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ADDRESS TO THE
THIRD ANNUAL
GOVERNMENT CASH MANAGERS CONFERENCE

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ACCOUNTABILITY FOR CASH MANAGEMENT
IN GOVERNMENT

WHEN MARSHALL SOKOL ASKED ME TO SPEAK AGAIN THIS YEAR AND SUGGESTED THE TOPIC OF ACCOUNTABILITY FOR CASH MANAGEMENT, I THOUGHT IT WOULD BE A RELATIVELY EASY TOPIC TO TALK ABOUT SINCE MY STAFF AND I AT THE GAO HAVE BEEN VERY HEAVILY INVOLVED IN NUMEROUS CASH MANAGEMENT REVIEWS IN A NUMBER OF CIVIL AGENCIES IN RECENT YEARS. WHEN I STARTED TO PUT MY TALK TOGETHER, I CAME TO THE REALIZATION THAT ACCOUNTABILITY WAS A BIGGER AND TOUGHER TO SOLVE PROBLEM THAN ALL THE TECHNICAL PROBLEMS THAT CASH MANAGERS HAVE BEEN TALKING ABOUT FOR YEARS, LIKE LETTERS-OF-CREDIT, DELAYED DRAW DOWNS, COMPENSATING BALANCES, INTEREST RATES, SERVICE CHARGES, ETC.

BEFORE I GET INTO A DISCUSSION OF ACCOUNTABILITY ITSELF, I WOULD LIKE TO PLAY THE ROLE OF A TEACHER FOR A MOMENT AND GO OVER SOME OF MY PRIOR LECTURES TO SEE IF YOU DID YOUR HOMEWORK. SO, I WOULD LIKE TO SEE A SHOW OF HANDS OF HOW MANY HAVE ATTENDED THE FIRST OR SECOND GOVERNMENT CASH MANAGERS CONFERENCES. THOSE OF YOU WHO HEARD MY TALK 2 YEARS AGO, HEARD ME TALK ABOUT THE NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS BEING MADE POPULAR IN THE NEW ENGLAND STATES. I ASKED HOW GOOD A CASH MANAGER EACH OF YOU WAS, AND WE REVIEWED THE FOLLOWING EXAMPLE OF ONE OF OUR STAFF'S CHECKING ACCOUNTS SHOWING THE OPPORTUNITY FOR INTEREST INCOME. WHILE SUCH ACCOUNTS MAY HAVE BEEN DIFFICULT TO FIND DURING THE PAST 2 YEARS, LAST MONTH THEY BECAME A REALITY IN MOST BANKING INSTITUTIONS. LET ME SEE HOW MANY OF YOU REALLY DID YOUR HOMEWORK AND RAISE YOUR HANDS IF YOU HAVE NOW ACCOUNTS. OF COURSE, IF YOU ARE STILL LOOKING FOR ONE, MANY OF THE SAME CASH MANAGEMENT PROBLEMS WE HAVE TALKED ABOUT BEFORE, SUCH AS INTEREST RATES, SERVICE CHARGES, AND COMPENSATING BALANCES ALSO BECOME AN ISSUE HERE. IN FACT, IF ANYONE IS INTERESTED, AFTER MY TALK I CAN GIVE YOU THE NAME OF A BANK IN MARYLAND AND ONE IN VIRGINIA THAT SEEM TO HAVE THE BEST DEAL, AND A WELL KNOWN BANK IN WASHINGTON THAT HAS THE WORST DEAL.

BUT NOW LET'S MOVE ON TO THE QUESTION OF ACCOUNTABILITY FOR CASH MANAGEMENT--OR THE LACK OF ACCOUNTABILITY AS I SEE IT.

BACK IN 1972, BEFORE TRANSFERRING INTO MY PRESENT RESPONSIBILITY AREA, I HEADED UP A SPECIAL TASK FORCE ESTABLISHED BY THE COMPTROLLER GENERAL TO IDENTIFY PROBLEMS WITH OVERLAPPING AND DUPLICATION OF FEDERAL GRANTS-IN-AID PROGRAMS. THE REPORTS THAT WE ISSUED AND PROBLEMS THAT WE IDENTIFIED WERE OF A PROGRAMMATIC NATURE. AN EFFECTIVE CASH MANAGEMENT SYSTEM WAS NOT ONE OF THE OBJECTIVES OF THE TASK FORCE. WE CONDUCTED OUR STUDY IN THE DISTRICT OF COLUMBIA AND WHAT WE FOUND WAS A NIGHTMARE OF OVERLAPPING AND DUPLICATION. ALTHOUGH SOME OF THE PROGRAMS AND ORGANIZATIONS HAVE CHANGED SINCE 1972, LET ME SHARE WITH YOU THE SITUATION AS WE FOUND IT THEN. AS THIS NIGHTMARE UNFOLDS, I WOULD LIKE EACH OF YOU TO THINK IN TERMS OF CASH MANAGEMENT APPLICATIONS AND WHO SHOULD BE RESPONSIBLE FOR REVIEWING THE DISBURSEMENT RATE AND COLLECTING ANY EXCESSIVE GRANT FUNDS REMAINING.

THE GENERAL SUBJECT MATTER OF ONE OF OUR REPORTS WAS MANPOWER TRAINING SERVICES FOR THE DISADVANTAGED. I WANT TO GO THROUGH, IN A VERY GENERAL WAY, THE FEDERAL AGENCIES, FEDERAL PROGRAMS, LOCAL RECIPIENTS, AND LOCAL CONTRACTORS THAT ARE INVOLVED. IT IS THE NUMBER THAT IS SIGNIFICANT HERE AND NOT THE LABEL. WHAT YOU SEE ON THE FIRST SLIDE IS THE SITUATION AS IT EXISTED PRE-1960. WHEN WE MOVED INTO THE SOCIAL PROGRAMS OF THE 60'S, SEVERAL EDUCATION AND LABOR PROGRAMS CAME INTO BEING. NEXT, SOME OF THE EARLY ECONOMIC OPPORTUNITY PROGRAMS CAME INTO BEING, AND MORE FEDERAL

PROGRAMS, MORE ADMINISTERING AGENCIES AND CONTRACTORS WERE CREATED. THEN ADDITIONAL ECONOMIC PROGRAMS AUTHORIZED BY THE ECONOMIC OPPORTUNITY ACT BECAME OPERATIONAL. FINALLY, IN THE LATE 60'S, ADDITIONAL PROGRAMS WERE IMPLEMENTED UNDER THE ECONOMIC OPPORTUNITY AREA AS WELL AS HUD'S MODEL CITIES PROGRAM AND HERE IS THE FINAL RESULT.

WE HAVE 18 INDEPENDENT OPERATORS DOING BASICALLY THE SAME THING. OF THE 18 OPERATORS, SIX RECEIVE THEIR MONEY FROM A SINGLE SOURCE; 1 RECEIVES MONEY FROM TWO SOURCES; SIX FROM THREE SOURCES; FOUR FROM FOUR SOURCES; AND 1 FROM 6 SOURCES--LEAVING US WITH A BIT OF AN ACCOUNTABILITY NIGHTMARE. THAT IS THE PROBLEM WE FOUND IN THE DISTRICT OF COLUMBIA. WE DID OTHER FUNCTIONAL STUDIES IN THE AREAS OF CHILD CARE AND HEALTH SERVICES AND FOUND MANY OF THE SAME PROBLEMS. SOME OF THESE STUDIES WERE DONE IN OTHER CITIES AND, AGAIN, SIMILAR PROBLEMS WERE FOUND. CONVERTING THIS CHART INTO A SINGLE FEDERAL DEPARTMENT WITH A LARGE NUMBER OF DIVERSE PROGRAMS WOULD PRESENT A SOMEWHAT SIMILAR PROBLEM.

LET'S TAKE A LOOK AT A PORTION OF THE ORGANIZATION OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES AND SOME OF THE KEY COMPONENTS THAT HAVE THE CONTROL OF BILLIONS OF FEDERAL DOLLARS. ON THE ACCOUNTING SIDE OF THE LEDGER, THERE IS THE ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET. ON THE PROGRAM SIDE, 3 MAJOR AGENCIES--THE OFFICE OF HUMAN DEVELOPMENT SERVICES, THE PUBLIC HEALTH SERVICE, AND THE HEALTH CARE FINANCING

ADMINISTRATION. SO AS NOT TO BE LIMITED TO ONE DEPARTMENT, LET'S ALSO TAKE A LOOK AT A PORTION OF THE DEPARTMENT OF EDUCATION. ON THE ACCOUNTING SIDE OF THE LEDGER IS THE ASSISTANT SECRETARY FOR MANAGEMENT. ON THE PROGRAM SIDE OF THE LEDGER ARE 5 ASSISTANT SECRETARIES FOR ELEMENTARY AND SECONDARY EDUCATION, POST SECONDARY EDUCATION, EDUCATIONAL RESEARCH AND IMPROVEMENT, VOCATIONAL AND ADULT EDUCATION, AND SPECIAL EDUCATION. BOTH OF THESE DEPARTMENTS, AS WELL AS MANY OTHERS, HAVE SERIOUS PROBLEMS IN IDENTIFYING RESPONSIBILITY FOR CASH MANAGEMENT ISSUES. ABOUT A YEAR AGO, WE ISSUED A REPORT ON THE PREDECESSOR AGENCY, THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE STATING THAT IMPROVEMENTS WERE NEEDED IN CONTROLLING BILLIONS OF DOLLARS IN CASH ADVANCES MADE THROUGH THEIR CENTRAL SYSTEM CALLED DFAFS. WE ESTIMATED THAT \$249 MILLION IN EXCESS FEDERAL FUNDS WERE BEING HELD BY RECIPIENTS OF MONEY DISBURSED BY DFAFS.

ALTHOUGH DFAFS WAS ESTABLISHED PARTIALLY TO IMPROVE HEW'S MANAGEMENT OF CASH ADVANCES, THE SYSTEM HAS BEEN USED ONLY TO MAKE ADVANCES, RECOVER EXCESSES FROM PREMATURE WITHDRAWALS, AND ACCUMULATE ACCOUNTING DATA. OTHER HEW COMPONENTS PERFORMED KEY CASH MANAGEMENT FUNCTIONS, SUCH AS CLOSING AGREEMENTS AND RECOVERING CASH EXCESSES. SOMETIMES SPLITTING RESPONSIBILITIES IS INEFFICIENT, AND IN THIS CASE, HEW EMPLOYEES FAILED TO PERFORM MANY OF THEIR CASH MANAGEMENT FUNCTIONS BECAUSE OF AN APPARENT CONFUSION OVER THE SPLIT RESPONSIBILITIES.

AT THE TIME OF OUR REVIEW, DFAFS EMPLOYEES WORKED PRIMARILY AS FISCAL AGENTS, OR INTERMEDIARIES, BETWEEN HEW AGENCIES AND RECIPIENT ORGANIZATIONS; THEY PROCESSED REQUESTS FOR CASH ADVANCES, HAD CHECKS ISSUED, AND GENERATED ACCOUNTING DATA ON THE 3 AREAS OF DFAFS' CONCERN IN MANAGING CASH ADVANCES-- RECIPIENTS' AUTHORIZED FUNDING, CASH ADVANCES, AND DISBURSEMENTS.

THE DFAFS USER GUIDE SAID THAT DFAFS AND THE DEPARTMENT'S AGENCIES WERE RESPONSIBLE FOR CASH MANAGEMENT. FOR EXAMPLE, THE GUIDE SAID DFAFS WAS RESPONSIBLE FOR RECOVERING EXCESS CASH FROM PREMATURE ADVANCES AND DEPOSITING IT IN DFAFS ACCOUNTS. BUT IT SAID AGENCIES WERE RESPONSIBLE FOR CLOSING GRANT AGREEMENTS AND DETERMINING HOW MUCH SHOULD BE RETURNED TO DFAFS. THIS DIVISION OF CASH MANAGEMENT CREATED SERIOUS PROBLEMS IN CLOSING GRANTS OR LOANS. IN ONE CASE, DFAFS DROPPED ABOUT 35,000 OFFICE OF EDUCATION LOANS AND GRANTS FROM DFAFS RECORDS AND FORWARDED INFORMATION ON THEM TO THE OFFICE OF EDUCATION. DFAFS SAID IT DID THIS TO RECONCILE ITS RECORDS WITH RECIPIENTS' RECORDS. OFFICE OF EDUCATION OFFICIALS SAID SOME OF THE LOANS AND GRANTS SHOULD NOT HAVE BEEN DROPPED BUT THAT THEY HAD NO PLANS TO DETERMINE WHICH ONES.

AS OF MARCH 31, 1978, AN HEW REPORT SHOWED ABOUT 52,400 INACTIVE GRANTS OR LOANS WHICH SHOULD HAVE BEEN CLOSED. INCLUDED WERE LOANS OR GRANTS MADE BY THE OFFICE OF EDUCATION (35,700); THE HEALTH RESEARCH ADMINISTRATION (9,100); THE

ALCOHOL, DRUG ABUSE, AND MENTAL HEALTH ADMINISTRATION (2,000); REGIONAL OFFICES (ABOUT 3,900); AND OTHER OFFICES (1,700). HEW OFFICIALS SAID THEY BEGAN A DEPARTMENT-WIDE EFFORT TO DO THIS.

THE DIVISION OF RESPONSIBILITY ALSO CREATED DIFFICULTIES IN HANDLING CONDITIONS SUCH AS HIGH ERROR RATES IN ACCOUNTING DATA IN THE SYSTEM, UNRECONCILED DIFFERENCES IN THE SYSTEM'S AND RECIPIENTS' ACCOUNTS, AND DELAYS IN CORRECTING IDENTIFIED ERRORS. ALSO, DFAFS' RECORDS SHOWED THAT THE EXPENDITURES OF ADVANCES EXCEEDED AUTHORIZATIONS BY ABOUT \$822 MILLION FOR ABOUT 16,000 GRANTS.

WHEN WE TALKED TO SOME PEOPLE ABOUT CLOSING OUT THESE GRANTS, THE QUESTION WAS, IF THERE WAS MONEY LEFT, WHICH PROGRAM AND WHICH AGENCY DID IT BELONG TO? WE WERE TOLD THE AGENCY USED THE WELL KNOWN INVENTORY TECHNIQUE-- FIRST IN, FIRST OUT, OR FIFO. THAT MAY BE FINE FOR INVENTORIES, BUT IS IT REALLY APPROPRIATE FOR CASH MANAGEMENT?

WHEN AN EARLY GRANT IN A PARTICULAR YEAR MIGHT ACCOUNT FOR TWO-THIRDS OF THE FEDERAL FUNDING, AND A LATER GRANT PROVIDES 5 OR 10 PERCENT, SHOULD THE LATER GRANTOR AGENCY BE RESPONSIBLE FOR CLOSING OUT THE GRANT? I THINK NOT.

LET'S CHANGE THE SUBJECT FOR A MOMENT AND TALK ABOUT AN ORGANIZATIONAL STRUCTURE EVEN LESS COMPLEX, THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT -- AND DON'T WORRY, IF YOU ARE FROM AGENCIES AND DEPARTMENTS I HAVEN'T GOTTEN TO YET, JUST GIVE ME TIME, I HAVE A LOT OF MATERIAL. HUD HAS 2 PARTICULAR OFFICES WITH FREQUENT JURISDICTIONAL OVERLAPPING, THESE ARE THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE ASSISTANT SECRETARY FOR HOUSING.

WE UNCOVERED BOTH ACCOUNTING AND CASH MANAGEMENT PROBLEMS, PARTICULARLY IN THE COLLECTION OF MORTGAGES IN CASES WHERE HUD ACTS AS THE MORTGAGEE THAT PARTIALLY RESULTED FROM SUCH OVERLAPPING. ABOUT A YEAR AGO, WE TESTIFIED BEFORE SENATOR PROXMIRE ON PROBLEMS WITH HUD'S MULTIFAMILY MORTGAGE PROGRAM. THESE ARE CASES WHERE HUD HAS BECOME THE MORTGAGEE AND IS RESPONSIBLE FOR COLLECTING THE MORTGAGE. SINCE ALL OF THESE CASES ARISE FROM DEFAULTED MORTGAGES, HUD OFTEN REDUCES MORTGAGE PAYMENTS TO HELP THE MORTGAGOR GET BACK ON HIS FEET. THE ACCOUNTING AND BILLING SYSTEM IS UNDER THE ASSISTANT SECRETARY FOR ADMINISTRATION. THE DAY-TO-DAY COLLECTION AND SERVICING EFFORTS ARE THE RESPONSIBILITY OF HUD FIELD OFFICES WHICH ARE UNDER THE SUPERVISION OF HUD'S ASSISTANT SECRETARY FOR HOUSING.

ON THE PROGRAM SIDE, ACCOUNTING AND SERVICING DOES NOT APPEAR TO BE HIGH ON THE PRIORITY LIST AND, ON OCCASIONS, THE PROGRAM PEOPLE HAVE DIFFICULTY IN COMMUNICATING WITH THE ACCOUNTING PEOPLE. LET ME GIVE YOU AN EXAMPLE FROM OUR TESTIMONY.

WE FOUND A VERY LARGE PROJECT IN A MAJOR CITY WHICH HAD BEEN IN DEFAULT FOR OVER 5 YEARS WITHOUT A SINGLE PAYMENT BEING MADE ON THE MORTGAGE; IN FACT, HUD HAD EVEN ADVANCED MONEY FOR INSURANCE AND TAXES WHICH, I MIGHT ADD, ON THE ACCRUAL BASIS OF ACCOUNTING, BECAME TAX DEDUCTIONS FOR THE MORTGAGOR. THE AUDITED FINANCIAL STATEMENTS SUBMITTED TO THE LOCAL HUD OFFICE EVERY YEAR FOR THE 5 YEARS CLEARLY SHOWED THE PROJECTS GENERATED SUFFICIENT CASH TO PAY THE MORTGAGES. IN FACT, THEY ALSO VERY CLEARLY SHOWED THE OWNERS TOOK THE CASH IN THE FORM OF WITHDRAWALS AND INTEREST-FREE LOANS. OVER A 5-YEAR PERIOD, THE OWNERS DIVERTED OVER \$3 MILLION.

THE LOCAL HUD EMPLOYEES SAID THE FINANCIAL STATEMENTS WERE NOT REVIEWED FOR 2 REASONS: (1) SHORTAGE OF PEOPLE AND (2) SHORTAGE OF TRAINED ACCOUNTANTS. CLEARLY, SOMETHING NEEDS TO BE DONE.

VERY SHORTLY, WE WILL BE TESTIFYING ON THE DEBT COLLECTION ACT OF 1981. ONE OF OUR EXAMPLES, AGAIN, INVOLVES HUD. IN A SINGLE YEAR, HUD WROTE-OFF \$24 MILLION IN ITS TITLE I HOME IMPROVEMENT LOAN PROGRAM. THESE WRITE-OFFS OCCURRED FOR TWO MAIN REASONS. FIRST, BECAUSE HUD AND THE PARTICIPATING LENDERS DROPPED THE BALL IN APPROVING AND DISBURSING LOANS TO INDIVIDUALS WHO WERE IN DEFAULT ON OTHER LOANS BECAUSE THERE WAS NO MECHANISM FOR CHECKING, ..SECOND, AND MORE IMPORTANTLY FROM A CASH MANAGEMENT VIEWPOINT, LITTLE IF ANY COLLECTION

EFFORTS WERE BEING TAKEN BY HUD FIELD OFFICES. I LOOKED AT SEVERAL CASES IN DEFAULT FOR 6 TO 10 YEARS, WITH ONLY 2 OR 3 COLLECTION EFFORTS BEING MADE AND THEN AT WIDELY SCATTERED INTERVALS.

SINCE I JUST MENTIONED DEBT COLLECTION, I DON'T THINK THIS TOPIC CAN BE DISCUSSED WITHOUT MENTIONING THE JUSTICE DEPARTMENT. HERE, TOO, THE ACCOUNTABILITY PROBLEM SURFACES. AGENCIES FORWARD THEIR UNCOLLECTIBLE DEBTS TO THE JUSTICE DEPARTMENT IN WASHINGTON, AFTER FIRST RECEIVING THEM FROM THEIR PARTICULAR FIELD OFFICES; THE JUSTICE DEPARTMENT THEN FORWARDS THE CASES BACK TO THE LOCAL U.S. ATTORNEYS IN THE CITIES WHERE THE CASES ORIGINATED. WE FOUND THAT, AGAIN, DEBT COLLECTION IS NOT HIGH ON THE PRIORITY LIST. IN OUR VIEW, MORE AGGRESSIVE ACTIONS CAN BE TAKEN TO AVOID THE STAGGERING LOSSES FEDERAL AGENCIES HAVE IN WRITE-OFFS OF UNCOLLECTIBLES. IF WE COULD ONLY GET THESE AGENCIES TALKING A LITTLE MORE, SIMPLE AGREEMENTS BETWEEN AGENCIES LIKE JUSTICE AND HUD TO ALLOW VARYING DEGREES OF LOCAL LITIGATION TO BE UNDERTAKEN BY THE AGENCY INVOLVED COULD SAVE MILLIONS.

LAST YEAR, HUD WROTE-OFF \$24 MILLION IN ITS TITLE I HOME IMPROVEMENT LOAN PROGRAM. MOST OF THESE LOANS ARE SIGNATURE LOANS AND OFTEN THE BORROWER DEFAULTS, SUBSEQUENTLY SELLS HIS HOUSE, AND SPLITS. IF LOCAL HUD OFFICES HAD THE AUTHORITY TO FILE LIENS ON THE PROPERTY, MILLIONS COULD BE COLLECTED BECAUSE CLEAR TITLE COULD NOT BE PASSED WITHOUT SATISFYING THE DEBT.

NOW I WOULD LIKE TO MOVE OVER TO THE DEFENSE DEPARTMENT FOR A MOMENT TO POINT OUT HOW ACCOUNTABILITY PROBLEMS OCCUR THERE ALSO. WE ARE CURRENTLY LOOKING AT THE ARMY'S FOREIGN MILITARY SALES PROGRAM WHICH LAST YEAR HANDLED SOME \$5.4 BILLION IN SALES--HERE AGAIN THE PROGRAM AND ACCOUNTABILITY RESPONSIBILITY IS SPLIT BETWEEN 2 COMMANDS, ONE WHICH ENTERS INTO THE CONTRACTS AND SHIPS THE MATERIAL, AND THE OTHER IN THE MIDWEST WHICH IS RESPONSIBLE FOR CENTRALIZED ACCOUNTING, BILLING, AND COLLECTION. QUITE OFTEN, BILLINGS ARE NOT SENT OUT OR ARE SENT OUT LATE RESULTING IN NOT ONLY LOSSES OF THE AMOUNTS DUE FOR THE ITEMS THEMSELVES BUT LOST INTEREST AS WELL THROUGH DELAYS IN BILLING -- JUST ANOTHER EXAMPLE IN A NEED TO PINPOINT ACCOUNTABILITY.

NO TALK ON CASH MANAGEMENT WOULD BE COMPLETE WITHOUT MENTIONING THE GOVERNMENT'S PRINCIPAL AGENCY FOR HANDLING RECEIPTS AND DISBURSEMENTS--THE TREASURY DEPARTMENT. ALTHOUGH THEIR CASH MANAGEMENT PERFORMANCE IN RECENT YEARS HAS SAVED THE GOVERNMENT MILLIONS, THEY OFTEN HAVE ACCOUNTABILITY PROBLEMS. LET'S TAKE DUPLICATE CHECKS.

PERIODICALLY, CHECKS ARE LOST AND SUBSTITUTES ARE ISSUED. ALTHOUGH PRECAUTIONS ARE TO BE TAKEN SO THAT ONLY ONE CHECK IS CASHED, OFTEN BOTH CHECKS ARE CASHED. WE FOUND THAT RECENTLY THIS HAPPENED TO THE TUNE OF \$70 MILLION IN RECEIVABLES. WE ARE SEEKING TO CLARIFY THE APPLICABLE LAWS

AND HAVE REGULATIONS ISSUED THAT WILL REQUIRE THE AGENCIES WHO PROCESS THE INITIAL TRANSACTIONS TO BE RESPONSIBLE FOR THE COLLECTION OF THE DUPLICATE PAYMENT. AGAIN, WHEN ONE OR MORE AGENCIES ARE INVOLVED THE QUESTION IS--WHO CARRIES THE BALL?

IT LOOKS TO US IN THE GAO AS IF THERE AREN'T TOO MANY PEOPLE CRACKING THE WHIP FOR GOOD CASH MANAGEMENT. WHAT ARE THE SOLUTIONS? OR ARE THERE ANY SOLUTIONS?

LAST YEAR, DR. JOAN WALLACE, ASSISTANT SECRETARY FOR ADMINISTRATION AT AGRICULTURE GAVE A VERY ELOQUENT TALK ON THE POSITIVE SIDE OF INCENTIVES FOR GOOD CASH MANAGEMENT. SINCE AUDITORS ARE OFTEN CONSIDERED NEGATIVE TYPES OF INDIVIDUALS, AND I PROBABLY FALL INTO THAT CATEGORY, I WOULD LIKE TO SEE THE PROBLEM APPROACHED BY PUTTING A FEW PEOPLE'S FEET TO THE FIRE.

IN THE CASES OF MULTIPLE GRANT RECIPIENTS, THE SINGLE AUDIT CONCEPT NEEDS TO BE STRESSED, THAT IS ONE AUDIT FOR ALL LIKE PROGRAMS OF THE RECIPIENT. WHEN FINDINGS ARE IDENTIFIED INCLUDING CASH MANAGEMENT PROBLEMS, THE GRANTOR AGENCY WITH THE LARGEST AMOUNT OF FUNDING SHOULD BE AUTOMATICALLY RESPONSIBLE FOR COLLECTION AND RESOLUTION OF MONIES DUE. ONE OF THE BASES OF THE SENIOR EXECUTIVE SERVICE WAS TO ESTABLISH PERFORMANCE MEASURES FOR OUR SENIOR EXECUTIVES. ALTHOUGH NOT AN OFFICIAL POSITION OF THE GAO, I THINK THIS IS EXTREMELY IMPORTANT IN THE COLLECTION AREA. WHERE AUDIT

FINDINGS OF A CASH MANAGEMENT NATURE ARE MADE EITHER BY GAO OR THE AGENCY'S INSPECTOR GENERAL, THE AMOUNTS DUE THE GOVERNMENT SHOULD BE REFLECTED IN THE EMPLOYMENT CONTRACT OF FIRST-LEVEL SES EMPLOYEE RESPONSIBLE, AND HIS OR HER PERFORMANCE MEASURED ACCORDINGLY. I MIGHT ADD THAT THIS POSITION WAS ALSO TAKEN IN THE JUNE 1979 HOUSE APPROPRIATIONS COMMITTEE REPORT.

WE SHOULD NOT JUST PICK ON OUR SES PERSONNEL, HOWEVER, BECAUSE CASH MANAGEMENT RESPONSIBILITIES GO RIGHT DOWN THE LINE. IN A REPORT WE ISSUED LAST YEAR ON "CONTINUING AND WIDESPREAD WEAKNESSES IN INTERNAL CONTROLS RESULT IN LOSSES THROUGH FRAUD, WASTE, AND ABUSE," WE IDENTIFIED THE BILLIONS OF DOLLARS THAT ARE LOST ANNUALLY FOR THESE REASONS. BY FAR, THE BIGGEST AMOUNT OF DOLLARS IS IN THE AREA OF WASTE, AND WITHIN THAT CLASSIFICATION--CASH MANAGEMENT, PARTICULARLY IN DISBURSEMENTS AND COLLECTIONS. WE CONDUCTED THIS REVIEW AT 157 ACCOUNTING STATIONS IN 11 FEDERAL AGENCIES AND THE ACTIVITIES REVIEWED REPRESENTED A CROSS-SECTION OF GOVERNMENT ACTIVITIES, CIVILIAN AND MILITARY, DOMESTIC AND OVERSEAS.

AT EIGHT OF THE 11 AGENCIES WE REVIEWED, CONTROLS WERE INADEQUATE TO ENSURE THAT AMOUNTS OWED THE GOVERNMENT WERE RECORDED AS ACCOUNTS RECEIVABLE OR THAT OVERDUE ACCOUNTS WERE IDENTIFIED AND COLLECTED. AS A RESULT, MILLIONS OF DOLLARS WENT UNCOLLECTED. FOR EXAMPLE, DEPARTMENT OF LABOR FISCAL OFFICES HAD NOT RECORDED ABOUT \$218 MILLION AS ACCOUNTS RECEIVABLE DUE THE GOVERNMENT AND SO NO EFFORTS WERE MADE TO COLLECT THAT AMOUNT.

THE ACCOUNTS RECEIVABLE THAT WERE COLLECTED OFTEN WERE SO POORLY CONTROLLED AND SAFEGUARDED THAT THE POTENTIAL FOR THEFT, LOSS, OR OTHER MISUSE WAS QUITE HIGH. FURTHER, SEVERAL AGENCIES WERE SO LAX IN CONTROLLING RECEIVABLES FROM TRAVEL ADVANCES THAT EMPLOYEES WERE ABLE TO LEAVE THEIR JOBS WITHOUT EVER REPAYING AMOUNTS DUE THE GOVERNMENT.

CONTROLS OVER DISBURSEMENT ACTIVITIES WERE ALSO FOUND TO BE DEFICIENT IN MANY FISCAL OFFICES REVIEWED. TO ILLUSTRATE, THE NAVAL FLEET FINANCE CENTER HAD NOT PREAUDITED TRAVEL VOUCHERS SUBMITTED FOR PAYMENT. BECAUSE OF THIS, IT HAD MADE OVER \$700,000 IN OVERPAYMENTS IN 2 MONTHS. ALSO, ARMY EUROPEAN COMMAND FISCAL OFFICES HAD FAILED TO TAKE ADVANTAGE OF \$99,000 IN DISCOUNTS OFFERED IN 1 YEAR.

SUCH WASTE OCCURRED BECAUSE MANY FISCAL OFFICES HAD DISREGARDED BASIC CONTROL PROCEDURES PRESCRIBED IN MANUALS PUBLISHED BY GAO, TREASURY, AND THEIR OWN AGENCIES. SOMETIMES, AGENCIES WERE NOT EVEN USING SOUND JUDGMENT IN MAKING DISBURSEMENTS. FOR EXAMPLE, SEVERAL ENVIRONMENTAL PROTECTION AGENCY OFFICIALS HAD ROUTINELY MADE DISBURSEMENTS WITHOUT DETERMINING IF THE AMOUNT OF PAYMENT AND NAME OF PAYEE WERE CORRECT.

THESE TYPES OF WEAKNESSES REQUIRE THE AVERAGE WORKING LEVEL EMPLOYEE IN ALL AGENCIES TO BE ATTENTIVE. HERE

TOO, WE HAVE OPPORTUNITIES FOR KEEPING PEOPLE'S FEET TO THE FIRE UNDER THE MERIT PAY SYSTEM. THOSE GS-13'S THROUGH GS-15'S WHO ALLOW THE TYPES OF SITUATIONS WE HAVE REPORTED TO OCCUR, SHOULD HAVE THEM TAKEN INTO CONSIDERATION IN THEIR ANNUAL MERIT PAY ADJUSTMENTS. IN MY VIEW, WHEN YOU START AFFECTING PEOPLE'S TAKE-HOME PAY, THEY WILL SIT UP AND TAKE NOTICE AND SAY, "THESE PEOPLE ARE SERIOUS."

WHETHER OR NOT IT COMES TO SOMETHING AS SERIOUS AS I JUST TALKED ABOUT, DEPENDS UPON THE EFFORTS OF EACH OF YOU RESPONSIBLE FOR CASH MANAGEMENT.