Computer Services Division who stated that the workload does not justify having a librarian or scheduler on duty during the midnight to 8 a.m. shift. He agreed, however, that the outside door to the library would be locked at all times during this shift.

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We wish to acknowledge the courtesies and cooperation extended to our representatives during the examination. We shall appreciate your comments concerning any action taken or planned by you on the matters discussed in this report.

Copies of this report are being sent to the Assistant Secretary for Administration, Department of Transportation, and to the Associate Administrator for Administration, Federal Highway Administration.

Sincerely yours,



H. L. Krieger
Regional Manager

Mr. Ralph R. Bartelsmeyer
Acting Federal Highway Administrator
Federal Highway Administration
Department of Transportation



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FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

OCT 18 1972

Dear Mr. Heffelfinger:

Enclosed for your information is a copy of our letter to the Acting Federal Highway Administrator on the results of our recent examination of selected aspects of the financial management system of the Federal Highway Administration.

In making our examination we considered the Department of Transportation's Office of Audits most recent internal audits of the Administration's financial management procedures and practices and its payroll operations. We found that these audits were competently performed and reported on, with appropriate follow-up action taken to insure that reported deficiencies were corrected. However, we noted two areas of the Administration's operations which have not been given sufficient internal audit attention. In addition, we noted an audit point initially raised by internal auditors which, in our opinion, was significant but which may not have been appropriately reported and resolved. These matters are discussed below.

Need for more frequent audits
of payroll activities

The Comptroller General, in Memorandum to Heads of Departments and Agencies dated August 1, 1969 (B-161457), reemphasized that department and agency procedures and controls should include systematic internal reviews of the financial management system.

We found that since August 1962 only one internal audit of the Administration's payroll activities was made by the Office of Audits. That audit covered calendar year 1969 operations. We noted further that no internal audit of payroll activities has been scheduled to be performed through June 30, 1973.

In our discussion with the chief of the Policies, Plans and Evaluation Staff, we found the Office of Audits makes no regular recurring audits of operations such as payroll, but each year schedules audits on a priority basis.

We believe the Administration's payroll activities should be audited more frequently to insure that greater management benefits from these audits will be obtained.

Need for internal audits
of automatic data processing
controls

The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (3 GAO 52) states that internal auditing should extend to all agency activities and related management controls.

We were informed by an Administration official that internal audits have not been made of the effectiveness of internal controls over automatic data processing operations. In view of the importance of these controls in the effective operation of the Administration's financial management system, we suggest you take steps to insure that this area will be given appropriate internal audit attention.

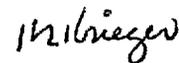
Questionable use of
appropriated funds

As discussed in the enclosed letter, we noted that, during an audit of the Administration's calendar year 1969 payroll activities, internal auditors raised a question concerning the legality of the Administration's using appropriated funds to pay salary costs for an audit of the Highway Administration Federal Credit Union. The internal auditors concluded that audit services for credit unions were not authorized to be furnished from appropriated funds and made a preliminary recommendation that the Administration obtain a legal opinion in the matter and comply with that opinion.

The final audit report issued by the Office of Audits contained no discussion of this question. We have been unable to identify the reasons why this question was not included in the audit report or a separate report to the Highway Administrator or how the matter was eventually resolved.

We shall appreciate your comments concerning the matters discussed in this letter.

Sincerely yours,



H. L. Krieger
Regional Manager

Enclosure

The Honorable William S. Heffelfinger
Assistant Secretary for Administration
Department of Transportation



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OCT 18 1972

Dear Mr. Provan:

Enclosed for your information is a copy of our report to the Acting Federal Highway Administrator on the results of our recent examination of selected aspects of the financial management system of the Federal Highway Administration.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger
Regional Manager

Enclosure

Mr. John R. Provan
Associate Administrator for Administration
Federal Highway Administration
Department of Transportation
Washington, D.C.