John W. Lainhart IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515–9990

MEMORANDUM

TO: Scot M. Faulkner
Chief Administrative Officer

FROM: John W. Lainhart IV John W. Lainhart IV
Inspector General

DATE: July 18, 1995

SUBJECT: Audit Report - Problems Plagued The House's Financial Operations (95-CAO-16)

This is our final report on the performance audit of Office of Finance. The objective of the audit was to assess opportunities to increase efficiency and effectiveness of operations. In this report, we identified opportunities for savings in the Office of Finance operations, primarily through improved internal controls and efficiencies. We have made recommendations for corrective actions.

In response to our June 28, 1995 draft report, your office concurred with our findings and recommendations. The July 11, 1995 formal management response provided by your office is incorporated in this final report and included in its entirety as an appendix. The corrective actions already completed adequately respond to the recommendations. Those actions currently being implemented or planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations.

We appreciate your office's positive response and concurrence with the recommendations, and the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Craig W. Silverthorne at (202) 226-1250.

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Oversight
Ranking Minority Member, Committee on House Oversight
Members, Committee on House Oversight

PROBLEMS PLAGUED THE HOUSE'S FINANCIAL OPERATIONS

Report No. 95-CAO-16
July 18, 1995

RESULTS IN BRIEF

CONCLUSIONS

Accounting policies, methods and the financial management system in the Office of Finance (Finance) did not meet routine financial management standards followed by private industry or other Federal government agencies. Finance accounted for the House's operations almost exclusively on a cash basis, with inconsistent and incomplete cost allocation. This meant that Finance tracked when the House received cash and when it spent cash, but not what liabilities or debts it had incurred or what assets it owned. As a result, the House was limited in planning or making informed decisions on the cost effective use of resources and in providing accountability for its financial resources to the public.

We estimated that the elimination of the duplicate and manual tasks in Finance could save, at least, $500,000 per year. Finance focused its efforts on processing transactions such as paying vendors and employees, collecting receipts, and recording financial activity. These processes were paper driven, labor intensive, and full of redundancies. Finance’s staff recorded and input information multiple times. Often key information was never captured. Staff performed manual and redundant processes because: (1) automated systems were poorly designed and outdated; (2) responsibility for financial management was diffuse; and (3) Finance was never held accountable to operate economically or efficiently.

The House did not always check for funds availability before it ordered goods and services, or wrote payroll checks to employees. This practice increased the risk of overspending funds authorized by appropriations. The House was vulnerable to overspending because the House lacked policies governing timely recording of obligations and expenditures.

In the fiscal year (FY) ended September 30, 1994, Members spent over $14 million more than had been appropriated for their allowances. This overspending resulted primarily from a convoluted budget process.

The House's controls and policies surrounding official travel expenses were ineffective. As a result, many Members and staff were paid twice for some travel costs, and government-furnished charge cards were frequently delinquent. Ineffective enforcement of the travel expense policies, liberal deadlines for submitting travel claims, and deficiencies in the financial management system contributed to duplicate payments and delinquencies.

Members and House officers requested 700 retroactive salary adjustments from October 1, 1993, through December 31, 1994. A retroactive salary adjustment is a request to change someone's salary for time already worked, going back at least one month. The Committee on House Administration approved these requests, which resulted in the payment of an extra $530,000 in salaries during the 15 months we reviewed. Providing retroactive salary adjustments was an inequitable way to pay people because it circumvented the normal payroll process, enabling some employees to receive what amounted to bonuses or severance pay that was not generally available to all House employees.

Finance overpaid terminated employees and employees whose salaries had been lowered, by $299,000 during the audit period. In addition, the House distributed 3,400 supplemental paychecks, amounting to $1.8 million, to correct transactions that were submitted to Finance past the deadline for submitting salary changes. Overpayments and supplemental payments occurred because offices submitted salary changes after the published deadline, and Finance paid employees on the last day of the month for work completed during that month.

RECOMMENDATIONS

We recommend that the Chief Administrative Officer (CAO) develop proposals, for approval by the Committee on House Oversight, to: (1) implement as soon as possible an integrated financial management system that complies with the Joint Financial Management Improvement Program guidance, and incorporates and is coordinated with the efforts and needs of other CAO offices; (2) implement accrual basis accounting, and accounting principles and standards generally accepted in the Federal government and private sector; (3) implement a cost accounting system that properly allocates or attributes costs to end users; (4) provide staff with training on the new financial management system and standard accounting methods; (5) redesign internal and external management reports based on user requirements; (6) redesign and streamline Finance processes; (7) develop a system for measuring the Finance Office’s performance that is integrated with the financial management system; (8) institute budget controls to obligate or reserve funds before ordering goods and services and verify that funds are available before they are obligated; (9) provide information to Members, committees, and House offices on how much money they have spent versus what they were budgeted; (10) align the appropriation for Member allowances with the amounts Members are authorized to spend; (11) refine budget formulation procedures to develop budgets by individual Member that are reflective of their actual spending patterns, and that appropriately consider full cost allocation of goods and services provided by the CAO; (12) combine all three allowances into one to save Members and Finance the time and effort currently used to process transfers among the allowance accounts; (13) make available to the public information about the amount of each Members' allowance and how much of it was spent, as a means of achieving greater public accountability; (14) initiate an in-depth evaluation of Finance records of the five Members who appear to have overspent their FY 1994 allowances, and take appropriate actions as warranted; (15) require travel vouchers to be filed within 30 business days of completing travel; (16) stop paying the Members' and staff's charge card bills for them, and instead, require that Members and staff pay their own bills and then seek reimbursement from Finance; (17) initiate an in-depth evaluation of travel vouchers that are missing original receipts to determine whether the House has already paid those costs; (18) end the practice of granting exceptions to rules, procedures, and guidelines; (19) initiate an in-depth review of Finance, Member, and staff records of the 2,220 pairs of potentially duplicate travel payments and take appropriate action, as warranted; and implement computer analyses to review potential duplicates on an ongoing basis; (20) enforce the rules in the *Congressional Handbook* and prohibit retroactive salary adjustments; (21) enforce *Congressional Handbook* rules and require Members, committees, and House offices to submit Payroll Authorization Forms on time; (22) do away with the "real-time" payroll and institute a lag between the end of the pay period and the date the payroll is processed and paychecks are distributed; (23) assign responsibility to Finance for pursuing collection of salary overpayments if the employing office's efforts prove unsuccessful after one month; and (24) if the decision is made to contract for payroll processing, use competitive bidding.

MANAGEMENT RESPONSE

On July 11, 1995, the Office of the CAO fully concurred with the findings and recommendations in this report. As part of their system of continuous improvement, the CAO indicated that: (1) a system conforming to Joint Financial Management Improvement Program requirements will be implemented and will be coordinated with other House offices; (2) the new system scheduled for implementation October 1, 1995, will be on an accrual basis in accordance with generally accepted accounting principles; (3) will incorporate cost accounting features; (4) staff members' training needs are being evaluated concerning the new system; (5) the new system will have a report writer feature that will help design reports to meet user needs; (6) proposals will be made to the Committee on House Oversight for new, fully integrated payroll and financial systems; (7) performance measures will be instituted for the Finance Office; (8) the purchase of an automation system allowing on line verification of funds availability is being reviewed; 9) reports, showing current and year to date expenditures, budget, projected expenditures, and available balances, are being tested; (10) the amounts appropriated for Members' various expenses should be aligned with the Members' allowances; (11) the full cost allocation of goods and services provided by the CAO has been approved and Members will be asked to prepare detailed budgets; (12) individual allowances for Members will be combined (13) a review is underway to determine how to make more information available to the public; (14) an in-depth evaluation has been initiated regarding the apparent overspending by five Members and controls will be implemented to prevent this from occurring again; (15) the stricter requirements proposed regarding filing of travel vouchers will be included in the new *Congressional Handbook* currently being drafted; (16) a proposal was sent to the Committee on House

Oversight requiring Members and staff to pay their own charge card bills and then seek reimbursement from Finance; (17) this proposal also includes a policy of one voucher per trip and one trip per voucher which, if adopted, would make it more difficult to submit duplicate items; (18) the Chairman (designate) of the Committee on House Oversight and the Chairman of the Transition Team have issued guidelines stating that "The regulations in the *Congressional Handbook* will be applied, without exception to all offices..."; (19) a reminder will be sent and periodic training provided on the proper use of the government-furnished charge cards; (20) a review of the duplicate travel payments will be initiated and an automated review and analysis system to detect duplicate travel payments will be started with the new financial system; (21) the no exception rule is being enforced relative to retroactive salary adjustments; (22) the Office of Finance will immediately begin to enforce deadlines on the submission of Payroll Authorization Forms; (23) a system which incorporates a lag between the end of a pay period and the date payroll is processed and checks distributed will be included in the payroll options proposed to the Committee on House Oversight; (24) a proposal will be made to the Committee on House Oversight that Finance be responsible for pursuing collection of salary overpayments if the employing office's efforts are unsuccessful; and (25) competitive bidding will be followed.

OFFICE OF INSPECTOR GENERAL COMMENTS

The CAO's completed, current, and planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of all our recommendations.

TABLE OF CONTENTS

TRANSMITTAL MEMORANDUM

RESULTS IN BRIEF i

I. INTRODUCTION

Background 1

Objective, Scope, And Methodology 1

Internal Controls 3

Prior Audit Coverage 3

II. FINDINGS AND RECOMMENDATIONS

Finding A: Archaic Accounting Policies, Methods, Practices, And Systems Contributed To Poor Financial Management 4

Finding B: Finance Operated In An Outdated, Inefficient, And Paper Driven Environment 9

Finding C: Poor Funds Control Put The House At Risk Of Overspending Its Appropriations 15

Finding D: Deficiencies In Budgeting, Monitoring And Accounting For Member Allowances Increases Risk Of Overspending And Impairs Accountability 17

Finding E: Ineffective Controls And Policies Related to Travel Reimbursement And Government-Furnished Charge Cards 24

Finding F: The Committee On House Administration Approved $530,000 In Retroactive Salary Adjustments 30

Finding G: Payroll Policy And Late Submissions Added To Manual Processing And Led To $299,000 In Overpayments To Employees 34

III. APPENDICES

Appendix A: CAO Management Response To Audit Report 38

Appendix B: Examples Of Performance Goals And Targets Used In Finance Organizations 42

I. INTRODUCTION

Background

The Office of Finance (Finance) is responsible for managing the financial resources of the House of Representatives and certain Joint House-Senate activities. During the audit period, Finance was organized in seven functional areas:

- **Audit** - The Audit Department processed expense vouchers, provided counseling on compliance and regulations for Member allowances, and monitored Members' official expense allowance status.
- **Budget** - The Budget Department consolidated and managed the budget process and helped offices prepare justification schedules to support actual expenditures, budget authority, and estimates.
- **Administration** - Administration managed and coordinated various activities including processing travel cards, tracking inventory, and buying small quantities of office supplies for Finance. It also supported Finance with reception and clerical services.
- **Accounting** - The Accounting Department processed financial transactions, maintained accounting records, including ledgers, and prepared financial reports for internal and external users.
- **Payroll -** The Payroll Department processed employee payroll transactions, counseled employees on payroll matters, compiled payroll information, and monitored the status of Members' clerk hire allowances.
- **Member Services** - Administered Member payroll and benefit programs. It developed and maintained Members' benefit programs, calculated tax deductions, advised Members on benefit programs, and prepared reports and documentation.
- **Benefits** - The Benefits Department administered the Federal employees benefits program, maintained the system to store employee personnel records, and coordinated efforts to compile and disseminate employee benefit data to meet reporting requirements.

Objective, Scope, And Methodology

The objective of the performance audit of Finance was to assess opportunities to increase efficiency and effectiveness of operations. The audit was conducted for the period of

October 1, 1993 through December 31, 1994, and audit work was performed during March through May 1995. The audit addressed:

- Accounts Payable/Disbursements.
- Accounts Receivable/Cash Receipts/Deposits.
- Time and Attendance/Payroll.
- General Ledger/Financial Reporting.
- Budget Formulation.

We excluded activities of the Benefits Department and Member Services. The Benefits Department was excluded because it is now part of Human Resources, which was the subject of a separate performance audit. Member Services was excluded because activities performed by Member Services were audited separately by the Office of Inspector General (OIG). Findings from these audits are published in other OIG reports.

The scope of this performance audit was to:

- Analyze the processes performed by the departments.
- Review relevant policies and procedures.
- Compare Finance processes to similar functions performed in other Federal and private sector organizations.
- Review best practices in other organizations and identify opportunities to improve Finance functions.
- Review Finance staff job descriptions.
- Analyze Finance staff time distributions across activities.
- Test for compliance with policies and procedures.

A fringe benefit rate of 29.55 percent is used, as prescribed by Office of Management and Budget (OMB) Circular A-76 for Executive Branch cost-benefit calculations. This Circular sets government-wide standards for comparing government costs to those of private vendors. Finance calculated two different fringe benefit rates, depending on an employee's retirement program. For all of our analyses, we use a 29.55 percent fringe benefit rate.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls

Our review of internal controls related to Finance was limited to determining that a performance measurement system to assess the efficiency and effectiveness of operations was not in place, as discussed in Finding B. We did not evaluate any other internal controls in Finance operations because such controls were already covered by the financial statement audit and another OIG audit of Members' payroll.

Prior Audit Coverage

The General Accounting Office (GAO) conducted financial audits of the House Finance Office's fiscal years ended September 30, 1991, 1992, and 1993 Statement of Accountability for Appropriations and Other Funds. GAO issued an unqualified opinion based on the results of these audits.

In addition, the OIG reported weakness associated with the House Information Systems (HIS) in the *Proposed New Financial Management System Will Not Meet the House's Needs And Should Be Terminated (Report No. 95-CAO-02)*. This review evaluated the functional adequacy of the proposed FMS and the system development life cycle procedures that were utilized in the development of the system. This report recommended that the system be terminated and also made recommendations to improve the systems development practices within the HIS as well as provide better management oversight. The Chief Administrative Office (CAO) agreed to terminate the new Financial Management System (FMS) system and to make the management improvements recommended, and is taking actions to correct these deficiencies identified.

II. FINDINGS AND RECOMMENDATIONS

Finding A: Archaic Accounting Policies, Methods, Practices, And Systems Contributed To Poor Financial Management

Accounting policies, methods and the financial management system in Finance did not meet routine financial management standards followed by private industry or other Federal government agencies. Finance accounted for the House's operations almost exclusively on a cash basis, with inconsistent and incomplete cost allocation. This meant that Finance tracked when the House received cash and when it spent cash, but not what liabilities or debts it has incurred or what assets it owned. As a result, the House was limited in planning or making informed decisions on the cost effective use of resources and in providing accountability for its financial resources to the public.

In the private sector and in many Federal government organizations, accounting methods and techniques are designed to capture and report information long before cash is exchanged. This provides decision-makers with more timely and relevant information concerning financial resources and costs of operations. These methods are known as accrual or obligations-based accounting and cost accounting. They enable organizations to record and track everything they own, everything they owe, all that they earned, and all that they spent.

Comprehensive guidance for establishing financial management systems like that needed by the House is provided by the Joint Financial Management Improvement Program (JFMIP), an interagency task force that promotes sound financial management in the Federal government. The guidance stipulates functional system requirements for managing financial transactions and reporting. Its central focus is an integrated systems environment with a standard general ledger and accrual-based accounting. If Finance and HIS had established the House's financial management system in accordance with JFMIP's "Framework for Federal Financial Management Systems" and "Core Financial System Requirements," Finance would have been better able to implement standard accounting practices and provide House decision-makers with understandable and reliable financial information. In fact, every troubled Finance function discussed below is addressed by JFMIP and could be improved by adopting its system standards. Implicit in adopting these new system standards, is the need to train financial personnel in them, and in the latest accounting principles and practices that will apply to them. Training is particularly important for the House's Finance personnel, since adoption of these new system standards and accounting principles will constitute a considerable change from present practices.

Finance did not record, classify, or summarize financial transactions appropriately

Most Federal agencies and private sector entities use a comprehensive, accrual-based general ledger to accumulate and summarize transactions and to prepare internal and external financial reports. Financial reports provide information for employees to manage their operations cost-effectively and inform the public of the organization's financial condition. The general ledger is the central control function of a financial management system. OMB Circular A-127 requires a Federal agency's general ledger to include a complete and comprehensive chart of accounts. The chart of accounts provides the overall organization to the general ledger similar to a book's table of contents. Even though OMB standards do not apply to the House, this is a well accepted standard in the Federal government and private sector entities. The general ledger should include all financial transactions in its asset, liability, equity, budgetary, revenue, and expense accounts.

Finance's ledger did not summarize accrual or obligation-based transactions by asset, liability, equity, budgetary, revenue, and expense accounts. It recorded financial transactions as cash receipts or expenditures in its FMS and paper ledgers. The existing accounting process was, in concept, a large checkbook, limited to keeping a running balance of cash received and cash disbursed.

Furthermore, Finance did not summarize financial resource data for effective decision making. Because transactions were recorded as cash receipts or disbursements, accounting records and financial reports lacked complete information on accounts receivables, inventory, equipment, budgetary authority, furniture and furnishings, and accounts payable. For example, Finance could not easily report money invested in property or equipment. Consequently, managers responsible for making decisions about purchasing, leasing, repairing or warehousing such items did not understand the full implication of their decisions. Also, officials were not alerted to needed policy or vendor contract changes that may have been evident through review of customary financial exception and summary reports pertaining to property and equipment.

Finance did not recognize revenues when earned or expenditures when incurred

Typically, financial transactions are recorded in the general ledger when financial events occur. By law (31 U.S.C. 3512), financial transactions must be recognized when cash is exchanged, a benefit (revenue) is earned, or debt (expenditure) is incurred for benefits received. This is the accrual basis of accounting; it is mandated for Federal agencies, and is an appropriate standard for the House to follow.

Contrary to the requirements for Federal agencies, Finance recognized and recorded financial transactions only when cash was exchanged. It recorded revenue when cash was received and expenditures when cash was paid. Finance did not record a debt (liability) when benefits were received or when legal title passed. For example, when individual offices received materials ordered from a vendor, Finance did not record an amount for the materials received, or a liability for the money it owed the vendor.

As a result, Finance did not always have assurance that sufficient funds would be available to pay liabilities that had been incurred and not yet paid. As of September 30, 1994, Finance had not recorded at least $41 million in expenditures that had been incurred but not yet paid. Thus, by understating expenditures, Finance risked a deficiency in funds.

Furthermore, Finance could not readily or easily identify its debtors or creditors, nor did it know amounts owed to or by the House. For example, we found that receivable information was maintained in manual systems by individual offices, and that such information was not summarized and given to Finance. Ignorance of debtors, debts, creditors, and collections limited Finance’s ability to determine who was owed money from the House, how much money was owed, who owed money to the House, and how much was owed. Without this information, Finance was limited in planning or budgeting for expenditures and receipts.

Finance did not allocate the cost of operations consistently or completely

The costs to run the House were not fully attributed to the final user. Fully allocating or attributing costs to the end user induces decision-making that is more sensitive to balancing quality and cost. Cost accounting, allocation and distribution provide an approach for measuring the total cost of performing an activity. This is achieved by attributing all financial resources used for an activity to the cost of performing the activity. For example, cost accounting allocates all costs, including overhead costs of space, utilities, and maintenance to the organizational unit that incurred them. This, in turn, allows organizational units to transfer or recoup these costs from others, to the extent they sell or provide goods and services to them.

The House was organized into several different offices performing various functions for the Members and committees. Many of these offices charged only a portion of their costs--or none of their costs--to the Members, committees, and other offices that used their services. Costs not charged to Members, committees, or other users were made up through appropriations. For example:

- Office of Systems Management's policies allowed Members to choose whether to incur the full cost of computer equipment in the year it was purchased or to spread that cost over three years.
- Office of Telecommunications paid vendors' bills for telecommunications services, but charged only a portion of those costs to the Members who used those services.
- The Folding Room folded and sorted Members' mass mailings to constituents, but did not charge Members for those services.

This lack of consistency in charging costs to the final user within the House obscures the true cost of supporting the Members, committees, and other House offices. Because these offices are not held accountable for the cost of many of the goods and services they use, little incentive exists for them to use those goods and services efficiently. As a result of not knowing the true costs of running offices, the House managers were not able to make informed decisions for day-to-day operations and long-range planning.

Finance did not produce reports with sufficient management information

A typical finance office provides managers and employees with timely, accurate, and understandable financial reports, which form the basis for effective financial decision-making. However, Finance prepared few financial reports, and those it produced contained limited information. Monthly statements of expenses produced through FMS were distributed to Members, committees, and other offices by Finance. The reports listed expenditures and were only useful for reconciling expenditures recorded by Finance to the offices' own records. The report did not classify expenditures by type or present comparative data that would help in planning and controlling costs. Finance also provided a Personnel Certification Report to the offices. This report included a list of employees and their associated monthly payroll costs. However, the report did not give offices a breakdown of hours worked by employee or employee leave status since this information was not required to be reported to Finance.

Other financial reports consisted of monthly reports to the Department of the Treasury (Treasury) and OMB, as well as the Quarterly Clerk's Report for the public. The monthly reports to Treasury and OMB summarized the House's expenditures and receipts for the month. The Quarterly Clerk's Report detailed and summarized all disbursements and receipts by Member, committee, and office. Typically, the report listed over 90,000 items per quarter. The report's usefulness was limited because its sheer volume made it difficult to read, much less analyze, and because it did not summarize data for the House as a whole or accumulate data for more than one quarter. Neither did the report place data in context by comparing it to another period or to a budget, or reconciling it to available money.

The financial reports did not provide the House or the public with meaningful or relevant information to make prudent decisions about resource planning, or to assess the performance of the House and individual offices. The House of Representatives' Customer Satisfaction Survey reported sixty-seven percent of Members, committees and offices did not receive financial performance reports needed to make decisions.

Recommendations

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Ensure that the integrated financial management system, which the CAO already committed to implement, complies with JFMIP requirements and is coordinated with the efforts and needs of other House offices.

2. Implement accrual basis accounting and accounting principles and standards generally accepted in the Federal government and the private sector.

3. Implement a cost accounting system that properly allocates or attributes costs to end users.

4. Provide staff with training on the new financial management system and standard accounting methods.

5. Redesign internal and external management reports based on user requirements.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix A.) As indicated in the response, a system meeting JFMIP requirements will be implemented October 1, 1995 and will be coordinated with other House offices to ensure their needs are met. The new system will be on an accrual basis in accordance with generally accepted accounting principles and will incorporate cost accounting and allocation features. Currently staff members' training needs are being evaluated and will be met before and during implementation of the new system as appropriate. In addition, this new system will have a report writer feature that will help design reports to meet user needs. Prototypes of some reports are being tested with users.

Office of Inspector General Comments

The CAO's current and planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Finding B: Finance Operated In An Outdated, Inefficient, And Paper Driven Environment

The way Finance receives, processes, and summarizes financial data and information is dominated by manual, and often redundant tasks. Finance focused its efforts on processing transactions such as paying vendors and employees, collecting receipts, and recording financial activity. These processes were paper driven, labor intensive, and full of redundancies. Finance's staff rerecorded and re-input information multiple times. Often key information was never captured. We estimated that the elimination of the duplicate and manual tasks could save, at least, $500,000 per year. Staff performed manual and redundant processes because: (1) automated systems were poorly designed and outdated; (2) responsibility for financial management was diffuse; and (3) Finance was never held accountable to operate economically or efficiently.

Public and private sector finance departments are eliminating duplicative transaction processing and streamlining their financial management functions. Almost without exception, organizations the size of the House have eliminated manual information systems and have substantially curtailed paper-intensive processes. Every attempt is made to encourage single data entry, data capture at the source, limited reconciliation, and automated support. Our experience indicates that an organization re-engineering its finance functions can expect a 10 to 30 percent improvement as measured by a variety of indicators. These indicators include cost, the number of staff, the length of time to process transactions, and the number of tasks and activities it takes to complete a process.

Cumbersome processes were the norm

Finance's method of handling certain deposits, known as certificates of deposit[1] (CDs) was typical of a paper driven process. A CD was the paper form Finance used to record basic information about certain types of cash receipts. In our review of Finance's cash receipts processing, we found the same data was recorded 10 times in various manual and automated systems. Each CD passed between different staff Members five times. CDs were sent from the Audit to the Accounting department merely to have a data input clerk add an appropriations code. If a CD was walked through its current process without stopping, it would take approximately 100 minutes to process. However, due to the hand-offs between staff members and the fact that CDs sat in in-baskets, Finance took, an average of seven days to process each transaction.

Redundant data entry and duplicate systems were widespread

[1]Certificate of Deposit is a Finance term to describe a cash receipt that is not to be deposited in a revolving fund account and that needs additional information to process. It is considered a proof of deposit, and should not be confused with the same term used to describe a financial instrument.

Information and data were rerecorded in multiple ways, multiple systems, and multiple databases. The same information and data were entered and reentered into 10-key adding machines, FMS terminals, PC spreadsheets, and posted manually 5 to 10 times per transaction. For example, when deposits were made by House offices, the dollar amount was recorded in manual and automated systems seven times for general cash receipts and 10 times for CD receipts. Likewise, when vouchers were submitted to Finance, data was rerecorded at least 10 times. Similar expense information was input and tracked by the Audit, Accounting, and Budget Departments. Staff from each of these departments input the same data into their own computer systems. They manually tracked this information and produced reports.

Manual, paper-based methods were used

Finance posted information manually to its various ledgers. It used the same source documents to manually post information to FMS, to the manual voucher register, and to the Cash Receipts and Deposit Journal. By the time the documents reached the Accounting Department to be recorded in the general ledger, the same information had been recorded or inputted 5 to 10 times. In addition to manual, paper-intensive methods of data entry, some of the ledgers were themselves manual, paper-based media. More than 500 subsidiary ledger cards and 100 general ledger cards were manually maintained on a monthly basis. In order to ensure quality control, each month the ledgers were compared with reports generated from FMS. Any differences resulted in the review of up to 600 ledger cards in order to identify recording errors. Paper-based methods of recording and summarizing information, and of assessing the accuracy of data entered elsewhere, are extremely outdated and inefficient techniques that should be replaced with modern, automated tools.

Manual calculations and rework often occurred

We timed key payroll functions and estimated that the Payroll Department spent more than 20 percent of its time on manual calculations and rework. Because the payroll portion of FMS calculated government benefit contributions incorrectly, the payroll staff manually calculated them. They also manually tracked year-to-date payroll expenditures for each office and for all employees paid with vouchers. FMS did not maintain up-to-date payroll records that reflected handwritten checks and refunds due to overpayments. Because FMS was not easily updated to reflect true payroll costs, payroll counselors manually reconciled payroll amounts. The Payroll Department developed numerous PC spreadsheets because the payroll component of FMS did not allow for on-line, ad hoc reports. Information from FMS was manually reentered into the spreadsheets.

Within Finance, we also reviewed the interaction between the Budget and Accounting Departments with regard to how each classified expenditure information. It is standard practice for Federal agencies to use an OMB prescribed common set of codes to classify expenditures by type. By using the same codes, agencies can more easily track and compare budget, accounting, and financial management information. Although overlaps occurred in the information needs of the Budget and Accounting Departments, they used two separate methods to classify expenditures. The Budget Department used a set of seven to nine codes that were high-level categories of how funds were spent. The Accounting Department, on the other hand, used more detailed codes to accommodate data entry into FMS. But no mechanism existed to integrate or reconcile the two coding methods. Instead, staff manually compared accounting transactions to budget records. This process was time consuming and Finance was unable to assemble timely information about budget versus actual expenditures.

The deficiencies of FMS, and a lack of confidence Finance staff had in its database, led to the development and extensive use of manual processes and systems that allowed the office to record and track information. Because these processes are paper driven and labor intensive, they caused lengthy delays and they used valuable staff time. Individual employees were responsible for processing only part of any one transaction. Each time a piece of information is moved from one employee to another and rerecorded in a manual or automated system, an opportunity was created to introduce delay and error in the final outputs. Reconciliation steps to check data between the manual and automated systems have been created throughout the office. Despite multiple tracking and processing steps, errors still occurred. During the audit period, nearly 600 erroneous checks, overpayments, or duplicate checks were produced totaling $260,000.

We performed a time distribution analysis on the percentage of time Finance's staff spent on each financial function during Calendar Year (CY) 1994. We analyzed each function and estimated what activities could be streamlined or eliminated with re-engineering and the implementation of a comprehensive financial management system. For this analysis we assumed Finance's staff would continue to be responsible for data input--a distributed, integrated financial management system would result in even greater improvements. An integrated financial management system should streamline or eliminate manual tasks saving at least $500,000, per year, in staff salaries and benefits.

Development of financial systems was poorly coordinated

The House lacked a single, integrated financial management system with the right features to process its daily work. Each department developed manual processes to track and utilize information because the financial system did not adequately perform the functions for which it was designed. Moreover, little emphasis was placed on developing a viable infrastructure for information systems within the House. An abundance of "home grown" systems existed throughout the House, and within Finance, and these systems could not communicate with one another. Finance's Departments routinely interact with Member, committee, and administrative offices throughout the House, and a tremendous amount of extra work was created because these entities could not communicate electronically. Lack of coordination resulted in process delays and inefficient use of staff who manually record and input the same data multiple times. The CAO's Office has recently announced the OFFICE 2000 initiative, which will link and integrate the databases, computers and communication services available to House members and staff. For example, a Member's office could complete a payroll authorization on screen and forward it to the Finance Office computer system for immediate processing.

Finance's inefficient processes evolved as a result of FMS's weaknesses. The HIS staff did not correct the weaknesses because their attention was focused on developing an entirely new automated financial management system. However, in the more than nine years spent on this project, little coordination existed between the HIS and Finance. Consequently, the CAO concluded that the new system would not meet the House's financial management information needs. Work on developing the system has been stopped, and the House has committed to implementing a new FMS either by buying off-the-shelf software or by contracting out its transaction processing work. (See Report No. 95-CAO-02.)

Finance lacked performance measures

In addition, Finance did not have a system to measure the performance of its processes or employees. Since it did not define or collect data necessary to assess its own performance, it had little information about how its activities contributed to House efficiency and effectiveness. Also, Finance did not know how its performance compared with similar entities, or how its performance improved or worsened over time.

Performance measures provide essential information to management by enabling activities to be monitored on a regular basis, at several levels within the organization. They provide information for changing strategy when policies, management practices, and methods are evaluated. They also provide a basis for staff appraisal. Performance measurement is a continuous process that must keep pace with new knowledge, organizational change, and advances in technology. Correcting operational weaknesses may result in establishing new objectives and devising new measures of progress. The main steps involved in designing a performance measurement system are described in **Figure 1**.

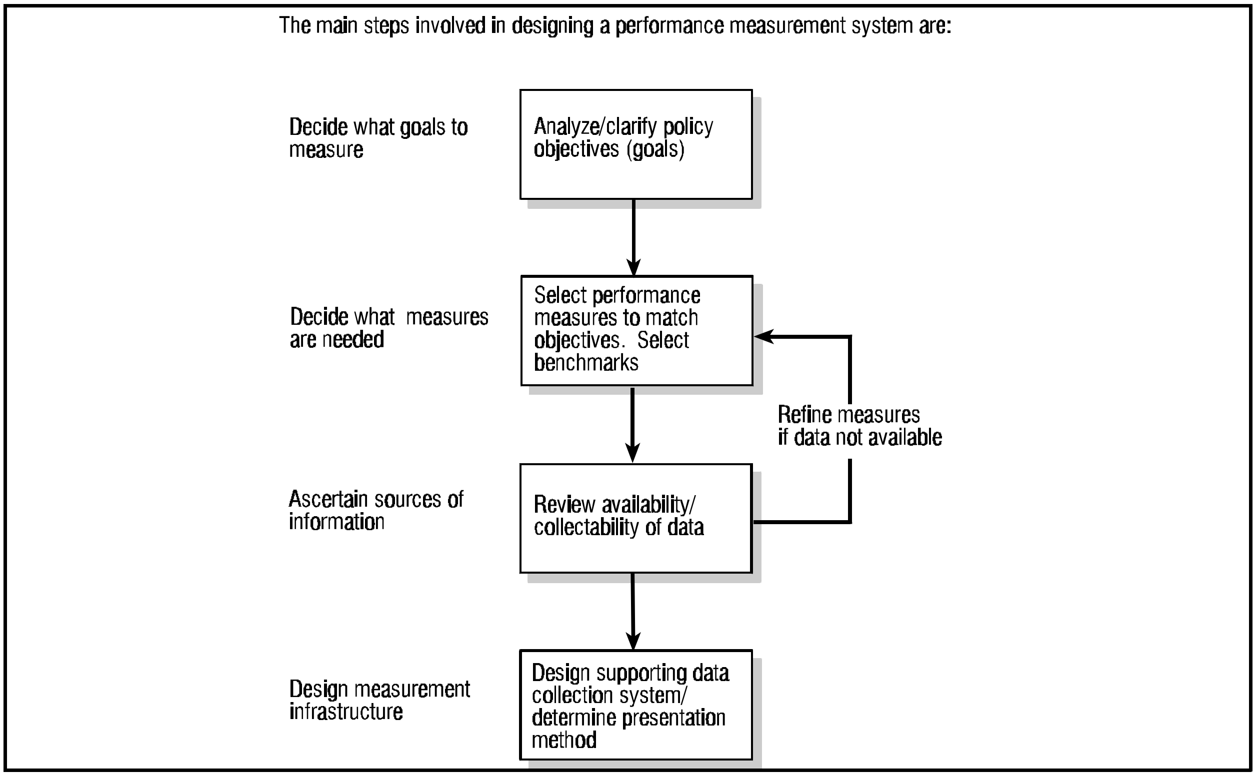

Figure 1 - Designing Performance Measures

Appendix B provides examples of measures and best practices that pertain to financial operations of the House and should be considered by management in running Finance.

Recommendations

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Take advantage of the implementation of the new financial management system to redesign and streamline Finance processes. For example, by integrating payroll, general ledger, and funds control, the House can eliminate much of the work Finance performs in entering transactions more than once and reconciling manual and automated systems.

2. As a means of enhancing accountability, develop a system for measuring Finance's performance that is integrated with the financial management system.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix B.) As indicated in the response, proposals will be made to the Committee on House Oversight at its July meeting for new, fully integrated payroll and financial systems. This integration will eliminate redundant entries and the need to reconcile the automated and manual systems. Performance measures will be instituted for every division and process in the Office of Finance and for individual employees beginning August 1 and should be completed December 31, 1995. These measures will establish production, performance and customer satisfaction goals which reflect the capabilities of the new systems.

Office of Inspector General Comments

The CAO's planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Finding C: <u>Poor Funds Control Put The House At Risk Of Overspending Its Appropriations</u>

The House did not always check for funds availability before it ordered goods and services, or wrote payroll checks to employees. This practice increased the risk of overspending funds authorized by appropriations. The House was vulnerable to overspending because the House lacked policies governing timely recording of obligations and expenditures.

Federal agencies are required to track in their general ledgers, when goods or services are ordered such that funds received through the budget process can be set aside or "obligated." In fact, a common control for most government organizations is to check for the availability of funds before a good or service is ordered, and not at the time a bill is presented for payment. This reduces the risk that funds will be insufficient or already committed for other purposes. As an additional control against overspending, the Antideficiency Act (Public Law 97-58, enacted on September 13, 1982) precludes "any officer or employee of the United States Government from making or authorizing obligations or expenditures under any appropriation or fund in excess of the amount available." The House's general counsel has advised us that the House is not subject to the Antideficiency Act. The lack of a control mechanism, such as the Antideficiency Act, to enforce compliance with budget limitations weakens overall budgetary control.

Finance used the current FMS to record expenditures and produce checks to pay providers of goods and services and employees. FMS had the capability to check funds availability before recording expenditures and issuing payments to providers of goods and services. However, the House did not use this feature of FMS. In addition, Finance did not rely on FMS for verifying payroll fund balances, because fund balances were not updated in FMS throughout the month with payroll adjustments. As a result, Finance issued paychecks without having FMS verify available fund balances.

Because the House did not manage its finances proactively, Finance did not know how much the House was committing to and whether it was in danger of not having enough funds to cover expenditures. Finance’s budget and system controls did not provide an infrastructure to reserve and limit funds to those authorized. The House was particularly vulnerable to overspending appropriations for Members' allowances, as discussed in Finding D.

Finance lacked sufficient procedures to ensure voucher and payroll disbursements were under budgetary control. It did not:

- Obligate or otherwise reserve funds before the House ordered goods or services
- Check funds availability before the House ordered services and products

Recommendations

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Institute budget controls to obligate, or reserve, funds before ordering goods and services and verify that funds are available before they are obligated.

2. Provide information to Members, committees, and other House offices on how much money they have spent versus what they were budgeted.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix A.) The response stated that the purchase of an automation system allowing on line verification of funds availability is being reviewed and should be implemented before October 1, 1996. In the interim, control will be instituted in CAO offices and the new monthly reports, as discussed herein, will assist Members, committees and other offices. These new reports, showing current and year to date expenditures, budget, projected expenditures, and available balances, are being tested with some Members and committees. Full implementation is expected November 1, 1995.

Office of Inspector General Comments

The CAO's current and planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Finding D: Deficiencies In Budgeting, Monitoring, And Accounting For Member Allowances Increased Risk Of Overspending And Impaired Accountability

For the FY ended September 30, 1994, Members spent over $14 million more than had been appropriated for their allowances. This overspending resulted primarily from a convoluted budget process.

Members are subject to two different types of limitations on what they can spend on staff salaries, office operations, and franked mail. These are the *appropriations* for the fiscal year, which ends on September 30, and the *allowances* for the session, which runs January 3 through January 2. The annual appropriations are legal limitations on Members' spending, as the appropriations are enacted into law in the annual Legislative Branch Appropriations Act. The appropriations represent funds legally set aside in the U.S. Treasury to pay for the personnel, office, and mailing costs of the Members. The appropriation limits apply to the House as a whole; there are no separate accounts at Treasury for individual Members. In contrast, each Member is subject to individual allowance limits on spending for Clerk Hire, Official Expenses, and Official Mail. These are internal, administrative limitations, and in 1994 they were set by the Committee on House Administration. It has been the House's practice to set the appropriations for Clerk Hire, Official Expenses, and Official Mail significantly lower than the sum of the individual Members' allowances. For example, the FY 1994 appropriation for Official Mail was $40 million, but the sum of all the Members' 1994 Official Mail Allowances was $72 million; the appropriation for Clerk Hire was $225 million, while the sum of allowances was $246 million; and the appropriation for Official Expenses was $77 million, while the sum of allowances was $86 million.

The appropriations were set with the expectation that many Members would not spend the full amounts of their allowances. Thus, the amount of any individual Member's unspent allowance does not represent funds available to be returned to the Treasury. Even if Members collectively spend less than had been appropriated, those unspent funds could be "reprogrammed," or made available for spending, on other items rather than returned to the Treasury. Thus, for example, $2.8 million of the unspent FY 1993 appropriation for Official Mail was reprogrammed to cover other FY 1993 costs. This approach to appropriating less than Members' aggregate allowances creates the risk that Members--who manage with the expectation that they can spend up to the amount of their allowances, instead of to some other amount of which they are not made aware--collectively will overspend the appropriations while individually staying within their allowances. **Figure 2** summarizes the key differences between the appropriations and the allowances for Members' spending.

	Member Appropriations	**Member Allowances**
What is it?	This is how much money is legally set aside in the U.S. budget to pay for aggregate personnel, office, and mailing costs of the Members. It is the amount of funds available at the Treasury to pay for those costs.	This is how much money the Committee on House Administration told each Member he or she could spend by type of expenditure.(It is similar to an authorization for an Executive Branch agency.)
Is there money at the U.S. Treasury for it?	Yes, for the House as a whole. However, Members do not have individual Treasury accounts. The overall Treasury account is maintained by Finance, which pays Members' payrolls and bills.	No. In fact, the sum of all the Members' allowances is greater than the funds available at the Treasury to pay the Members' payrolls and bills.
How is it monitored?	Finance uses information about amounts already spent to determine how much money remains available at Treasury. It does not estimate Members' spending to project funds' availability. It does not inform Members' offices of the impact of their spending on the House's appropriations.	Finance provides Members information about their spending to date in relation to their allowances. Members manage their spending with the goal of staying within their allowance limits.

Figure 2 - Comparing Member Appropriations And Member Allowances

Figure 3 shows that Members collectively spent less than their full allowances in FY 1994. However, **Figure 4** shows that the Members' total spending on Clerk Hire, Official Expenses, and Official Mail exceeded the appropriations. In the aggregate, the appropriation was exceeded by $14.2 million. To cover this excess spending, the House provided additional appropriations authority by reprogramming $11.6 million from other FY 1994 appropriations and $2.6 million from unused appropriations left over from prior years (FYs 1991 and 1992). All of this was done after the end of FY 1994, or after the overspending had already taken place (See **Figure 5**.)

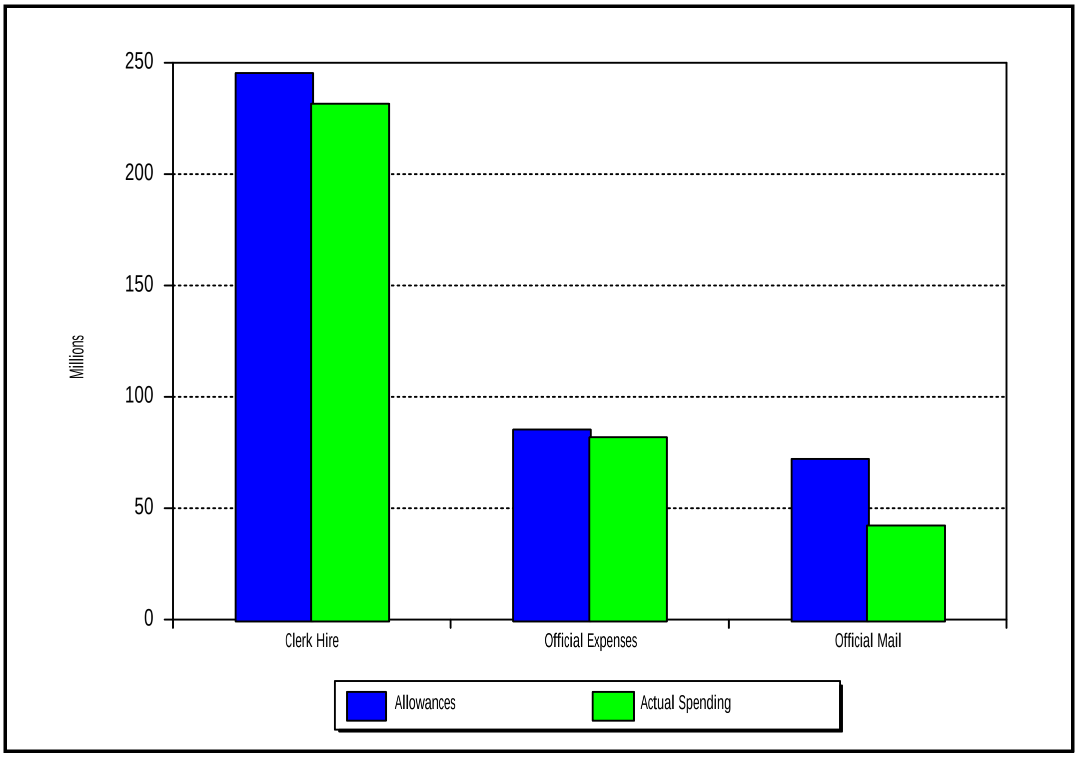

Figure 3 - Members' Allowances Versus Actual Spending For FY 1994

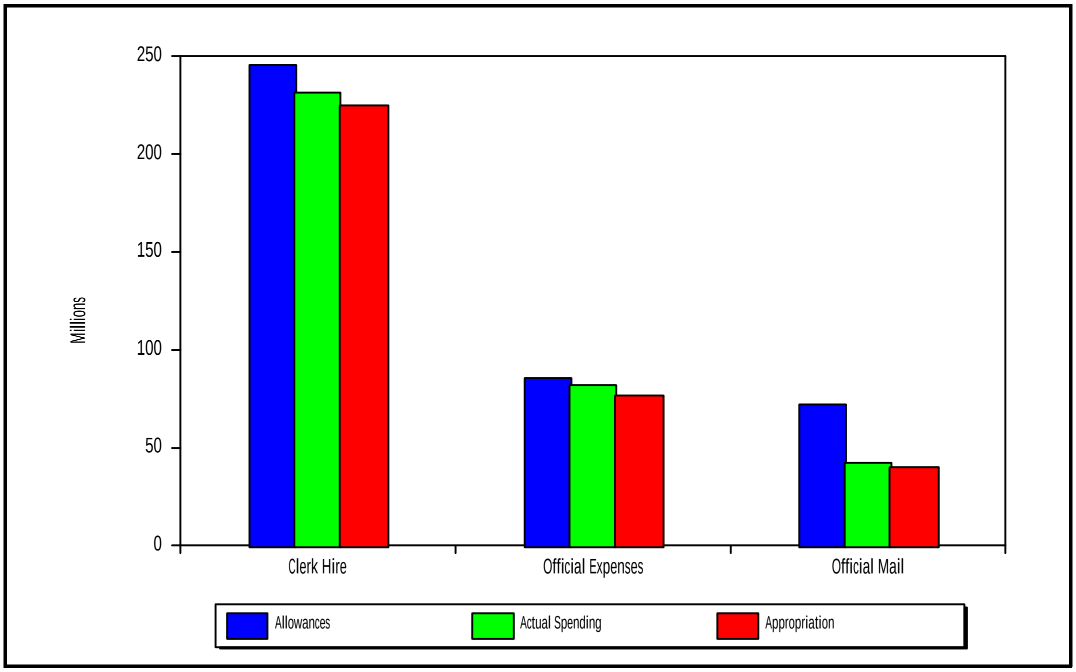

Figure 4 - Allowances And Actual Spending Versus Appropriation For FY 1994

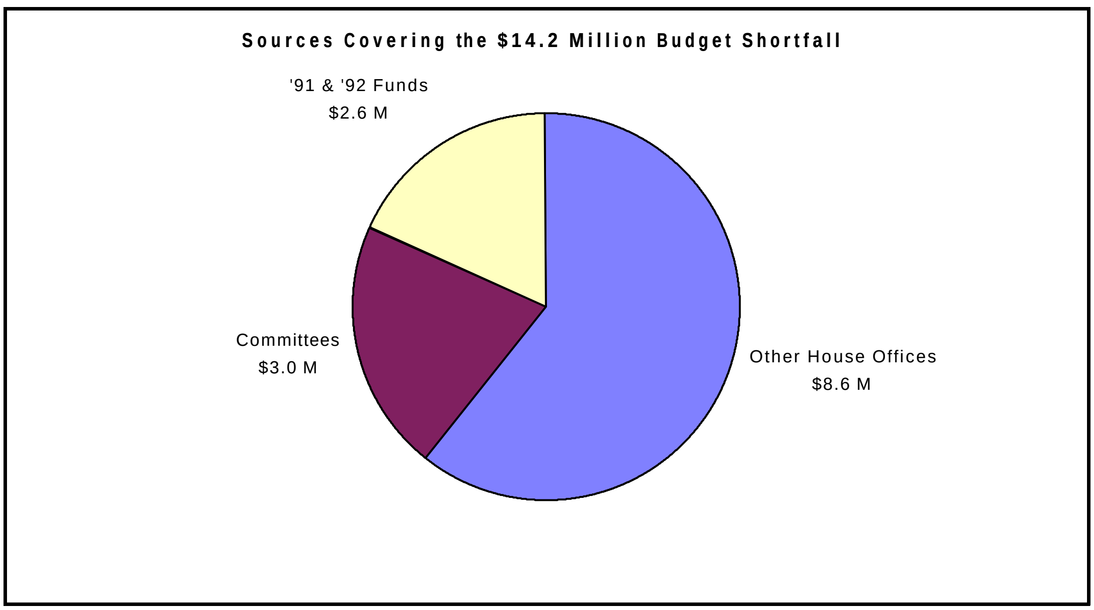

Figure 5 - Sources Covering The $14.2 million Overspending On Members' Expenses

These reprogrammings indicate that Finance's monitoring efforts of Members' spending were not sufficient to prevent overspending of funds appropriated for Members' allowances because:

- Projections of Members' spending to help them comply with their individual allowance limitations were not coordinated with control over the appropriations.
- Obligation-based budgetary accounting was not used. No consideration was given to establishing budgetary control at the time goods and services were ordered; procedures focused only on after-the-fact spending reported by the Members and entered into FMS.
- The management of Official Mail Allowance spending was not integrated with that of Clerk Hire Allowance and Official Expense Allowance.

Despite its efforts to help Members keep their spending within their allowance limits, Finance's records indicate that five Members overspent their allowances in 1994. According to these records, one Member overspent an allowance by more than $11,000 and had $200 available in other allowance accounts. The other four Members overspent their allowances by $800 to $3,000, but they had unspent amounts ranging from $8,000 to $106,000 in their other allowances. *Congressional Handbook* limitations on transfers between allowance accounts prevented these members from using these unspent allowances to cure their shortfalls. For example, the *Congressional Handbook* prohibits transfers from Official Mail to the Clerk Hire or Official Expense Allowances. So, if a Member has unused Official Mail Allowance at the end of the year, he or she cannot use it to cover overspending on Clerk Hire or Official Expenses. If a Member overspends one or more allowance account and does not have sufficient funds in the other account (or accounts) to cover the shortfall, the *Congressional Handbook* states that he or she is personally liable for the amount of the overspending. We have provided our findings about these five Members' allowance accounts to Finance for follow up to determine if amounts need to be collected personally from the Members.

<u>Recommendations</u>

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Align the amounts appropriated for Members' staff salaries, office expenses, and mail costs with the amounts of the Members' allowances.
2. Refine budget formulation procedures to develop budgets by individual Member that are reflective of their actual spending patterns, and that appropriately consider full cost allocation of goods and services provided by the CAO.
3. Combine all three allowances into one to save Members and Finance the time and effort currently used to process transfers among the allowance accounts.

4. Make available to the public information about the amount of each Members' allowance and how much of it was spent, as a means of achieving greater public accountability.

5. Provide Members with more detailed financial information about the status of their allowance based on both commitments they have made and money they have spent.

6. Initiate an in-depth evaluation of Finance and Member records of the five Members who appear to have overspent their FY 1994 allowances, and take appropriate actions as warranted.

Implementation of the above recommendations depends upon the House's ability to implement a new financial management system that will provide the information necessary to both manage Members' allowances and appropriations. For example, establishing budgetary control at the time the House commits itself to purchase goods and services will require a systemic method of accumulating and summarizing ordering and contractual documents. Similarly, a system is needed to summarize this information in ways that are meaningful and useful to Members and CAO personnel.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix B.) As indicated by the response, the CAO agreed that the amounts appropriated for Members' various expenses should be aligned with the Members' allowances; however, this will require action by both the Committee on House Oversight and the Appropriations Committee. Moreover, they must align both the fiscal and calendar year accounts. The Committee on House Oversight and the Appropriations Committee already have approved the full cost allocation of goods and services provided by the CAO and Members will be asked to prepare detailed budgets. The monthly reports discussed above will be available for monitoring through these budgets. The response also stated that individual allowances for Members will be combined prior to January 1, 1996. The CAO currently is investigating ways to make more information available to the public and will discuss recommendations with the Committee on House Oversight later this year. In conjunction with this, the Clerk of the House Report is being revised into a more meaningful monthly Financial Report which will be implemented in October 1995. The response also noted that the actions discussed in Finding C, when fully implemented, will provide Members more detailed financial information regarding their allowances. Finally, an in-depth evaluation has been initiated with the results to be provided to the Committee on House Oversight. Controls implemented to prevent this from occurring again should be completed by September 1, 1995.

Office of Inspector General Comments

The CAO's completed, current, and planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Finding E: <u>Ineffective Controls And Policies Related To Travel Reimbursement And Government-Furnished Charge Cards</u>

The House's controls and policies surrounding official travel expenses were ineffective. As a result, many Members and staff were paid twice for some travel costs, and government-furnished charge cards were frequently delinquent. Ineffective enforcement of the travel expense policies, liberal deadlines for submitting travel claims, and deficiencies in the financial management system contributed to duplicate payments and delinquencies.

Federal Travel Regulations governing travel by Executive Branch employees require travelers to file claims for reimbursement within five business days of completing their travel. In contrast, the *Congressional Handbook* requires travel vouchers to be filed within thirty days of the end of the calendar quarter when the travel occurred. Thus, the *Congressional Handbook* gives Members and staff up to four months to file their travel vouchers. Even with so much time to prepare and submit vouchers, Members and staff often submitted them late and had to seek the approval of the Committee on House Administration for these late vouchers. They also sought the Committee's approval for vouchers submitted without original receipts, or with no receipts at all.

During the audit period, the Committee on House Administration routinely approved travel vouchers that were submitted late or did not contain original receipts. We estimate that seven percent of the costs of travel by Members and their staff, about $900,000, was paid on vouchers for which the Committee granted exceptions to the *Congressional Handbook* rules.

<u>Ineffective systems and policies led to duplicate payments</u>

Using computer analysis to identify travel reimbursements with identical payee names, service dates and amounts, we identified over 2,200 pairs of disbursements where Finance may have paid twice for the same travel voucher. We sampled 50 of the largest of these payments and found 43 cases (86 percent) where the House did reimburse the charge card company, Member or staff twice. These duplicate payments amounted to nearly $10,000. We reviewed cash receipts data and found no evidence that the recipients of any of these actual or potential duplicate travel reimbursements refunded the amounts in question to the House. Deficiencies in the automated financial management system, a liberal deadline for filing claims for reimbursements, and ineffective enforcement of the *Congressional Handbook*, were the principal causes of these duplicate payments.

Because of limitations in FMS, Finance staff could review only the previous two months' transactions to identify potential duplicate payments. Even when the system flagged a potential duplicate payment, staff could easily override the flag and process the payment anyway. These

limited controls might have been effective if the House required Members and staff to submit travel vouchers promptly, or if it enforced its rules requiring the filing of original receipts with travel vouchers. But it did neither.

All 43 duplicate travel payments we found were for vouchers that violated the *Congressional Handbook* requirements for timely submission, inclusion of original receipts, or both, and all had been approved for payment by the Committee on House Administration.

By not requiring Members and staff to file travel vouchers promptly, and by readily excusing them from complying with its liberal deadlines and with rules requiring original receipts, the House undercut the effectiveness of its own procedures and requirements. Moreover, if rules and procedures could be circumvented easily, then their effectiveness as a control mechanism or as a means of encouraging and enforcing proper business behavior was questionable.

Members and staff were often delinquent in paying charge card bills

This lenient environment was further evidenced by the House's practice of paying charge card bills of Members and staff and asking the House's charge card vendor to refrain from suspending or cancelling the accounts of some Members and staff who were delinquent.

Similar to many Executive Branch agencies and private businesses, the House contracted with a charge card company to provide cards to Members and staff for use in traveling on official business. These cards are not to be used for personal charges. The Members' and the staff's accounts are what the charge card company calls "individually billed accounts." With an individually billed account, the cardholders are billed directly by the charge card company and are responsible for payment of those bills. The Government accepts no liability for charges made against individually billed accounts. Nevertheless, the House relieved Members and staff of the burden of having to pay their charge card bills themselves. It permitted Members and staff to submit their charge card bills to Finance on a travel voucher. Finance then paid the charge card company. In offering this accommodation to Members and staff, no change was made to the House's deadline for filing travel vouchers. It remained thirty days after the end of the calendar quarter in which the travel occurred. There was no House rule requiring charge card bills to be paid or submitted to Finance before the charge card company's deadline for payment. Thus, Members and staff could have been in compliance with House rules, even while they were delinquent in paying the charge card company. This accommodation was not coordinated with the charge card company, which still billed the individual cardholders and expected repayment from them monthly. **Figure 6** compares the House's deadline for submitting travel vouchers to the Executive Branch's and to the charge card billing cycle.

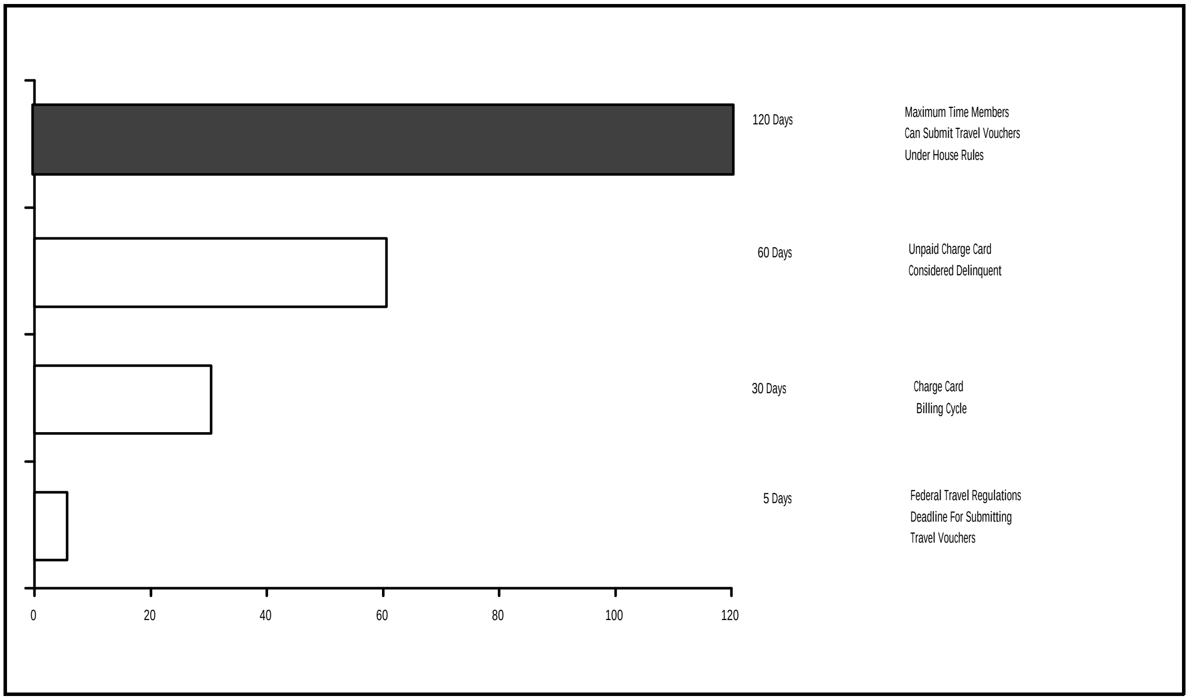

Figure 6 - The House Time Requirement For Submitting Travel Documents Far Exceeds The Charge Card Billing Cycle And Delinquency Period

Lenient House rules and Finance practices created an environment where Members and staff became complacent about paying their charge card bills on time or submitting them to Finance promptly. We reviewed the account aging reports the charge card company provided to Finance for accounts from January through December 1994. The reports listed Member and staff accounts and the payment status of each account for each month. We reviewed the aging of the 407 Member accounts and found that it was not uncommon for Members' accounts to be classified as delinquent, that is more than 60 days past due. We also found that thirty-seven Members were 120 or more days late at least once during the year. Eleven of these Members were 120 days late three or more times during the year, and twenty Members were 120 or more days late at December 31, 1994. In a random review of 50 out of more than 800 staff accounts, we found that twenty staff were 60 to 90 days late at least once during the year, and three staff were 120 or more days late at least once during the year.

The charge card company considers any unpaid balances to be delinquent 60 days from the billing date for nonpayment of undisputed amounts owed. It does not charge cardholders interest or penalties on overdue balances, but it can suspend cards with balances overdue by more than 60 days and cancel cards over 120 days past due. The agreement with the charge card company stated that it will not suspend or cancel an account if "extenuating circumstances" surround the delinquency. Therefore, before a card would be suspended or canceled, the charge card company asked Finance if it wished to "protect" any accounts from these consequences. We reviewed delinquent accounts from July through December 1994, and noted that Finance requested that 31 percent of these accounts not be suspended or cancelled because payments were forthcoming. These delinquent amounts were not disputed charges, and those charges are not considered due until the investigation is done. We reviewed 45 individual Member and staff accounts that Finance protected from suspension and cancellation in October and December 1994. Finance made payments on 41 of these accounts; however, many of these were only partial payments. About one third of the accounts Finance protected still had past-due balances of 60 days or more in the following month. At December 31, 1994, Finance protected 11 past-due Member accounts and 9 past-due staff accounts, with delinquent balances ranging from $56 to $2,621, and totaling $14,427.

Government charge cards may have been used for personal items

We also reviewed the spending summary reports that the charge card company provided to Finance for charges from October 1993 through December 1994. This report summarized charges during the period by the nature of the charge. It showed how much was charged to airlines, hotels, restaurants, etc. This report showed nearly 350 charges classified as "retail" for a total amount of more than $31,000. A review of the detailed spending reports from the charge card company disclosed that these charges included purchases from retail stores and other vendors whose merchandise and services probably would not be allowable travel expenses under the *Congressional Handbook* and the Charge Card Agreement. The *Handbook* does not allow charging personal items to the Official Expense Allowance and the Agreement prohibits using the government-furnished charge card to buy personal items. Though this report suggests that government-furnished charge cards may have been used to buy personal items, our testing of a random sample of the House's payment of travel vouchers did not disclose evidence that Finance had paid for personal items or had reimbursed Members or staff for them. Moreover, there are cases where purchases of a personal nature were inadvertently charged on the government charge card, but the charges were later repaid personally by the Member or staff. Still, Members and staff should not be using the Government charge card to purchase personal items. In the spring of 1994, Finance requested that the charge card company put a retail block on all Member and staff charge cards.

Recommendations

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to:

1. Require travel vouchers to be filed within 30 business days of completing the travel or within seven business days of receipt of supporting documentation, whichever is later.

2. Stop paying the Members' and staff's charge card bills for them, and instead, require that Members and staff pay their own bills and then seek reimbursement from Finance.

3. Initiate an in-depth evaluation of travel vouchers that are missing original receipts to determine whether the House has already paid those costs.

4. End the practice of granting exceptions to rules, procedures, and guidelines.

5. Remind Members and staff that the government-furnished charge cards are not to be used for personal items.

6. Initiate an in-depth review of Finance, Member, and staff records of the 2,200 pairs of potentially duplicate travel payments, and take appropriate actions, as warranted; and implement computer analyses to review potential duplicates on an ongoing basis.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix A.) As indicated in the response, the *Congressional Handbook* states that travel vouchers are due within 30 days after the end of a calendar quarter. The stricter requirements will be forwarded to the Committee on House Oversight for inclusion in the *Handbook* currently being drafted. On April 28, 1995, the CAO sent the Committee on House Oversight a proposal requiring Members and staff to pay their own charge card bills and then seek reimbursement from Finance. This proposal also includes a policy of one voucher per trip and one trip per voucher which, if adopted, would make it more difficult to submit duplicate items. The response also noted that when original receipts are missing Members are required to certify that they are making only one submission. On January 3, 1995, the Chairman (designate) of the Committee on House Oversight and the Chairman of the Transition Team issued guidelines which stated that "The regulations in The *Congressional Handbook* will be applied, without exception to all offices..." The response stated that a reminder will be sent and periodic training provided on the proper use of the government-furnished charge cards. Finally, a review of the duplicate travel payments will be initiated and should be finished by October 1, 1995. An automated review and analysis system to detect duplicate travel payments will be started with the new financial system.

Office of Inspector General Comments

The CAO's completed and planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Finding F: **The Committee On House Administration Approved $530,000 In Retroactive Salary Adjustments**

Members and House officers requested 700 retroactive salary adjustments from October 1, 1993, through December 31, 1994. A retroactive salary adjustment is a request to change someone's salary for time already worked, going back at least one month. The Committee on House Administration approved these requests, which resulted in the payment of an extra $530,000 in salaries during the 15 months we reviewed. Providing retroactive salary adjustments was an inequitable way to pay people because it circumvented the normal payroll process, enabling some employees to receive what amounted to bonuses or severance pay that was not generally available to all House employees.

The *Congressional Handbook* states that no retroactive salary adjustments are authorized for Clerk Hire employees. Clerk Hire employees are employed by the Member. No written policies for retroactive salary adjustments for non-Clerk Hire employees are in place; however, most government and private sector organizations use retroactive adjustments only to correct individual pay errors.

Finance processed retroactive salary adjustments every month during the audit period. As shown in **Figure 7**, employees reporting to the Committee on House Administration--CHA employees and HIS employees--received 47 percent of the retroactive salary adjustment dollars. **Figure 8** shows the amount of retroactive salary adjustments processed during each month. As can be seen, 58 percent of the retroactive salary adjustment dollars for FY 1994 were processed between July and September, the last quarter of the fiscal year. Twenty-seven percent of the retroactive salary adjustment dollars during CY 1994 were processed in December, the last

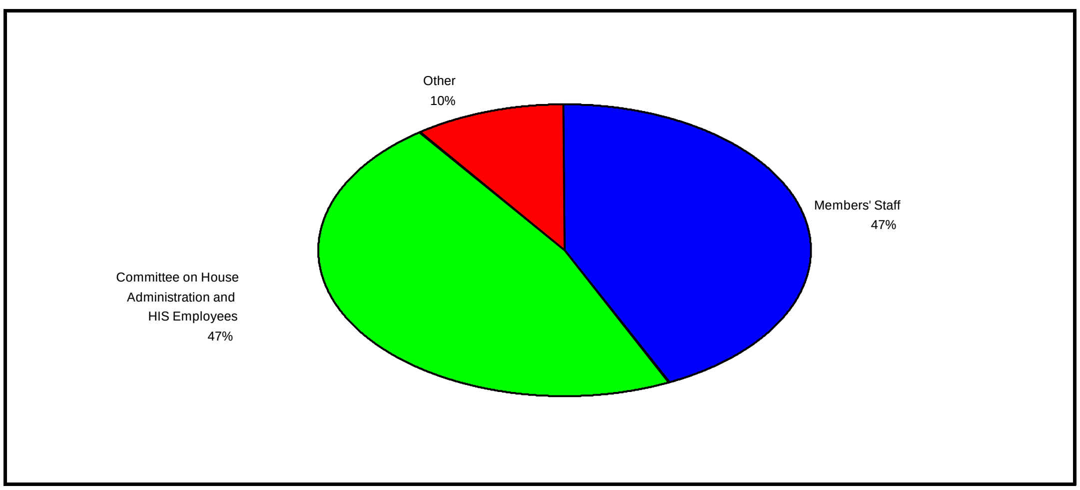

Figure 7 - Distribution Of Retroactive Salary Adjustments Among House Employees

month of the 103rd Congress. In that month, Finance processed more than $120,000 in retroactive salary adjustments, which was more than four times the amount it processed the previous December. The December 1994 salary adjustments included 26 retroactive pay raises for 15 staff of the Committee on House Administration, all of whom lost their Committee jobs when the 104th Congress took office. An additional six retroactive pay raises were for staff of Members retiring from Congress at the end of 1994.

At the time these retroactive pay raises were processed, the House did not allow employees to be paid for accrued annual leave when they terminated employment with the House. The December 1994 retroactive pay raises may have been motivated by a desire to provide terminating employees with some compensation for leave they had earned but would lose. Subsequently, Congress enacted temporary provisions allowing staff terminating in the first six months of 1995 to be paid for unused annual leave. The proposed FY 1996 Legislative Branch appropriations bill would entitle staff to be paid for up to 30 days' accrued annual leave when they terminate employment.

Sixty-six percent of the 300 Committee on House Administration and HIS employees received retroactive salary adjustments while only one percent of the other 12,000 House employees received adjustments, as is shown in **Figure 9**. A review of 183 salary adjustments showed that

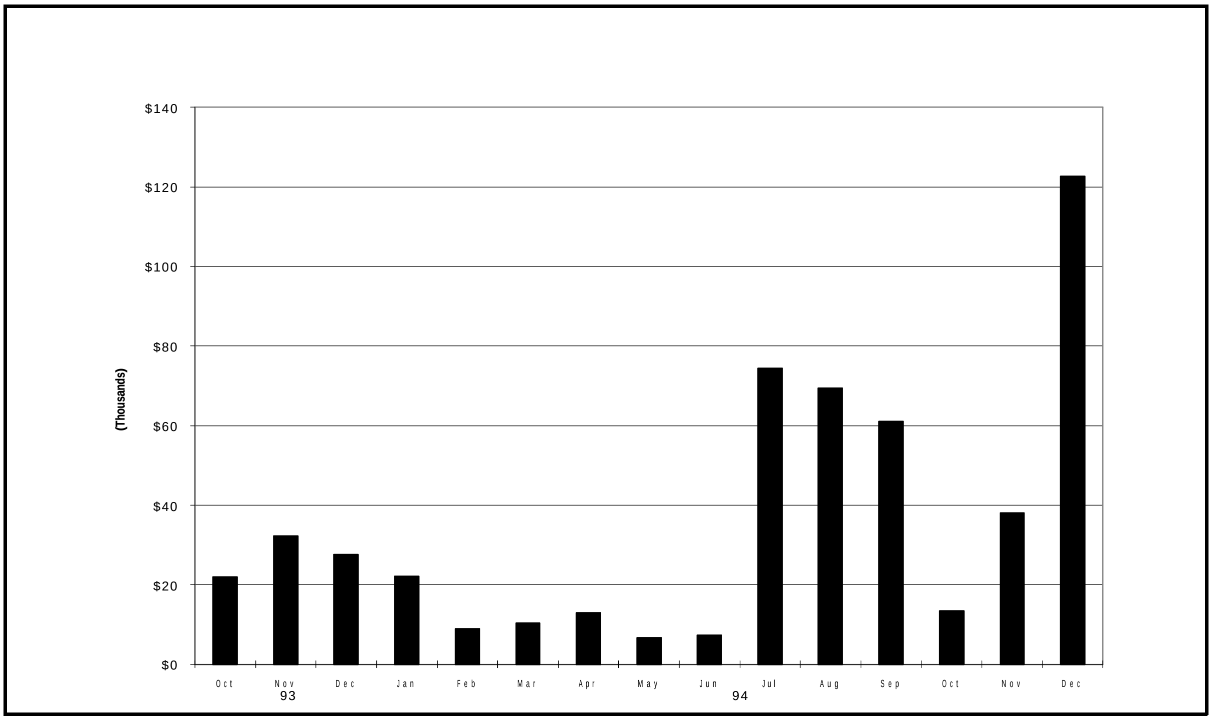

Figure 8 - Monthly Retroactive Salary Adjustments Payment Totals

53 percent were recorded 4 to 6 months after they were effective, and 32 percent were recorded 7 to 12 months after they were effective. Most of the remaining retroactive salary adjustments occurred because Members and officers turned in the request too late for the current month's payroll. The House runs a supplemental payroll every month to capture late changes. Other requests had no date or had a date several months prior to the month when they were processed.

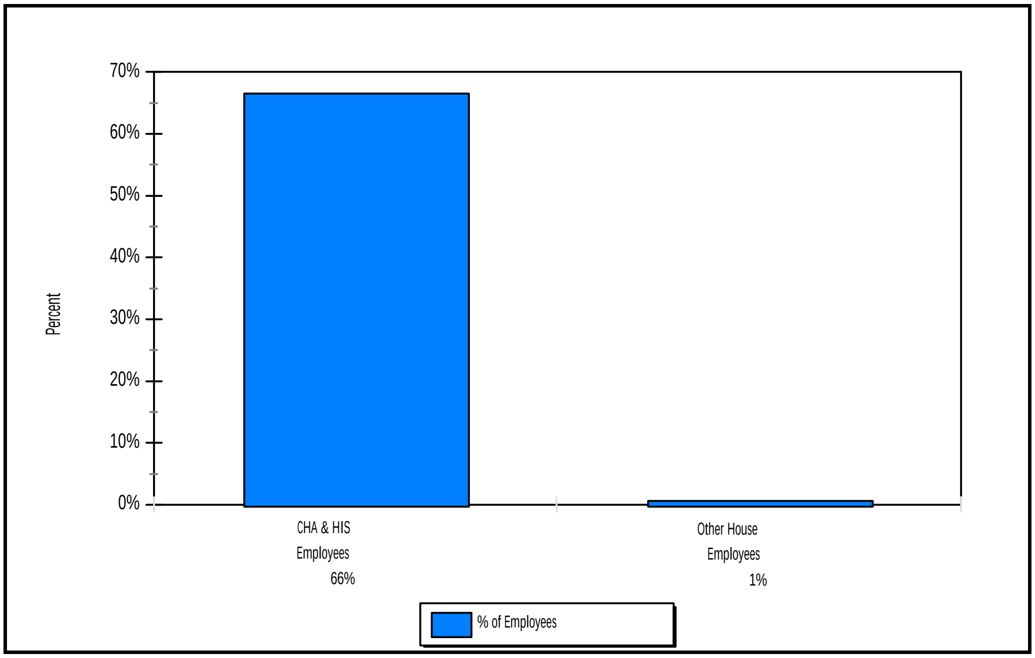

Figure 9 - Comparison Of CHA And HIS Employees Retroactive Salary Adjustments To All Other House Employees

Recommendation

We recommend that the Chief Administrative Officer develop proposals, for approval by the Committee on House Oversight, to enforce the rules in the *Congressional Handbook* prohibiting retroactive salary adjustments for Members' staff and establish written rules prohibiting them for other House employees.

Management Response

On July 11, 1995, the Office of the CAO concurred with the finding and recommendation. (See Appendix A.) As indicated in the response, the no exceptions rule is being enforced relative to retroactive salary adjustments.

Office of Inspector General Comments

The CAO's action is responsive to the issue we identified and satisfies the recommendation the intent of our recommendation. Therefore, we consider this recommendation closed.

Finding G: Payroll Policy And Late Submissions Added To Manual Processing And Led To $299,000 In Overpayments To Employees

Finance overpaid terminated employees and employees whose salaries had been lowered, by $299,000 during the audit period. In addition, the House distributed 3,400 supplemental paychecks, amounting to $1.8 million, to correct transactions that were submitted to Finance past the deadline for submitting salary changes. Overpayments and supplemental payments occurred because:

- Offices submitted salary changes after the published deadline.
- Finance paid employees on the last day of the month for work completed during that month.

Employing offices use Payroll Authorization Forms (PAFs) to notify the Payroll Department of salary changes, including employee hires and terminations, salary increases and decreases, leave without pay (LWOP) status, and deaths. The *Congressional Handbook* requires that terminations be submitted by the last business day of the month the termination is effective and that other payroll change information be submitted by the 15th of the month in which the adjustment is to be effective. This allows enough time for the Payroll Department to enter payroll changes into the FMS before paychecks are produced.

Some offices submitted PAFs late, in violation of *Congressional Handbook* rules. If paychecks had already been produced, but not yet distributed at the time payroll changes were received, payroll department staff voided erroneous checks and hand wrote correct checks. Each month, the payroll supervisor manually updated the payroll system to reflect voided and handwritten checks. Occasionally, because employing offices did not submit payroll changes before checks had been distributed, employees were paid either too much, or too little.

A policy option used by many employers is to introduce a lag between the end of the pay period and the date paychecks are produced. Most organizations have a lag of, at least, one week between the end of the pay period and the date paychecks are produced. All general schedule employees in the Federal Government are paid on a one week lag basis. This minimizes the risk that paychecks would be issued before changes to pay rates and employment status had been processed.

The House overpaid employees by $299,000

When employing offices submitted decreases, LWOP, or termination changes after paychecks had been distributed, employees were overpaid. To collect the overpayment, the Payroll Department notified the employing office of the overpayment. The employing office was then responsible for informing the employee of the overpayment, collecting the overpayment, and returning it to the Payroll Department. The House does not have formal policies on who is responsible for pursuing collection of overpayment if the employing office's efforts are unsuccessful.

As a result of the current payroll policy, the payroll department overpaid 300 employees during the 15 months ended December 31, 1994. During this period, former House employees repaid $283,000 of salary overpayments. Nearly $13,000 in overpayments made during 1994 remained uncollected at the end of the year. Payroll voided 200 incorrect checks and the payroll supervisor manually updated the system to reflect the related late changes. Paying on a current basis meant that the Payroll Department could not enter all changes into the system before it distributed paychecks, and necessitated the laborious manual processing of payroll corrections.

<u>The House distributed supplemental paychecks every month</u>

When employing offices submitted employee hires or salary increases after paychecks had been distributed to employees, employees were underpaid. Therefore, Finance had to process a supplemental payroll to pay these employees the full amounts they earned. The House distributed 3,400 supplemental paychecks for a total of $1.8 million during the audit period.

Supplemental payroll processing could be avoided if offices followed the *Congressional Handbook* requirement to submit payroll changes by the 15th of the month. Very few organizations use a supplemental payroll run to correct payroll changes. If necessary, their payroll software allows them to cut individual paychecks or have special pay runs, but they do not do this every month. Furthermore, Federal Government does not use standard supplemental payroll runs since it pays general schedule employees bi-weekly, on a lag basis.

The House paid late salary increases by producing supplemental paychecks at the beginning of the following month. Supplemental payroll also included corrections for payroll mistakes. We could not determine the specific reasons for supplemental paychecks because neither FMS nor the Payroll Department tracked the number of PAFs submitted late.

Finance distributed supplemental paychecks every month during the audit period. The number of supplemental checks increased substantially in the last month of CY 1993 and CY 1994. As a result of running the supplemental payroll, Finance incurred additional system costs and additional costs to manually produce and reconcile extra checks.

<u>Costs of payroll processing services can vary widely</u>

The CAO is currently considering options for implementing an integrated, automated financial management system. These options include using off-the-shelf software to process transactions in-house or hiring a contractor to process transactions. Payroll processing is one financial management function that many organizations choose to contract out. Industry statistics show that contracting for payroll processing can be cost-effective if total in-house payroll processing costs are more than $6 per paycheck. **Figure 10** compares services offered and prices charged by the Federal government's National Finance Center and by three private-sector payroll processing vendors. All the organizations we contacted emphasized that the prices they were providing us were approximate and that actual costs might differ. Seeking competitive bids from a number of payroll processing contractors, both from within the Federal government and from the private sector, increases the likelihood that the House will get the best balance of price and service.

	NFC	Vendor 1	Vendor 2	Vendor 3
Unit cost	$110/person/ year	$1.25/check	$1.00/check	$.79/check
Annual processing fees (biweekly)*	$1,210,000	$357,500	$286,000	$225,940
Annual processing fees (monthly)*	N/A	$165,000	$132,000	$140,280
Implementation costs	Varies	12%-20% of annual processing fees	$4/employee	Varies
Client system requirements	3270 connection	Novell network with Netware, IBM-compatible PCs	Novell network with Netware, IBM-compatible PCs	IBM-compatible PCs with modem
Payroll distributed	Biweekly	Monthly or biweekly	Monthly or biweekly	Monthly or biweekly
House staff required	To counsel employees and input pay data	To counsel employees and input pay data	$4/check to outsource	To counsel employees and input pay data
Access charges	Included	Included	N/A - client owns data	N/A - client owns data
Payroll re-run charges	Included	Included	N/A - system checks built in	N/A - system checks built in
Tax filings	Included	Included	$1.25/check	Included
Postage	Included	$.37/mailed check	Included	Included
Checks printed at	Treasury	Vendor or client	Vendor or client	Vendor
* Based on 11,000 employees.				

Figure 10 - Payroll Processing Vendors' Prices And Features

Recommendations

We recommend that the CAO develop proposals, for approval by the Committee on House Oversight, to:

1. Enforce *Congressional Handbook* rules and require Members, committees, and House offices to submit PAFs on time. (If payroll changes are submitted beyond the stated deadline, they should not be processed.)
2. Do away with the "real-time" payroll and institute a lag between the end of the pay period and the date the payroll is processed and paychecks are distributed.
3. Assign responsibility to Finance for pursuing collection of salary overpayments if the employing office's efforts prove unsuccessful after one month.
4. If the decision is made to contract for payroll processing, use competitive bidding.

Management Response

On July 11, 1995, the Office of the CAO fully concurred with the finding and recommendations. (See Appendix A.) According to the response, the Office of Finance will immediately begin to enforce deadlines on the submission of PAFs. Instituting a system which incorporates a lag between the end of a pay period and the date payroll is processed and checks distributed will be included in the payroll options proposed to the Committee on House Oversight at its July meeting. In addition, a proposal will be made to the Committee on House Oversight in July to assign Finance the task of pursuing collection of salary overpayments if the employing office's efforts are unsuccessful after a month. The new procurement regulations adopted by the Committee on House Oversight require competitive bidding for contracts the size of payroll processing and they will be followed.

Office of Inspector General Comments

The CAO's planned actions are responsive to the issues we identified and, when fully implemented, should satisfy the intent of our recommendations.

Scot M. Faulkner
Chief Administrative Officer

APPENDIX A

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515–6860

MEMORANDUM

TO: Robert B. Frey III
Deputy Inspector General

FROM: Thomas J. Simon
Director of Internal Controls and Continuous Improvement

DATE: July 11, 1995

SUBJECT: Draft Audit Report - Office of Finance

We appreciate the opportunity to comment on your draft report. We deeply appreciate your efforts and are in general agreement with the findings and recommendations. Specific comments on each recommendation follow. If there are any questions or additional information required regarding this reply, please contact me at (202) 226-1854.

Finding A

Recommendation 1: The system the CAO is committed to implement will meet JFMIP requirements. Implementation will be coordinated with other House offices to assure their needs are met.

Recommendation 2: The new system scheduled for implementation October 1, 1995 is an accrual basis system which meets generally accepted accounting principles and standards.

Recommendation 3: The cost accounting and allocation features of the new system will be implemented with the system.

Recommendation 4: The training needs of staff members are being evaluated and will be met before and during implementation of the new system as appropriate.

Recommendation 5: The new system has a report writer feature which will allow greater ease in designing reports to meet user needs. Currently some reports are being prototyped and tested with users.

Finding B

Recommendation 1: Proposals will be made to the Committee on House Oversight at its July meeting for new payroll and financial systems. These will fully integrate the systems and eliminate redundant entries and reconciliation of automated and manual systems. Implementation is scheduled for October 1, 1995.

Recommendation 2: Performance measures will be instituted for every division and process in the Office of Finance and well as all individual employees. These measures will establish production, performance and customer satisfaction goals which reflect the capabilities of the new systems. Implementation will begin August 1 and should be complete December 31, 1995.

Finding C

Recommendation 1: A review is being made of purchasing automation systems which will allow automatic on line verification of funds availability. Implementation is expected before October 1, 1996. In the interim, control will be instituted in CAO offices and the reports discussed in Recommendation 2 below will assist Members, Committees and other offices.

Recommendation 2: New monthly reports to show current and year to date expenditures, budget, projected expenditures, and available balances are being tested with a group of Members and committees. Full implementation is expected November 1, 1995.

Finding D

Recommendation 1: We are in agreement with this recommendation. It will require action by both the Committee on House Oversight and the Appropriations Committee to align appropriations with allowances. In addition, they must align both fiscal and calendar year accounts.

Recommendation 2: The Committee on House Oversight and the Appropriations Committee have approved the full cost allocation of goods and services by the CAO. It is anticipated that the individual allowances for members will be combined prior to January 1, 1996. Members will be encouraged to prepare detailed budgets for their offices and the reports discussed in Recommendation 2 of Finding C above will be available for monitoring though budgets.

Recommendation 3: It is anticipated that the individual allowances for members will be combined prior to January 1, 1996.

Finding F

Recommendation 1: The no exceptions rule is being enforced relative to retroactive salary adjustments.

Finding G

Recommendation 1: The Office of Finance will immediately begin to enforce deadlines on the submission of Payroll Authorization Forms.

Recommendation 2: Moving to a system of having a lag between the end of a pay period and the date payroll is processed and checks distributed will be included in the payroll options proposed to the Committee on House Oversight for its July meeting.

Recommendation 3: A proposal will be made to the Committee on House Oversight in July to assign Finance the responsibility for pursuing collection of salary overpayments if the employing office's efforts prove unsuccessful after one month.

Recommendation 4: The new procurement regulations adopted by the Committee on House Oversight require competitive bidding for contracts of that size. They will be followed.

Appendix B

Examples of Performance Goals and Targets Used in Finance Organizations

Expenditure Cycle Process Summary

Process Flow

1. Tender, Negotiate, and Award Contract
2. Order and Receive Goods and Services
3. Process Accounts Payable
4. Pay Suppliers

Performance Goals

- Low Cost of Process and Purchased Items
- Cycle Time of Process and Delivery
- High Percentage of Items Received On-Time
- High Quality of Items Received
- Reduce the # of Purchase Orders and Invoices
- Timely Payment Cycle
- Accuracy of Transactions

Targets (Private Sector Fortune 500)

Total Cost of Expenditure Cycle / $1000 revenues	$ 1.97
Average Cost per Purchase Order	$10.41
Average Cost per Invoice	$ 2.22
Cycle Time to Schedule Payment	3 Days
Percent of Transactions without Error	98%
Percent of Line Items Received On-Time	95%

Best Practices

- Paperless requisition-to-check processing
- Vendor Performance Monitoring (Cost, Quality, Delivery)
- “Coordinated” Purchasing
- Commodity Teams
- “Local” purchasing with approved vendors
- Procurement Cards
- Electronic Requisitioning, Routing, Approval
- Electronic Data Interchange Linkage to Suppliers, Paperless Purchase Orders
- Integration with Materials Mgmt/General Ledger Systems
- Integrated Purchasing and Accounts Payable Systems/Single Vendor File
- Collocation of Accounts Payable and Purchasing
- Evaluated Receipt Settlement
- Electronic matching - 3 way, 2 way
- Single centralized system for all payables
- Electronic Approval of Invoices (Lotus Notes)
- Image processing of invoices
- Automatic payment of recurring transactions
- Automatic accruals based on orders and receipts
- Consolidation of multiple invoices into one payment
- Electronic Funds Transfer
- Centralized Accounts Payable Organization/Multi-function staff

Revenue Cycle Process Summary

Process Flow

Bill Customers

↓

Administer Credit & Collections

↓

Process Accounts Receivable

↓

Resolve Customer Deductions

Performance Goals

Low Cost of Process

Accuracy of Billings

Timeliness/Speed of Billings

High Productivity of Staff

Targets (Private Sector Fortune 500)

Total Cost of Revenue Cycle/ $1000 revenues	$0.49
Percent of Billings that are Error-free	99.71%
Average Personnel Cost per Invoice	$0.70
Average Number of Invoices/Full Time Equivalent/Year	27,237
Total Cost to Credit/Collections/ $1000 revenues	$0.32
Average Days Sales	21
Percent of Invoices Paid on Time	92%
Bad Debt Write-offs/Total Revenue	0.00%
Total Cost of Accounts Receivable/ $1000 revenues	$0.14
Percent of Payments that are First Time Matches	96%
Total Cost of Deductions Resolution/ $1000 Revenues	$0.03

Best Practices

- Order Entry Centralized in Customer Service
- Centralized Invoice Printing and Control
- Use of Automated Systems
- Integrated Order and Billing Systems
- Automated Approval of Exception Invoices
- Use Credit Teams to Manage Customer Relationships
- On-line Access to Customer History/Balances
- Materiality Limits for Automatic Write-off Tolerances
- Use of Quantitative Goals for Accounts Receivable Performance
- Systems Allow On-line, Real-time Cash Application
- Automated Interface with General Ledger
- Automated Link with Lockbox Cash Receipt Data
- Multi-functional Teams to Resolve Deduction Issues

Financial Reporting Process Summary

Process Flow

Performance Goals

Low Cost of Process

Speed of Cycle Time

Accuracy of Entries

High Productivity of Staff

Low Percentage of Overtime

Accuracy of Reports

Accuracy of Forecasts

Targets (Private Sector Fortune 500)

Total Cost of Financial Reporting/$1000 revenues	$1.37
Percent of General Ledger Time Corrections	Spent on 1.31%
Cycle Time to Close General	Ledger 4 Days
Percent Profit Forecast Variance	2%
Cycle Time for Annual Budget Preparation	60 Days
Total Cost of Management Reporting/$1000 revenues	$0.24
Cycle Time for Senior Management to get Reports	3 Days
Total Cost of Budget Process/ $1000 revenues	$0.63

Best Practices

- Shortened/streamlined close process
- Soft Close for Non-Quarter months
- Electronic approval of journals
- Real-time data access, user-oriented, standard, Graphical User Interface tools
- Focus on analysis vs. transaction processing
- Liaison teams linking business and accounting
- Challenge policies for materiality
- Enterprise-wide financial information warehouse
- Ledger fully integrated with distributed budget analysis
- Standardized “reporting” chart of accounts
- Profitability analysis by product, market, geography and customer
- Flexible overhead allocations
- Charge data providers a fee for correcting erroneous data
- Journal entry data is staged throughout the month
- Missing data does not stop the closing process
- Automatic reversal of journal entries

Financial Planning & Analysis Process Summary

Process Flow

Perform Strategic Planning

↓

Perform Financial Forecasting

↓

Provide Performance Measurements

↓

Perform Investment Analysis

↓

Perform Pricing Analysis

Performance Goals

Increase Accuracy of Forecasting

Link Strategic Planning to Financial Forecasting

Improve Efficiency of Forecasting and Measurements

Increase Speed of Forecasting and Measurements

Limit Number of Planning Iterations

Targets (Private Sector Fortune 500)

Dimensions Planned, Forecasted & Measured in Detail	1
Iterations per Plan or Forecast Cycle	2 or Fewer
Line Items Planned, Forecasted, Measured at Organization	100 or Fewer
Percent of Time Spent on Data Collection & Manipulation	Less than 25%
Percentage of Time Spent on Reviews and Presentations	Less than 10%
Duration of Forecast Cycle	Less than 2 Weeks
Forecast Cycles per Year	4
Number of Financial Targets Provided to Units	4 to 6

Best Practices

- Integrated Forecast and Measurement Processes
- Five Quarter Rolling Forecast Replaces the Annual Plan
- Ability to Develop Flash Reports After the First Day of Close
- Use Product or Service Composites to Forecast/Measure
- Database or Plan and Actuals Generates Management Reports
- Integrated/Common Planning Tools
- Standardized Chart of Accounts
- Operational Structure in Tables Not Account Codes
- Strategy Plan Provides Targets for “Top-down” Financial Planning and Analysis Process
- Targets Focused on Market Share and Competition
- Continuous Planning Mindset
- Strategy for Removing Obsolete Reports/Measures
- Report Variance Analysis on an Exception Basis
- Balanced Set of Measures (Profit and Loss, Balalnce Sheet, Cash Flow)
- Majority of Time Spent on Controllables
- Perform Post-Acquisition/Spending Evaluations
- Low Effort on Historical Reporting
- Low Effort Related to Data Collection/Manipulation
- Number of Forecasting Lines fewer than Number of Accounting Lines
- Financial Forecasts Linked to Supply/Demand Planning and Pricing Activities

Employee Compensation & Benefits Process Summary

Process Flow

Process Payroll

Administer Benefits

Manage Variable Compen-sation

Performance Goals

Low Cost of Processes

Reduce # of Days Between Hire and “On” Payroll

Reduce # of Days Between Termination and “Off” Payroll

Integrate Human Resources, Accounting and Payroll Systems

High Return on Benefit Plans

Reduce Time from Request to Confirmation

Reduce Time from End of Period to Statement

Reduce Forms Required for Claims/Enrollment

Targets (Private Sector Fortune 500)

Total Cost of Processes

# of Days Between Hire and “On” Payroll

# of Days Between Termination and “Off” Payroll

Return on Benefit Plans

Time from Request to Confirmation

Time from End of Period to Statement

Forms Required for Claims/Enrollment

Percentage of Participation

Best Practices

- Integrated Human Resources, Accounting and Payroll Systems
- Utilization of Automated Time Entry
- Single Location Payroll Processing
- Standardized Forms and Cycles
- One Point Entry System
- Pay stub Used for Employee Communication
- Utilization of Modeling Tools for Benefits Planning
- Automated Pension Calculations
- Employee Access to Benefits Information
- Integrated Human Resources , Benefits, and Payroll Systems
- Enrollment via Interactive Voice Response
- Vendors Actively Managed/Accountable for Performance Standards
- Interconnected Forecasting Between Actuaries, Finance, and Accounting
- Standard Timetable for Award Cycles
- Automated Processing of “Award/Vesting/Exercise”
- Standardized Procedure to Administer, Track, and Pay Executives

Production Costs & Inventory

Process Flow

Perform Cost Planning

↓

Perform Cost Accounting

↓

Perform Cost Analysis and Reporting

Performance Goals

Reduce Time Spent on Data Collection/Manipulation

Simplify Cost Allocation Process/Use Standard Allocations

Streamline/Automate Physical Inventory Process

Increase Accuracy of Cost Estimates/Forecasts

Integrate Receiving, Inventory, Shipping and Accounting Systems

Integrate Manufacturing and Financial Systems

System Generate Management Reports

Targets (Private Sector Fortune 500)

Total Cost of Processes

Cycle Time of Processes

Time Spent On/Cost of Data Collection/Manipulation

# of Budget Revisions/Cost Estimate Revisions

# of Steps in Allocation Process/# of Allocation Rules

Time Spent On/Cost of Physical Inventory Process

# of Monthly Adjusting Journal Entries Performed

# of Regularly Issued Reports

Best Practices

- Little Time Spent on Data Collection/Manipulation
- Use Standard Allocations Held Constant for the Period
- Electronic Approval of Journals
- Real-time Data Access, User-oriented, Standard, Graphical User Interface Tools
- Focus on Analysis vs. Transaction Processing
- Enterprise-wide Financial Information Warehouse
- Integrated Receiving, Shipping, Inventory, and Accounting Systems
- Integrated Manufacturing and Financial Systems
- Standardized “Reporting” Chart of Accounts
- Reports Generated Directly from Cost Management System
- Use of Standard Report Format
- Perform Cause and Effect Analysis Between Cost and Operational Factors
- Reports Delivered in Electronic Format

Fixed Assets

Process Flow

Manage Capital

↓

Manage Products

↓

Manage Assets

↓

Perform Fixed Asset Accounting

Performance Goals

Reduce Cost of Processes

Reduce Cycle Time

Reduce Workload for Revisions

Aligned with Strategy Targets

Increase # of Projects Completed On Time

Reduce Time to Close Fixed Asset Accounts

Targets (Private Sector Fortune 500)

Cycle Time of Processes	1.97
Total Cost of Processes	10.41
Amount of Fixed Asset Shrinkage	2.22
# of Projects Completed on Time	3 Days
# of Adjusting Journal Entries	98
Average Fixed Asset Transaction Cost	95
Dollar Variance Between Book and Physical	

Best Practices

- Use of Capital Matrix Linked to Strategic Plan
- Maximum Dollar Expenditure Not Requiring Written Approval
- "What if" Analysis to Determine Balance Sheet and Profit and Loss Impact
- Standard Computer Models Used in the Processes
- Integrated Fixed Asset, Capital Planning and General Ledger Systems
- Use of Standardized Forms
- Use of Sampling Methods to Count Assets
- Standardized "Reporting" Chart of Accounts
- Corporate-wide Standard Asset Lives
- Automatic Reversal of Journal Entries
- Computerized Asset Transfers
- Use of Bar Coding to Identify Assets
- Real-time Access to Fixed Asset Ledger
- Pooling of Fixed Asset Types
- Track Assets Still Under Warranty

Cash Management

Process Flow

1. Establish Cash Management Objectives and Guidelines
2. Design Bank and Bank Account Structure
3. Determine Bank Relationship Management Guidelines and Evaluate Banking Costs
4. Collect Daily Balance and Transaction Detail
5. Calculate Net Cash Position
6. Perform Back Office Operations
7. Produce Management Reports

Performance Goals

Efficient Collection / Disbursement of Cash

Manage Cost of Funding

Accurate Cash Forecast

Ensure Sound Operational Controls

Targets (Private Sector Fortune 500)

Best Practices

- Clearly Defined and Communicated Cash Management Guidelines
- Integrated Treasury Management Workstation
- Automated Linkage with Bank Information and Accounting System
- Maintain Streamlined and Cost-Effective Bank Account Structure
- Utilize Electronic Data Interchange, Electronic Funds Transfer, Lock-boxes, Sweep Accounts, Controlled Disbursement to More Efficiently Manage Cash Flows