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STATEMENT OF

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BEFORE THE SUBCOMMITTEE ON COMMERCE, CONSUMER,
AND MONETARY AFFAIRS

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE TREASURY FINANCIAL COMMUNICATIONS SYSTEM

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THE TREASURY FINANCIAL COMMUNICATIONS SYSTEM

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to discuss our review of internal controls over government disbursements made through the Department of the Treasury Financial Communications System, generally referred to as TFCS. Although Treasury has been responsive to our recommendations to strengthen the system, some fundamental problems remain which affect other disbursement systems as well and leave the government vulnerable to unauthorized payments. Hopefully, the dialog generated through this hearing will add impetus to the correction of those problems. Based on our findings and the billions of dollars the government disburses, corrective action is clearly warranted.

Before I describe the nature of our review and findings, I would like to take a few moments to discuss Treasury's role as a paying agent. Treasury issues payments, electronically as well as through checks, on behalf of most government entities. Treasury operates seven financial centers around the country which receive and process agencies' payment requests. After verifying that the requests are properly authorized and provide all of the necessary information, such as the payee, amount, and the agency identification code, Treasury issues the payments.

Chart A shows Treasury's fiscal 1985 reported payment volumes. As you can see, Treasury uses two methods for issuing payments electronically -- direct deposit electronic funds transfer and TFCS. In the direct deposit electronic funds transfer method, Treasury assembles information on the payees' bank account numbers and payment amounts. This information is distributed to Federal Reserve Banks and their branches and is then transmitted to the payees' financial institutions. Treasury uses this method where possible for high-volume, low-dollar, recurring payments, such as salary and Social Security payments.

TFCS, on the other hand, is generally used for large, nonrecurring payments, such as letter-of-credit payments to federal grant recipients, and payments of \$25,000 or more to vendors serving federal agencies. TFCS differs from the direct deposit program in that it provides a computer-to-computer link to the Federal Reserve System for all its payments, as shown on chart B. This affords Treasury the capability to better control the scheduling and timing of disbursements.

At the time our review began, only two of the three Treasury financial centers now tied into TFCS were operational. As the chart shows, some agencies also were authorized to directly input payment data via terminals located in their offices. The payment volume has steadily increased, with transactions growing from \$102 billion in fiscal year 1982 to \$300 billion in fiscal year 1985.

Because of the increasing volume of payments being made through the system, we reviewed key aspects of TFCS as part of our ongoing efforts to evaluate agencies' internal controls. Our primary objective was to determine whether TFCS had adequate controls to ensure that only properly authorized payments were made. Based on our work, we concluded that the controls were inadequate to prevent unauthorized payments from being made or to ensure proper accounting for all payments. For example, it is essential that access to a system such as TFCS be adequately controlled. However, we found that because of a breakdown in system access controls, it was possible for unauthorized Treasury personnel to make improper payments at one of the two Treasury financial centers we examined. We also noted that Treasury lacked adequate controls to ensure that a similar breakdown would not occur in other TFCS locations tied into the system.

Among the other problems we found were a lack of controls for preventing duplicate payments. We reviewed certain payments made at one Treasury financial center from August 1983 through January 1984. Treasury records identified six duplicate payments, while we identified a seventh. These duplicate payments totaled about \$5.4 million. Although the duplicate payments identified represented a very small portion of the 27,600 payments processed during that period, we could not verify that these were the only ones that occurred.

We also noted weaknesses in Treasury's procedures for ensuring the accuracy of payment information. This created the opportunity for erroneous data to be entered into the system, which could have prevented or delayed processing of a properly authorized payment, or allowed a fraudulent payment to be issued and its subsequent detection delayed. This particular weakness was magnified by the lack of control over agencies' payment requests, which were vulnerable to manipulation by Treasury financial center personnel.

Some of the weaknesses we found in examining TFCS extended to payments made via checks and direct deposit electronic funds transfers, thus increasing the possibility of fraud. Although Treasury operates the disbursing systems, the other agencies serviced by Treasury share the responsibility of preventing unauthorized payments. However, our past audit work has shown that control breakdowns occur in the other agencies as well. Of course, this increases our concern over the risk of fraudulent payments.

Given this type of environment, the obvious questions arise as to the magnitude of past losses and what must be done to better prevent fraud. Although it would not be appropriate to address those questions publicly at this time, I can offer some examples of what has happened. In one agency, an employee was able to embezzle over \$555,000. The employee was not apprehended until

another employee noticed discrepancies in the records. In a different agency, an employee embezzled more than \$856,000 but called attention to himself by adopting an extravagant lifestyle. In yet another case, an agency recorded over \$1 million of payments without establishing what the payments were for. This was done simply to bring the agency's records in line with Treasury's, and the agency didn't verify that the payments were for authorized purposes. These are all examples of breakdowns in agencies' controls.

Returning now to TFCS specifically, I would like to point out that Treasury had many controls already in the system when we began our review and that we know of no losses sustained by TFCS. However, because of the problems I have described, as well as others, we made several recommendations for improvements. In responding to our report, Treasury agreed with virtually all of our recommendations and stated that it had taken or would take corrective action. For example, Treasury implemented new controls to reduce the possibility of unauthorized individuals gaining access to the system. Treasury also reported that it was establishing new procedures for ensuring the accuracy of payment data entered in the system and for preventing duplicate payments. Treasury has also been working to correct the weaknesses that remain. On the whole, we are very encouraged by Treasury's response, which I understand will be described in more detail by the Treasury representatives present today.

Mr. Chairman and members of the subcommittee, that concludes my prepared statement for this portion of the hearing. As you know, we did not make our report available for public distribution because of the sensitivity of some of the issues that were covered. My remarks about TFCS thus far have pertained to matters which Treasury has adequately addressed. We will later present our views on the remaining problems and on what must be done to further reduce the government's vulnerability to unauthorized payments. However, my staff and I will be glad to discuss any other questions you may have at this time.

TREASURY REPORTED PAYMENT VOLUMES FISCAL YEAR 1985

Method of Payment	Number of Payments
Checks	487.3 million
Direct Deposit/ Electronic Funds Transfer	233.2 million
TFCS	258 thousand

TREASURY FINANCIAL COMMUNICATIONS SYSTEM

