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Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

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August 13, 2001

Mr. Richard Gregg  
Commissioner  
Financial Management Service  
Department of the Treasury

Subject: Internal Controls: Federal Disbursement Controls Can Be Strengthened

Dear Mr. Gregg:

We recently reported on the U.S. government's consolidated financial statements for fiscal year 2000.<sup>1</sup> In connection with fulfilling our requirement to audit these statements,<sup>2</sup> we tested certain internal controls over federal disbursements processed by the Department of the Treasury's Financial Management Service (FMS). With some exceptions (the largest being the Department of Defense), FMS makes disbursements for all federal agencies through its Austin, Chicago, Kansas City, Philadelphia, and San Francisco Regional Financial Centers and the Birmingham Debt Management Operations Center.<sup>3</sup> For fiscal year 2000, FMS reported processing approximately 890 million disbursements totaling over \$1.2 trillion.

The centers disburse funds by check, electronic fund transfer (EFT), or Fedwire.<sup>4</sup> FMS reported that these disbursements for fiscal year 2000 included approximately 265 million checks amounting to over \$265 billion, approximately 625 million EFTs amounting to over \$720 billion, and approximately 47,000 Fedwires amounting to over \$275 billion. The centers also process Automated Standard Application for Payments (ASAP) system enrollments.<sup>5</sup> FMS reported that federal agencies authorized payments of over \$254 billion in fiscal year 2000 using the ASAP system.

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<sup>1</sup>U.S. Government Financial Statements: FY 2000 Reporting Underscores the Need to Accelerate Federal Financial Management Reform (GAO-01-570T, March 30, 2001).

<sup>2</sup>31 U.S.C. 331(e) (1994).

<sup>3</sup>FMS informed us subsequent to fiscal year 2000 that the Chicago Financial Center ceased operations.

<sup>4</sup>Fedwire is a telecommunications network that electronically links FMS to the Federal Reserve Bank of New York and handles low-volume, high-dollar-value, or same-day payment requests.

<sup>5</sup>The ASAP system, jointly implemented by FMS and the Federal Reserve Bank of Richmond, is an electronic payment and information system. Under this system, once enrolled, an organization can draw federal funds from bank accounts preauthorized by federal agencies.

As part of their disbursement process, the centers also perform claims and various accounting functions. The claims function primarily relates to crediting funds back to the requesting agencies in cases in which disbursements have been canceled or returned.

The purpose of this letter is to communicate the results of our follow-up work on previously recommended improvements and corrective actions taken to address such recommendations. In addition, this letter communicates the results of our fiscal year 2000 testing and related recommendations for improving to controls over (1) safeguarding of assets and (2) processing and documenting delegation and designation of agency certifying officers.<sup>6</sup> Although the internal control matters are not material in relation to the federal government's fiscal year 2000 consolidated financial statements, they warrant your attention.

### **Results in Brief**

Our fiscal year 2000 testing disclosed that FMS' and the centers' corrective actions resolved weaknesses reported for fiscal year 1999 relating to (1) controls over checks awaiting destruction and returned checks, (2) segregation of duties for the ASAP system, (3) documenting agency certifying officer's signature verification, (4) the authorized signature for return of canceled Fedwire disbursements, and (5) reconciling courtesy disbursements.<sup>7</sup> In addition, FMS had completed corrective actions during fiscal year 2001 to address weaknesses relating to employment screening practices that were reported for fiscal year 1999. But these actions were not complete as of the end of fiscal year 2000.

Our fiscal year 2000 testing of manual controls and procedures indicated the following weaknesses related to the safeguarding of vulnerable negotiable assets at the centers tested that increase the risk of fraud and unauthorized disbursements.

- Similar to fiscal year 1999, FMS' employment screening practices for the three centers tested did not adequately mitigate risk of employees accessing negotiable assets and related records. Specifically, these centers permitted new employees to access sensitive areas or related records before the results of their fingerprint checks were received and reviewed. In addition, FMS did not perform periodic background investigation updates on all employees with access to negotiable assets and related records. During fiscal year 2001, FMS released policies and procedures relating to fingerprint/background checks and periodic background updates. If effectively implemented, these procedures should address this weakness.

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<sup>6</sup> *Internal Controls: Disbursement Processing Controls Need Improvement* (GAO/AIMD-00-236R, August 7, 2000). In addition, on December 7, 1999, we issued a Limited Official Use report to you detailing the results of our review of controls relating to physical access and segregation of duties and reconciliation of blank check stock.

<sup>7</sup> A courtesy disbursement is a replacement benefit check issued by FMS at the request of an agency when the intended recipient notifies the agency that he/she has not received a benefit check.

- Similar to fiscal year 1999, certain FMS staff at the three centers tested had inappropriate access to blank check stock and one or more key check disbursement processing areas, resulting from physical access and segregation of duty vulnerabilities at the centers. Subsequent to our site visits at the centers tested, in September 2000 FMS released its revised *Field Operations Manual* (FOM) procedures relating to physical access and segregation of duties. The FOM contains FMS' operating procedures for use by the centers. If effectively implemented, these procedures should address this weakness.
- Similar to fiscal year 1999, we found that there was no FOM requirement to, and the three centers tested did not, physically reconcile all blank check stock issued to, but not yet used by, the print operators with the related control records daily. Subsequent to our site visits at the centers tested in September 2000, FMS released its revised FOM procedures and in fiscal year 2001 released supplemental procedures relating to reconciliation of blank check stock. If effectively implemented, these procedures should address this weakness.
- Similar to fiscal year 1999, we found that there was no FOM requirement to, and the three centers tested did not, physically reconcile all blank check stock issued to, but not yet used by, the print operators with the related control records daily. Subsequent to our site visits at the centers tested in September 2000, FMS released its revised FOM procedures and in fiscal year 2001 released supplemental procedures relating to reconciliation of blank check stock. If effectively implemented, these procedures should address this weakness.
- The center responsible for processing ASAP return payments did not have a control in place that required an independent review of the process of returning credit to a particular organization's authorized funds available to draw. During fiscal year 2001, the center modified its internal guidelines to address this issue. If effectively implemented, these procedures should address this weakness.

Our fiscal year 2000 testing also indicated internal control weaknesses relating to FMS' Administrative Service Branch's (ASB) processing and documenting of delegation and designation of agency certifying officers that increase the risk of unauthorized disbursements. Specifically, our testing disclosed the following.

- While there is a form to document the head of agency (HOA) self-delegation verifications, ASB personnel did not routinely document the HOA self-delegation verifications.
- ASB personnel did not routinely document system overrides of designations of authority to designate certifying officers. In addition, ASB did not routinely perform supervisory reviews of these overrides or ensure that documentation to support the validity of such overrides was received from the affected agencies.

FMS informed us that it had corrective actions in progress during fiscal year 2001 to address these weaknesses. Specifically, FMS issued formal written procedures in

June 2001 relating to HOA self-delegation verifications and system overrides. If effectively implemented, these procedures should address this weakness.

This year, we are recommending that FMS management monitor the implementation and effectiveness of the procedures established during fiscal year 2001 to strengthen controls over the reconciliation of blank check stock, processing and documenting HOA self-delegation verifications, and documenting system override designations. In addition, for those other matters on which FMS and the center took corrective actions, we are recommending that FMS follow up to ensure effective implementation of such control procedures.

### **Scope and Methodology**

As part of fulfilling our requirement to audit the U.S. government's fiscal year 2000 financial statements, we performed tests of manual controls and procedures over the delegation and designation of disbursing authority for certifying officers; the processing of check, EFT, and Fedwire disbursements; ASAP system enrollments; and examination/observation of selected claims and accounting for various disbursement transactions. In addition, we reviewed certain hiring practices, physical access controls, job responsibilities, and reconciliation of blank check stock at the centers where we performed testing.<sup>8</sup> For fiscal year 1997, the first year we reported on the U.S. government's financial statements, we statistically selected samples of transactions and tested the internal controls relating to delegation and designation controls for certifying officers and check, EFT, and Fedwire disbursements. We also performed nonstatistical internal control tests for ASAP system enrollments and for claims activities and accounting functions, as it was more efficient to test these through nonstatistical methods. The internal control matters we found were not material in relation to the U.S. government's consolidated financial statements. As a result, for subsequent fiscal years including fiscal year 2000, testing was primarily limited to follow-up on FMS actions to address the matters identified in our prior reports and to reconfirm the existence and functioning of the manual controls and procedures originally tested.

In fiscal year 2000, we initiated a rotational testing approach. Under this approach, we planned to perform specific transaction and control tests at three centers, every 2 years. Thus, for fiscal year 2000, for the three centers we selected specific disbursement processing steps to evaluate the corrective actions, if any, on recommendations made in our previous reports. Given the nonstatistical manner of selecting items, the results of this work are not projectable. For the centers for which specific transaction and control tests were not performed, we primarily limited our work to inquiry related to prior year recommendations.

To reconfirm the existence and functioning of manual controls and procedures at the three selected centers, we also performed nonstatistical testing of transactions on

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<sup>8</sup>This testing was limited to center staff members and check processing areas "key" to the disbursement process.

days during fiscal year 2000 that the centers processed large volumes/dollars of disbursements. We examined selected documentation, performed physical observations, and held discussions with FMS and center officials and staff relating to (1) the delegation and designation of certifying officers, (2) check, EFT, and Fedwire disbursement transactions, (3) ASAP system enrollments and return payment processing, (4) various processes related to claims and accounting, (5) employment screening practices, (6) physical access and segregation of duties, and (7) reconciliation of blank check stock. We selected transactions processed from October 1, 1999, through July 31, 2000. The results of this testing are not projectable.

We reviewed FMS' FOM, which contains a framework for the operating procedures to be used by the centers. We also considered the standards for internal control in the federal government.<sup>9</sup> These standards state that internal control is a major part of managing an organization and provide an overall framework for establishing and maintaining such controls. The standards include the plans, methods, and procedures for organizations to use to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. We performed our audit work in accordance with U.S. generally accepted government auditing standards from August 2000 through June 2001. The Commissioner of FMS provided written comments, which are discussed in the "Agency Comments" section of this letter and reprinted in enclosure I.

### **Controls Over Safeguarding of Assets Can Be Strengthened**

We found internal control weaknesses that increase the risk of possible fraud, theft, and misuse of vulnerable negotiable assets and could result in unauthorized disbursements. These weaknesses related to (1) FMS' employment screening practices for the centers, (2) physical access and segregation of duties, (3) reconciliation of blank check stock, and (4) processing of ASAP return payments.

The internal control standards state that appropriate hiring practices are critical in an effective control environment. The standards also require the following.

- An agency must establish physical control to secure and safeguard vulnerable assets. In this regard, such assets should be periodically counted and compared to control records.
- Access to resources (such as blank check stock) and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. To achieve this, periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

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<sup>9</sup>*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999). These standards are issued by the Comptroller General pursuant to 31 U.S.C. 3512 (c), (d), commonly referred to as the Federal Managers' Financial Integrity Act.

- Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and handling the related assets (such as blank check stock) need to be divided or segregated among different people to reduce the risk of error or fraud.

### Employment Screening Practices

As a result of our fiscal year 1999 work, we recommended that FMS develop and implement uniform policies and procedures requiring, at a minimum, initiation of fingerprint background checks prior to the start date of new employees and prohibiting new employees from accessing negotiable assets and related records until the results of the fingerprint checks are received and reviewed.<sup>10</sup> In addition, we recommended that FMS develop and implement policies and procedures for periodic background investigation updates for employees who occupy positions with access to vulnerable negotiable assets or related records. At the time of our fiscal year 2000 testing, FMS informed us that it had an effort under way to address these issues. However, these issues were not addressed by the end of fiscal year 2000.

At the three centers we tested, for the employees occupying job positions with access to negotiable assets and related records, our review disclosed the following.

- Similar to the results of our fiscal year 1999 review, we found that FMS' Security Branch, the entity primarily responsible for certain employment screening practices, did not have uniform policies and procedures in place for the centers to follow that (1) required fingerprint background checks prior to the start dates of new employees and (2) prohibited new employees from accessing negotiable assets and related records until the results of their fingerprint checks were received and reviewed. During our fiscal year 2000 testing, unlike the prior year, the documentation reviewed for each of the two new employees for the three centers indicated that fingerprint background checks of new employees were initiated prior to the employees' start dates. But none of these centers prohibited new employees from being assigned access to negotiable assets and related records until the results of fingerprint checks were received and reviewed.
- Similar to the results of our fiscal year 1999 review, we found that FMS' Security Branch did not require or perform periodic background investigation updates on all employees with access to negotiable assets and related records.

Effective hiring practices, which can mitigate the risk associated with personnel occupying job positions that an agency considers sensitive, include completion of fingerprint checks on prospective employees prior to their start dates, prohibiting their assignment to sensitive job positions until the results of fingerprint checks are received and reviewed, and conducting periodic background investigation updates.

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<sup>10</sup> *Internal Controls: Disbursement Processing Controls Need Improvement* (GAO/AIMD-00-236R, August 7, 2000).

Without effective hiring practices, the potential risk of employee theft, fraud, and misuse of negotiable assets is increased.

During fiscal year 2001, FMS issued policies and procedures relating to fingerprint background checks and periodic background investigation updates. FMS' Security Branch, which organizationally reports to the Assistant Commissioner for Management, is responsible for issuing and implementing policies and procedures for FMS' security program. FMS' Regional Operations (RO) is responsible for the centers' policies and procedures documented in the FOM. As a result, Management and RO issued policies and procedures relating to (1) initiation of fingerprint checks prior to the start dates of new employees, (2) background investigation updates, and (3) prohibiting new employees from being assigned access to negotiable assets and related records until the results of fingerprint checks are received and reviewed. If these procedures are properly implemented and monitored, FMS will increase its ability to (1) more quickly identify potential risks with employees and improve safeguarding of negotiable assets and (2) better assess the risks associated with potential changes to employees' financial and/or personal circumstances.

#### Physical Access and Segregation of Duty Controls

As a result of our fiscal year 1999 work, we recommended that FMS revise the FOM to include comprehensive, specific requirements for physical access and segregation of duty controls within the key check disbursement processing areas at the centers. Approximately 2 weeks before the end of fiscal year 2000, FMS issued FOM guidance relating to physical access and segregation of duty controls. According to the FOM guidance, due to the financially sensitive nature of the disbursing business, it is necessary to maintain a high level of integrity and security throughout the process. Further, according to this guidance, there are a number of tools and techniques that can and will be used to maintain a high level of integrity and security. These tools and techniques can be used individually or in combination to achieve such integrity and security.

The guidance is also intended to be flexible due to differences in the physical configurations and organizational structures of the centers. Furthermore, it allows the centers to request written waivers if they cannot implement any of the requirements outlined in the guidance. We found that the guidance required, for example, physically restricting certain staff members' access to one key check disbursement processing area. In instances in which staff members have access to more than one key check disbursement processing area, the guidance suggests using dual controls,<sup>11</sup> cameras, and other compensating controls to mitigate the associated risks.

Furthermore, according to the guidance some staff members' job responsibilities required access to more than one area. During fiscal year 2000, at the three centers tested, we found situations in which certain staff members had access to more than

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<sup>11</sup>Dual control is a control technique requiring at least two individuals to perform an operation.

one key check disbursement processing area. For example, at two centers we found that staff members called “universal/super operators” were assigned the duties and responsibilities of check printing and check wrapping.<sup>12</sup> Such duties and responsibilities created a segregation of duty vulnerability and allowed the same staff members to have access to both the blank check stock and the signed printed checks. Without adequate physical access and segregation of duty controls or adequate compensating controls, the risk of error or fraud increases. However, with proper implementation and monitoring, including the use of compensating controls such as those described in the guidance, FMS increases assurance that the risk of fraud and unauthorized disbursements is reduced.

### Reconciliation of Blank Check Stock

As a result of our fiscal year 1999 work, we recommended that FMS revise the FOM to replace the requirement for daily review of the check numbers used with a requirement for the check custodians to physically reconcile all blank check stock issued to, but not yet used by, the print operators with the related control records daily. During our fiscal year 2000 audit, we found that there was no FOM guidance requirement to, and the three centers tested did not, physically reconcile all blank check stock issued to, but not yet used by, the print operators with the related control records daily. Performing this daily reconciliation will help assure that all blank check stock issued to, but not yet used by, the print operators is accounted for. In the latter part of fiscal year 2000, FMS issued FOM guidance requiring that two independent staff members at each center perform daily reviews of all unused checks issued to, but not yet used by, the print operators. Additionally, FMS issued supplemental procedures to the centers during fiscal year 2001. If properly implemented and monitored, FMS increases assurance that unauthorized check disbursements are detected promptly.

### Controls Over Processing ASAP Return Payments

During the course of our fiscal year 2000 physical observation of return payment processing, we found that the one center that processes ASAP return payments did not have a mechanism in place requiring an independent review of the processing of “Classification/Reclassification” ASAP return payments. Under the ASAP system, once enrolled, an organization can draw funds from bank accounts preauthorized by federal agencies. Although ASAP enrollments are processed by the three centers we tested, only one center processes ASAP return payments. There are two types of return payments: “Reversals”—the return of payments back to a financial institution—and “Classifications/Reclassifications”—the return of credit back to a particular organization’s authorized funds available to draw. “Classifications/Reclassifications” returns often occur because a duplicate draw was made in error by the organization. Without an independent review of the processing of “Classification/Reclassification” return payments, FMS lacks assurance that such payments are processed properly

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<sup>12</sup>Wrapping duties entail operating the machines that sign the checks and inserting the signed checks in envelopes for mailing.

and that credit was properly returned to the organization that initiated the original draw.

During our fiscal year 2000 audit, we notified the center's management of this condition. During fiscal year 2001, the center modified its internal operating guidelines for processing return payments and implemented procedures for handling ASAP "Classifications/Reclassifications" return payments. With proper implementation and monitoring, FMS increases assurance that ASAP "Classification/Reclassification" payments are processed properly and that credit is properly returned to the initiating organizations.

### **Internal Controls Over Processing and Documenting Delegation and Designation of Agency Certifying Officers Can Be Strengthened**

We found internal control weaknesses at FMS' ASB relating to documenting (1) HOA self-delegation verifications and (2) system overrides of designations of authority to designate certifying officers. In addition, ASB does not perform a supervisory review of these overrides or ensure that documentation to support the validity of such overrides is received from the affected agencies. If ASB does not fully document its delegation and designation verifications and ensure that system overrides are documented, subjected to supervisory review, and supported by documentation, FMS lacks adequate assurance that the disbursements it processes on behalf of various federal agencies are properly authorized.

The internal control standards require, in part, the following.

- Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to both managers and employees.
- Qualified and continual supervision should be provided to ensure that internal control objectives are achieved. In addition, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.
- Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination and should appear in management directives, administrative policies, or operating manuals.

### **Documenting HOA Self-Delegation Verifications**

Our review at ASB of authorization documentation of four certifying officers identified one instance in which ASB failed to adequately document its HOA self-delegation verification. ASB informed us that in this instance, during its verification process, it called the agency to verify the identity of the HOA. However, ASB did not document the action taken on the form already in existence for this purpose. Additionally, ASB informed us that it does not routinely document the use of the

*Federal Yellow Book*<sup>13</sup> or contacts with agencies, which are used when alternate procedures are needed to verify the HOA. As a result, FMS lacks adequate assurance that the identity of the HOA was verified.

The authority to expend agency funds and to certify the disbursement of such funds resides with the heads of federal agencies. The *Treasury Financial Manual* (TFM), Volume I, Part 4, Chapter 1100, Section 1120, defines HOA to mean the head of an executive agency—that is, department secretaries and agency administrators and commissioners. It can also include bureau heads and agency and/or bureau chief financial officers. The HOA makes this authority known to FMS through a process known as self-delegation. In Volume I, Part 4, Chapter 1100, Section 1135, the TFM requires that the HOA submit to FMS a self-delegation using Form FMS 2958, Delegation of Authority, along with a self-designation letter bearing the agency's official seal. Upon receipt, FMS verifies the designation and returns a copy of the Form FMS 2958 to the HOA. FMS uses these documents as a basis for validating all subsequent delegations and designations from that agency head to lower-level agency officials.

During our fiscal year 2000 audit, we notified ASB of our concern about its not documenting HOA self-delegation verifications. During fiscal year 2001, FMS issued formal written procedures requiring documentation of the HOA delegation verification. With proper implementation and monitoring, FMS increases assurance that the disbursements it processes on behalf of various federal agencies are properly authorized.

#### Documenting System Override Designations

Our review at ASB of authorization documents of four certifying officers' disbursement authority found that ASB allowed the designation of one individual even though the designator's delegation of authority had expired. To complete processing of the certifying officer's designation, an ASB administrator overrode the Digital Signature and Storage Verification (DSSV) system and did not document this override. Further, this override was not subjected to supervisory review, and documentation to support its validity was not subsequently received from the affected agency. Additionally, ASB informed us that it does not document system overrides of designations of authority to designate certifying officers. Further, ASB does not ensure that documentation to support the validity of such overrides is received from the affected agencies. The DSSV system is used to store and validate the digital signatures of various agency officials. Because the designation of certifying officers is a critical step in ensuring that only authorized individuals are granted the ability to certify agency disbursements, system overrides should be documented, subjected to qualified and continual supervision, and supported by valid agency documentation. Without such controls, FMS lacks adequate assurance that only authorized agency personnel can certify disbursements.

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<sup>13</sup>The *Federal Yellow Book* is a leadership directory of federal departments and agencies that lists individuals such as the heads of agencies.

Volume I, Part 4, Chapter 1100, Section 1140m of the TFM requires that designation authority be given to individuals responsible for exercising this authority for the HOA. Such delegations must be for specific authorities as noted on FMS Form 2958/2958A. Delegations of designation authority are valid for a 2 years after the effective dates, unless revoked earlier. Delegations not renewed by their expiration dates will become void as of those dates and no further designations/delegations will be accepted from the individuals. Once a delegation expires, a new delegation must be submitted to reinstate that individual. In Volume I, Part 4, Chapter 1100, Section 1145, the TFM requires that the designating official must have a valid FMS Form 2958 on file with FMS in order to designate certifying officers for the agency. Certifying officers are individuals to whom authority to approve disbursement of agency funds has been delegated, by a properly authorized designating official.

During our fiscal year 2000 audit, we notified ASB of our concern about not documenting system overrides. During fiscal year 2001, FMS issued formal written procedures requiring supervisory approval of system overrides. In addition, the procedures require that these actions be fully documented by the DSSV operator and reviewed by the DSSV supervisor. With proper implementation and monitoring, FMS increases assurance that only authorized agency personnel can certify disbursements.

### **Conclusion**

We found that certain corrective actions have been taken to address both prior years' and the new internal control weaknesses we identified as part of the fiscal year 2000 financial audit. In the areas of reconciliation of blank check stock, documenting HOA self-delegation verifications, and documenting system override designations, controls should be strengthened to reduce the risk of unauthorized disbursements if the corrective actions taken are effectively implemented.

### **Recommendations**

To ensure effective implementation of actions taken to address the disbursement internal control weaknesses we identified, we recommend that the Commissioner of FMS direct the Assistant Commissioner for Regional Operations to monitor efforts relating to

- the centers' adherence to FOM policies prohibiting new employees from being assigned access to negotiable assets and related records until the results of fingerprint checks are received and reviewed;
- the centers' adherence to FOM policies regarding physical access and segregation of duties relating to key check disbursement processing areas;
- the centers' adherence to FOM revision requiring a daily review of blank check stock issued to, but not yet used by, the print operators;
- the center's processing of ASAP "Classification/Reclassification" return payments;

- ASB's adherence to written procedures requiring documentation of the HOA self-delegation verifications; and
- ASB's adherence to written procedures requiring (1) supervisory approval of system overrides of designations of authority to designate certifying officers, (2) documentation of system overrides, and (3) performance of a supervisory review of these actions.

To ensure effective implementation of actions taken to address the remaining disbursement internal control weaknesses from our prior year audits, we recommend that the Commissioner of FMS direct the Assistant Commissioner for Management to monitor efforts relating to

- the Security Branch's policies and procedures requiring initiation of fingerprint background checks prior to the start dates of new employees and
- the Security Branch's policies and procedures requiring periodic background investigation updates for employees in positions that require access to vulnerable negotiable assets or related records.

### **Agency Comments**

In commenting on a draft of this report, FMS concurred with our assessment that the risk of unauthorized disbursements will be reduced if its corrective actions to address the internal control issues identified are effectively implemented. In this regard, FMS stated that it had initiated a comprehensive review program to ensure that all corrective actions are being followed.

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This letter contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Governmental Affairs and the House Committee on Government Reform within 60 days of the date of the report. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the letter.

This letter is intended for use by Treasury's management and the Inspector General. We are sending copies of this letter to the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs and the House Committee on Government Reform, the Director of the Office of Management and Budget, and the Fiscal Assistant Secretary and Inspector General of the Department of the Treasury. Copies will also be made available to others upon request.

If you have any questions regarding this letter, please contact me at (202) 512-3406.  
Key contributors to this assignment are listed in enclosure II.

Sincerely yours,

A handwritten signature in black ink that reads "Gary T. Engel". The signature is written in a cursive style with a large, looped "G" and "E".

Gary T. Engel  
Director  
Financial Management and Assurance

Enclosures

**Comments From the Financial Management Service**



DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

August 2, 2001

Mr. Jeffrey C. Steinhoff  
Assistant Comptroller General for Accounting  
and Information Management Issues  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Steinhoff:

Thank you for the opportunity to review your draft audit report, Internal Controls: Federal Disbursement Controls Can Be Strengthened - GAO-01-910R, dated July 2001.

As you have noted, the Financial Management Service has taken corrective actions to address the internal control issues identified as part of the FY 2000 financial audit. We concur with your assessment that the risk of unauthorized disbursements will be reduced if these actions are effectively implemented.

In this regard, we have initiated a comprehensive review program to ensure that all corrective actions are being followed. Since implementing the program in July 2000 we have reviewed 13 separate disbursement processes. Reviews have been conducted at all four Regional Financial Centers and the Birmingham Debt Management Operations Center. We will continue the program over the course of the next fiscal year. We have also implemented policies and procedures to ensure that adequate background investigations are administered timely for those employees who have access to negotiable assets.

I believe that the review program, in addition to our comprehensive internal controls, will serve to further strengthen the integrity of our disbursement process.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Gregg".

Richard L. Gregg

cc: Donald V. Hammond

Enclosure II

**GAO Staff Acknowledgments**

Brian Huchro, Laurie King, Yola Lewis, and Jon Ling made key contributions to this letter.

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