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United States General Accounting Office  
Washington, DC 20548

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December 22, 2000

The Honorable John R. Kasich  
Chairman, Committee on the Budget  
House of Representatives

The Honorable John E. Sununu  
House of Representatives

Subject: Third Party Payments: Survey on Use and Related Internal Controls by Government Entities

This letter summarizes the information we provided during a December 12, 2000, briefing to staff from the Budget Committee and from Representative Sununu's office. In your May 17, 2000, letter to the Comptroller General, you, as Chairman of the Committee on Budget and Chairman of the Housing and Infrastructure Task Force<sup>1</sup> respectively, had asked us to conduct a survey on the use of third party payment instruments by government entities. Third party payments represent blank-form financial instruments that enable government employees to directly pay authorized mission-specific, mission-related, and/or administrative expenses when other forms of payment, such as traditional government check, electronic funds transfer, or government credit card, are not feasible or possible. Your request for the survey followed a joint hearing before the Committee and the Housing and Infrastructure Task Force into abuses and mismanagement of a third party payment system used by the National Transportation Safety Board (NTSB).<sup>2</sup>

As agreed with your office, the objectives of the survey were to identify, for fiscal years 1997, 1998, and 1999:

- Which government entities used third party payment instruments.
- The number of third party payment instruments issued.
- The total dollar value of third party payment instruments issued.
- The purposes for which the third party payment instruments were issued.

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<sup>1</sup> At the time of the joint request for the survey, Representative Sununu was the Chairman of the Committee on Budget's Housing and Infrastructure Task Force. On September 13, 2000, the Task Force's term of operation ended.

<sup>2</sup> Separately, you requested that GAO conduct a preliminary review of NTSB internal controls and compliance with applicable laws and regulations to identify areas that may be vulnerable to fraud, waste, and abuse. Work on that request is underway.

- Whether government entities had basic internal controls related to their entity's use of third payment instruments.

The enclosed briefing slides summarize the work we performed and the survey responses, which were provided during the briefing. As noted in the briefing slides, we did not verify either the quantitative data or comment information provided by the respondents.

### **Results in Brief**

As identified in attachments 1 and 2 to the enclosed briefing slides, a total of 86 entities responded to our survey. Forty of the 86 reported that they had used third party payment instruments at some time during fiscal years 1997 through 1999. For these 40, although the reported number of payment transactions declined 3.7 percent during this period – from 1.91 million in fiscal year 1997 to 1.84 million in fiscal year 1999 – the reported total dollar amount associated with these transactions increased 13.4 percent – from \$725.2 million in fiscal year 1997 to \$822.6 million in fiscal year 1999. Based on the transaction data reported, the average dollar value of each payment increased 17.6 percent, from \$380 in fiscal year 1997 to \$447 in fiscal year 1999. In addition, for those entities that reported transactions and dollar data, almost twice as many reported using third party payment instruments in fiscal year 1999 than reported using them in fiscal year 1997.

Among the 40 entities, the most common reasons cited by respondents for using third party payment instruments were (1) to pay for small purchases of supplies and services, (2) to pay contractors that either could not or would not accept government checks, electronic funds transfers (EFTs) or credit card payments, (3) to make emergency payments, (4) to provide immediate reimbursement for out-of-pocket expenses, or (5) as an alternative to disbursing a cash advance.

In response to questions concerning whether entities employed certain internal controls, all 40 entities reported restricting the number of employees authorized to use third party payments and monitoring, in some way, third party payment activities, with slightly more than half (23) responding that the monitoring occurred at least annually. Thirty-nine of the 40 entities reported monitoring and/or reviewing employee use of third party payments, and 33 reported monitoring service providers' payment process. Thirty-seven of the 40 entities reported requiring authorization signatures, submission of supporting documentation, and set dollar limits for individual payment amounts. Thirty-six of the 40 entities reported requiring that payments be recorded timely in accounting records; 35 entities also reported requiring independent review and inspection of payment supporting documentation and timely reconciliation of payments processed by service providers to internal accounting records. Thirty-four of the 40 entities reported requiring that payments be sequentially numbered; 32 entities reported establishing written policies or guidance on the use of third party payments; and 30 entities reported segregating incompatible duties associated with use and handling third party payments.

## **Scope and Methodology**

To address your specific questions about government entities' use of third-party payment instruments in fiscal years 1997, 1998 and 1999, we reviewed documents related to NTSB use of the Rapidraft Payment System, General Services Administration (GSA) Government Purchase Card regulations, and an informal survey by the department of the Treasury's Financial Management Service (FMS) on Chief Financial Officer (CFO) agencies' use of imprest funds and third party payment instruments as replacement for them. We also reviewed background materials describing third party payment systems offered by various service providers. We held discussions with Treasury, GSA, and other agency officials. We developed and pretested a survey questionnaire, and developed a population of entities to receive the survey using GAO's fiscal year 2001 *Compendium of Budget Accounts*<sup>3</sup> to identify those entities that obligated over \$10 million in federal funds in fiscal year 1999. We did not verify either the quantitative data or comment information provided by respondents. We conducted our work in compliance with generally accepted government auditing standards. We performed our work from June through December 2000.

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We are sending copies of this letter to Representative John M. Spratt, Jr., Ranking Minority Member of the Committee on the Budget and Representative Ken Bentsen, Ranking Minority Member on the Housing and Infrastructure Task Force. The letter will also be available on GAO's home page at <http://www.gao.gov>.

If you have any questions about this letter or the briefing, please contact me at (202) 512-9508 or John Reilly, Assistant Director at (202) 512-9517. Key contributors to this assignment were Patt Summers, Don Campbell and Mike Vu.



Linda Calbom  
Director, Financial Management and Assurance

Enclosure

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<sup>3</sup>*Compendium of Budget Accounts: Fiscal Year 2001* (GAO/AIMD-00-143; April 2000).

**Briefing to the House Committee on the Budget**



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Survey Results on the Use of Third Party Payment  
Instruments by Government Entities

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Briefing to the House Committee on the Budget

December 12, 2000



## Contents

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- Objectives
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- Scope and Methodology
- Survey Results



## Objectives

- The Chairman of the House Committee on the Budget and the Chairman of the Subcommittee on Housing and Infrastructure Task Force asked us to conduct a survey for fiscal years 1997, 1998 and 1999 to identify:
  - Which government entities used third party payment instruments.
  - The number of third party payment instruments issued.
  - The total dollar value of third party payment instruments issued.
  - The purposes for which these third party payment instruments were issued.
  - Whether government entities using third party payment instruments have basic internal controls in operation.



## Background

- Third party payment instruments can take the form of either a draft or a convenience check. Both forms of payment are blank-form checks provided to a government employee for use in paying authorized mission-specific, mission-related, and/or administrative expenses.
  - Third party draft checks represent check writing privileges arranged through agency contracts with financial institutions known as service providers.
  - Convenience checks represent check writing privileges provided via options available under the General Services Administration's (GSA) Government Purchase Card Program.
- Pursuant to a Treasury policy directive, these third party payment instruments may be used when payment by government check, purchase card, or electronic funds transfer is not feasible or possible.



## Scope and Methodology

- In order to obtain the requested information, we
  - Reviewed background materials -- Documents related to NTSB use of the Rapidraft Payment System, GSA Government Purchase Card regulations, Treasury/FMS informal survey on imprest funds usage at CFO agencies and the use of third party payment instruments to replace imprest funds.
  - Held discussions with Treasury, GSA, financial service providers, as well as other agency officials.
  - Developed and pre-tested a survey questionnaire to obtain the requested information on third party payment.





**Scope and Methodology  
(cont.)**

- In preparing and administering our survey, we developed a population of entities to receive the survey.
  - We used GAO's FY 2001 Compendium of Budget Accounts to select those entities that obligated more than \$10 million in federal funds in fiscal year 1999.
  - For purposes of this survey, we refer to the population as "government entities" based solely on their receipt of more than \$10 million in funds from the federal government in FY 1999.
  - We excluded the House, Senate, and Judicial branch entities.



**Scope and Methodology  
(cont.)**

- We sent the survey to 89 entities and received responses from 86.
  
- Of the 86 respondents,
  - 75 submitted entity-wide responses.
  - 11 submitted a total of 103 separate responses covering individual components e.g., departments, bureaus, agencies and/or regional offices.
  - We compiled the component responses for each of the 11 entities into a single response. Where entity components provided differing responses, we determined the entity-wide response based on the majority of responses received.



**Scope and Methodology  
(cont.)**

- We reviewed and tabulated the 86 entity responses received.
  - We did not verify either the quantitative data or comment information provided by respondents.
  - We conducted our work in compliance with applicable provisions of generally accepted government auditing standards.
  - We performed our work between June and December, 2000.



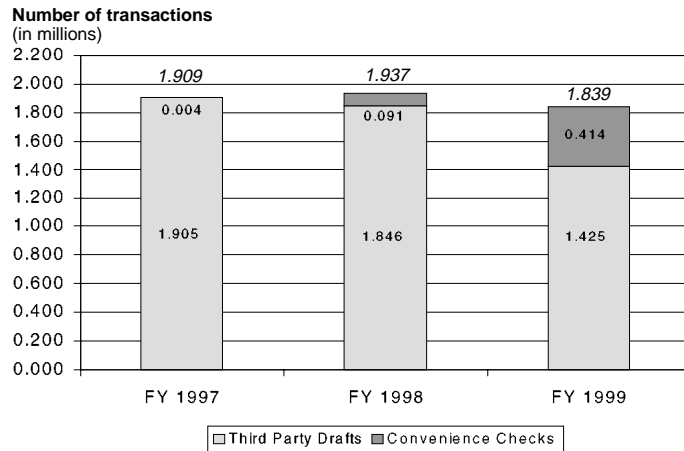
### Usage of Third Party Instruments

- 40 of the 86 entities reported that they used third party payment instruments at some time during fiscal years 1997 through 1999. (See Attachment I for a listing of the 40 entities.)
- 46 of the 86 entities reported that they did not use third party instruments at any time during fiscal years 1997 through 1999. (See Attachment II for a listing of the 46 entities.)



### Survey Results (cont.)

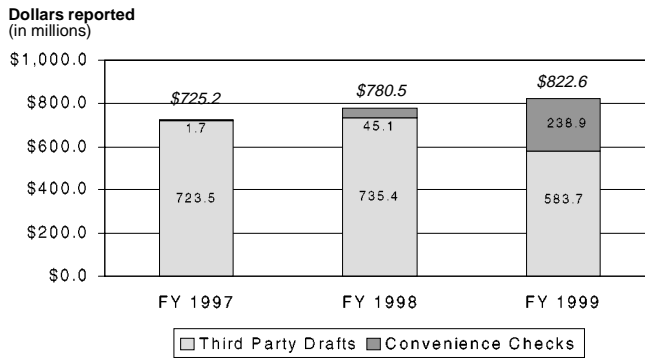
For the 40 entities that reported using third party instruments, the number of payment transactions declined 3.7 percent from 1.91 million in FY1997 to 1.84 million in FY1999.





### Survey Results (cont.)

For the 40 entities that reported using third party instruments, the total dollar amounts increased 13.4 percent from \$725.2 million in FY1997 to \$822.6 million in FY1999.





## Survey Results (cont.)

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- For those entities who reported transactions and dollar data in their survey response, the number who reported using third party payments in 1999 (36) was almost twice the number who reported using third party payments in 1997 (19).
- Over the three year period from FY 1997 through FY 1999, the average dollar amount of each payment increased from \$380 to \$447, for a total increase of 17.6%



## Survey Results (cont.)

- The 40 entities cited a variety of reasons -- often more than one -- for using third party payment instruments. The most common reasons reported were:
  - To pay for small purchases for supplies and services (32 entities).
  - To pay contractors that either could not or would not accept government checks, EFTs, or credit card payments (31 entities).
  - To make emergency payments (25 entities).
  - To provide immediate reimbursement for out-of-pocket expenses (25 entities).
  - As an alternative to disbursing a cash advance (21 entities).





**Survey Results (cont.)**

- In response to survey questions about whether entities have basic internal controls over the use of third-party payment instruments, the 40 entities reported management monitoring and review activities as follows.

- Third-party payment activities monitored in some way
  - At least annually
- Employee use monitored and/or reviewed
- Service provider payment process monitored and/or reviewed
- Written policies or guidance established

	Yes	No
	40	0
	23	—
	39	1
	33	7
	32	8



**Survey Results (cont.)**

- In response to a list of 9 potential internal controls that might be employed to manage and control third party payments, entities reported those that applied to their use, as follows.

- Number of employees authorized to use third party payments was restricted.
- Specific dollar limits set on individual payment amounts.
- Required authorization signatures.
- Required the submission of supporting documentation.

Yes	No
40	0
37	3
37	3
37	3



## Survey Results (cont.)

- Timely recording of payments in accounting records.
- Independent review and inspection of supporting documentation for each payment.
- Timely reconciliation of payments processed by service provider to internal accounting records.
- Sequential numbering of payment instruments.
- Segregation of incompatible duties associated with using and handling payment instruments.

Yes	No
36	4
35	5
35	5
34	6
30	10



## Survey Results (cont.)

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- 4 entities offered other internal controls they employed, that were not listed in the survey.
- As noted in the Scope and Methodology, we did not verify each responding entity response to these questions.

**Briefing Attachments**

*Attachment I*

*Attachment I*

***Entities That Reported Using Third Party Payment Instruments  
in FY 1997, FY 1998, and/or FY 1999***

***Entity***

African Development Foundation  
Commodity Futures Trading Commission  
Corporation for National and Community Service  
Court Services and Offender Supervision Agency  
Defense Nuclear Facilities Safety Board  
Environmental Protection Agency  
Equal Employment Opportunity Commission  
Export-Import Bank of the United States  
Farm Credit Administration  
Federal Deposit Insurance Corporation  
Federal Emergency Management Agency  
Federal Labor Relations Authority  
Federal Maritime Commission  
Federal Mediation and Conciliation Service  
General Services Administration  
Institute of Museum and Library Services  
Merit Systems Protection Board  
National Endowment for the Humanities  
National Science Foundation  
National Transportation Safety Board  
Nuclear Regulatory Commission  
Office of Personnel Management  
Small Business Administration  
Social Security Administration  
Tennessee Valley Authority  
U.S. Department of Agriculture  
U.S. Department of Commerce  
U.S. Department of Defense  
U.S. Department of Education  
U.S. Department of Energy  
U.S. Department of Health and Human Services  
U.S. Department of Interior  
U.S. Department of Justice  
U.S. Department of Labor  
U.S. Department of State  
U.S. Department of the Treasury  
U.S. Department of Transportation  
U.S. Department of Veterans Affairs  
U.S. International Trade Commission  
United States Holocaust Memorial Museum

***Total***

40

***Entities That Reported That They Did Not Use Third Party Payment Instruments in FY 1997, FY 1998, and/or FY 1999***

***Entity***

- American Battle Monuments Commission
- Appalachian Regional Commission
- Architect of the Capitol
- Broadcasting Board of Governors
- Congressional Budget Office
- Denali Commission
- District of Columbia Government
- Executive Office of the President - Office of Administration
- Farm Credit System Financial Assistance Corporation
- Federal Communications Commission
- Federal Election Commission
- Federal Housing Finance Board
- Federal Retirement Thrift Investment Board
- Federal Trade Commission
- Government National Mortgage Association
- Inter-American Foundation
- Legal Services Corporation
- Library of Congress
- National Aeronautics and Space Administration
- National Archives and Records Administration
- National Credit Union Administration
- National Endowment for the Arts
- National Labor Relations Board
- Neighborhood Reinvestment Corporation
- Office of Navajo and Hopi Indian Relocation
- Overseas Private Investment Corporation
- Panama Canal Commission
- Peace Corps
- Pension Benefit Guaranty Corporation
- Presidio Trust
- Railroad Retirement Board
- Securities and Exchange Commission
- Selective Service System
- Smithsonian Institution
- St. Lawrence Seaway Development Corporation
- U.S. Agency for International Development
- U.S. Consumer Product Safety Commission
- U.S. Department of Housing and Urban Development
- U.S. General Accounting Office
- U.S. Government Printing Office
- U.S. Soldiers' and Airmen's Home
- U.S. Tax Court
- U.S. Trade and Development Agency
- United States Capitol Police
- United States Institute of Peace
- United States Postal Service

**Total    46**

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