Department of Veterans Affairs
Office of Inspector General

Audit of the Administrative and Loan Accounting Center, Austin, Texas

The Administrative and Loan Accounting Center needed to strengthen certain internal controls and improve management of accounts receivable.

Report No. 05-01399-41

December 11, 2006

VA Office of Inspector General
Washington, DC 20420

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Contents

Executive Summary

Introduction

The Office of Inspector General (OIG) audited the Veterans Benefits Administration (VBA) Administrative and Loan Accounting Center (ALAC) to determine whether the facility was operating in accordance with applicable laws, regulations, and policies and to assess internal controls.

Results

We concluded that the ALAC was generally operating in accordance with applicable laws, regulations, and policies. However, we identified four opportunities to improve internal controls: (1) ALAC accounting records included transactions that ALAC employees did not initiate or validate, (2) employee duties were not appropriately segregated, (3) payments were not screened for duplicates, and (4) certain payment errors were not corrected promptly. In addition, ALAC employees needed to improve compliance with policies concerning management of accounts receivable. Improved controls and compliance with policies would have resulted in the recovery of $398,766 in duplicate and misdirected payments and accounts receivable owed by vendors.

Recommendations

We recommended that the VBA Chief Financial Officer (CFO), in coordination with the Director, Loan Guaranty Service (LGS), take actions to strengthen accountability for transactions included in ALAC accounting records and ensure that employee duties are segregated whenever practicable. We also recommended that the ALAC Director take actions to (1) develop and implement procedures to detect and recover duplicate and other erroneous payments and (2) improve management of accounts receivable.

Comments

The Under Secretary for Benefits agreed with the findings and recommendations and provided acceptable implementation plans. (See Appendix B, pages 12–19, for the full text of the Under Secretary's comments.) We will follow up on the implementation of planned improvement actions until they are completed.

(original signed by:)

KENNETH R. SARDEGNA
Acting Assistant Inspector General
for Auditing

Introduction

Purpose

We audited the ALAC to determine whether the facility was operating in compliance with applicable laws, regulations, and policies and to assess internal controls.

Background

The ALAC provides a full range of financial services in support of the VA loan guaranty program and also provides administrative accounting services for certain VA regional offices (VAROs) and other VBA facilities. Services provided include budget support, voucher examination, payment processing, accounting, management of accounts receivable, financial reporting, and financial advice. The ALAC Director reports to the VBA CFO.

VBA began consolidating financial activities supporting the loan guaranty program from 46 locations to the ALAC, which was then known as the Mortgage Loan Accounting Center, in September 1999 and completed the consolidation in July 2001. In this role, the ALAC provides support to the VA and VBA CFOs, VA finance and budget staffs, LGS, and VBA's Regional Loan Centers (RLCs). The ALAC also works with Countrywide Home Loans, a contractor servicing VA-financed mortgage loans; Ocwen Federal Bank, a contractor responsible for managing VA-acquired properties; and the VA Property Management Oversight Unit (PMOU), located in Nashville, TN.

In August 2003, VBA began transferring accounting responsibility for VBA facilities' general operating expenses, or administrative accounting, from the other facilities to the ALAC. As of January 31, 2006, the ALAC had administrative accounting responsibility for 37 VBA facilities, and the ALAC Director expected to assume this responsibility for all other VAROs during fiscal year (FY) 2006.

In FY 2005, the ALAC processed more than 160,000 financial transactions, including 83,821 loan guaranty payments totaling about $1.3 billion and 9,641 loan guaranty deposits totaling about $460 million. Other transactions included budget transfers, Federal advances, journal voucher adjustments, credit card adjustments, obligations, and payment inquiries.

As of August 31, 2005, the ALAC had 26 employees, including the Director, 18 accountants, 5 accounting technicians, a management analyst, and a program support assistant. According to ALAC personnel, FY 2005 operating expenses totaled about $2 million.

Scope and Methodology

During the audit, we:

- Assessed the procedures for adding and changing vendor information; establishing and modifying obligations; making payments; auditing for payment errors; receiving, recording, and depositing cash receipts; collecting accounts receivable; resolving late payments; reporting disbursements and collections to the Department of the Treasury; and reconciling certain general ledger accounts to subsidiary records.
- Interviewed ALAC managers and employees concerning their duties.
- Reviewed Financial Management System (FMS) access rights of ALAC employees and other VBA employees.
- Tested payment transactions for supporting documentation, approval, accuracy, and compliance with the Prompt Payment Act as codified in Title 5, Code of Federal Regulations, Part 1315.4.
- Reviewed accounts receivable collection and follow-up operations for compliance with VA Handbook 4800.8, *Vendor Debts*, and VA Handbook 4800.9, *Interest, Administrative Costs, and Penalty Charges*.
- Verified that cash receipts were accurately recorded and supported by deposit documentation.
- Determined whether disbursements and collections were reconciled with Department of the Treasury records and whether differences were resolved.
- Examined reconciliations between FMS account balances and subsidiary records.
- Interviewed selected ALAC customers and reviewed customer surveys to evaluate satisfaction with ALAC services.

During the audit, we used computer-processed data contained in FMS to identify transactions to be reviewed and for background information. To assess the reliability of the data, we reviewed procedures for entering the data into FMS and compared data for selected transactions to source documents. We identified control deficiencies, and tests of selected transactions showed that the data was not accurate and complete. However, we concluded that additional testing was not warranted because the available data was sufficiently reliable to achieve our audit objectives. The data limitations did not affect our assessment of internal controls or compliance with applicable criteria. The report includes recommendations that, if implemented, will strengthen controls and improve the reliability of data.

The audit covered transactions occurring during the period October 1, 2003, through June 30, 2005. The audit was conducted from February 2005 through January 2006 in accordance with Generally Accepted Government Auditing Standards.

Results and Conclusions

Issue 1: Internal Controls

Findings

ALAC accounting records included transactions that ALAC employees did not initiate or validate; duties were not appropriately segregated; payments were not screened for duplicates; and certain payment errors were not corrected promptly. Stronger internal controls would enhance accountability for funds and reduce the risk of loss to the Government.

Accountability for Transactions in Accounting Records Could Be Improved. The ALAC Director certified the facility's accounting records even though those records included transactions that ALAC employees did not initiate or validate. VA Directive 4540, *Financial Reports and Statements*, requires that each facility director annually certify that the facility's accounting records are accurate and complete. However, personnel in other facilities initiated the following types of transactions that were included in ALAC accounting records, and ALAC employees did not review supporting documentation or perform quality reviews of these transactions:

- RLC personnel generally initiated payments to mortgage companies related to the acquisition of foreclosed properties. These payments totaled $2.3 billion in the 7 quarters covered by our audit and constituted almost 92 percent of the $2.5 billion value of payments included in ALAC accounting records.
- VARO Indianapolis personnel initiated payments and cash receipt transactions with Countrywide Home Loans related to the servicing of VA-financed mortgage loans.
- VBA personnel in VA Central Office (VACO) initiated certain cash receipt and payment transactions.

ALAC accounting records also included payments that ALAC employees made based entirely upon information from the PMOU without independently validating the information. ALAC employees made these payments to Ocwen Federal Bank for management and repair of VA-acquired properties based upon electronic invoices received from the PMOU.

Duties Were Not Segregated. Duties related to payment processing, handling of cash receipts, and managing accounts receivable were not appropriately segregated. VA Manual MP-4, Part V, Chapter 1, *Accounting Principles, Standards and General Requirements*, requires that responsibility for assigned duties and functions be segregated between authorization, performance, maintaining records, custody of resources, and reviews to provide suitable internal checks on employee performance. However, our review of the access rights of 211 VBA accounting and loan guaranty personnel with FMS access showed that 21 (10 percent)—17 ALAC employees and 4 other VBA employees—had access rights that were inconsistent with the segregation of duties principle:

- Eight ALAC employees and one VBA employee stationed at VARO Indianapolis could obligate funds, make payments, establish accounts receivable, write off accounts receivable, and record cash receipts.

- Eight other ALAC employees and two VBA employees in VACO could establish accounts receivable, record cash receipts, and write off accounts receivable.

- Another VBA employee in VACO could obligate funds, make payments, and record cash receipts.

- One other ALAC employee could obligate funds and make payments.

During the audit, the ALAC Director removed FMS access rights that had allowed five ALAC employees to obligate funds and make payments, and the VBA CFO granted waivers allowing four ALAC employees to retain access rights that should normally be segregated.

Payments Were Not Screened for Duplicates. ALAC employees did not screen payments to detect duplicates. Using data mining techniques, we searched electronic files of loan guaranty payments processed during FY 2004 and the first 3 quarters of FY 2005 to identify duplicate payments. We identified 11 duplicate payments totaling $42,624. For example, on September 24, 2004, ALAC employees processed a funding fee refund of $5,945 for a veteran using vendor code LGYVET, a code VA personnel sometimes use for payments to individuals who are not expected to receive additional payments. Five days later, ALAC employees mistakenly processed another payment in the same amount for the same veteran using the same vendor code. In another instance, ALAC employees processed a payment of $1,075 to a veteran on November 25, 2003, using vendor code LGYVET. Nine days later, a second payment was processed using a unique vendor code specifically established for the transaction.[1]

Payment Errors Were Not Corrected Promptly. ALAC employees did not take prompt and appropriate corrective actions when they became aware of misdirected payments. During the period February 2004 to March 2005, 46 payments totaling $51,933 in funding fee refunds intended for a mortgage company were mistakenly sent to

[1] When we brought the duplicate payments to the attention of ALAC employees, they promptly established accounts receivable to recover the amounts that were paid in error.

a construction company. This occurred because RLC personnel used an incorrect vendor code. VA generally processes payments to businesses using unique vendor codes to identify the recipients. In most instances, vendor codes are identical to the vendors' tax identification numbers. FMS records included the same 9-digit tax identification number for both the mortgage company and the construction company. To distinguish between the two companies, FMS included an additional 2-digit suffix in the mortgage company's vendor code. The 46 payments were misdirected because RLC personnel entered the 9-digit tax identification number without the suffix as the vendor code.

After the mortgage company complained that it had not received some of the payments, ALAC employees took action to block the use of the construction company's vendor code and prevent additional misdirected payments. When RLCs continued to submit payment requests using the 9-digit code, the transactions were rejected because of the blocked vendor code. Although the VA Funding Fee Payment System (FFPS) Release 2 Users Guide states that rejected transactions should be returned to the RLCs for correction, approval, and resubmission, ALAC employees changed the vendor codes and processed the payments without consulting RLC personnel or informing them of the errors. At the time of our review, ALAC employees were trying to determine the total amount misdirected, but they had not issued a notice of indebtedness to the construction company, resolved the problem with the duplicate tax identification numbers, or instructed the RLCs to use the 11-digit vendor code for the mortgage company to prevent rejected transactions in the future.

We discussed the issue with the ALAC Director, who subsequently required ALAC employees to return rejected funding fee transactions to the RLCs for processing in accordance with instructions in the FFPS Release 2 Users Guide. The ALAC Director reported that the FFPS did not allow RLC personnel to delete rejected transactions and resubmit them with corrected vendor codes and that ALAC employees would have to process the transactions manually. Even though ALAC personnel must process the transactions, sound management practices would dictate it is important that ALAC personnel notify appropriate RLCs of the rejected transactions to ensure that the appropriate vendor is paid and to help prevent future errors. In addition, the ALAC Director should notify appropriate officials of the need to revise the FFPS Release 2 Users Guide.

Risks Could Be Reduced. The deficiencies we identified occurred because managers focused their attention on the timely consolidation of accounting functions and processing of the workload and did not give sufficient attention to internal controls. Enhanced accountability for accounting records and screening for duplicate payments would reduce the risk that errors would not be detected and corrected. Strengthened segregation of duties would reduce the risk of fraud, waste, or abuse. In addition, more timely correction of payment errors would increase the probability of collecting the debts.

Conclusion

Accountability for transactions included in ALAC accounting records could be improved; duties needed to be segregated; procedures needed to be developed and implemented for detecting duplicate payments; and misdirected payments needed to be identified and corrected promptly. These improvements would enhance accountability for funds and reduce the risk of loss to the Government.

Recommendation 1. We recommended that the VBA CFO, in coordination with the Director, LGS, take actions to (a) strengthen accountability for transactions included in ALAC accounting records that are not initiated by ALAC employees and (b) ensure that employee duties are segregated whenever practicable, and implement procedures to identify and provide additional oversight of transactions processed by any employees whose duties are not segregated.

Recommendation 2. We recommended that the ALAC Director take actions to: (a) establish accounts receivable and recover the duplicate and misdirected payments detected during the audit; (b) develop and implement procedures to detect and recover duplicate payments; (c) monitor duplicate, misdirected, and other erroneous payments to detect trends and to identify appropriate preventive measures; and (d) contact the appropriate RLCs to verify vendor codes before resubmitting rejected funding fee refund transactions, and notify appropriate officials of the need to revise the FFPS Release 2 Users Guide.

Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the findings and recommendations. To improve accountability for transactions included in ALAC accounting records, he stated that VBA is increasing coordination among the VBA CFO, the Director, LGS, and the ALAC Director. ALAC personnel have identified all sources and types of transactions included in ALAC accounting records, and they are developing a quality assurance review program for property management invoices. ALAC personnel will recommend that VACO personnel identify opportunities for additional compensating controls and additional oversight in conjunction with an initiative to restructure loan guaranty finance functions.

The Under Secretary reported that VBA is addressing the need for better segregation of duties by changing FMS access rights of employees, adding controls, and requesting waivers of the requirements for certain employees. ALAC personnel addressed the need for better segregation of duties of those obligating funds and making payments by either changing FMS access rights or requesting temporary waivers. Write-offs of accounts receivable now require management approvals, and a quality assurance review is being performed to ensure that the required approvals are obtained. The FMS rights of the

VARO Indianapolis employee were changed, and a waiver is being processed for VACO finance personnel. In addition, FMS access rights will be reviewed at least annually to ensure that employee duties are properly segregated.

According to the Under Secretary, ALAC personnel established accounts receivable and initiated actions to collect the duplicate and misdirected payments identified during the audit. ALAC personnel revised procedures to help prevent duplicate payments, and they are performing monthly reviews to detect duplicate payments. ALAC personnel are now contacting the appropriate RLCs before correcting rejected funding fee transactions, and they have notified appropriate officials of the need to correct the FFPS Release 2 Users Guide.

Office of Inspector General Comments

We consider the implementation plans acceptable and will follow up on planned improvement actions until they are completed.

Issue 2: Management of Accounts Receivable

Findings

ALAC employees did not adequately manage accounts receivable due to the insufficient priority assigned to this task. Recovery of the amounts owed was delayed, and VA did not have use of the funds for extended periods. Also, the accounting records did not accurately reflect the value of accounts receivable.

As of March 31, 2005, ALAC accounting records included 163 accounts receivable totaling $3,467,089. To assess management of accounts receivable, we analyzed the 16 largest accounts totaling $1,906,863, or 55 percent of the total value of ALAC accounts receivable, that were outstanding as of March 31, 2005. The accounts receivable reviewed were established against 12 vendors doing business involving the VA loan guaranty program. Seven were more than 90 days old as of March 31, 2005.

Accounts Receivable Were Invalid. Five accounts receivable totaling $641,981 were not valid debts owed to VA. For example, on February 10, 2005, VA paid a mortgage company $140,127 for a foreclosed property. After receiving notice that the creditor had filed for bankruptcy prior to the sale of the property and that the sale was invalid, RLC officials established one account receivable on March 16 and a duplicate on March 17. The mortgage company returned the funds to VA on March 24. The payment was matched to one account receivable, which was closed, but the other account receivable remained outstanding until ALAC personnel canceled it on July 27 as a result of our inquiry.

Accounts Receivable Were Not Established Promptly. When ALAC employees or other VBA personnel discover that a transaction resulting in a vendor debt to VA has occurred, VA Handbook 4800.8 requires that the vendor be sent a notice of indebtedness and an account receivable be promptly established in FMS. ALAC employees did not promptly establish three accounts receivable totaling $364,810 in FMS. They established these accounts receivable 22, 26, and 68 days after the notices of indebtedness were issued. In the interim periods, accounting records did not include these valid debts.

Offsets Were Not Done Timely. ALAC employees did not initiate offsets timely for eight accounts receivable totaling $993,890. If a vendor does recurring business with VA and does not pay a debt timely, VA must offset the amount owed, including interest, administrative costs, and penalties, from future payments owed the vendor. VA Handbook 4800.8 states that an offset should be initiated 30 days after the notice of indebtedness unless the vendor has disputed the debt or made payment arrangements. ALAC employees initiated offsets for six vendor accounts receivable 54 to 215 days after the notices of indebtedness were issued. These accounts receivable totaled $689,681. ALAC employees had not initiated offsets for two other accounts receivable that were 648 and 497 days old at the time of our review. As a result of our review, ALAC employees initiated offsets for these two accounts receivable and collected $304,209.

Follow-Up Letters Were Not Timely. If a vendor debt is not paid timely or offset, VA Handbook 4800.8 requires that follow-up collection letters be sent at 30-day intervals. ALAC employees did not send timely follow-up letters for 14 accounts receivable. They sent follow-up letters for these accounts receivable 32 to 139 days after the notices of indebtedness.

Interest, Administrative Costs, and Penalties Were Not Charged. ALAC employees did not charge interest, administrative costs, or penalties on delinquent accounts receivable. If a vendor does not pay a debt in full within 30 days from the notice of indebtedness, VA Handbook 4800.8 requires that interest and administrative costs be assessed. If the debt is not paid or in a current repayment plan within 120 days, additional penalty charges must be assessed. Fiscal officers are authorized to waive collection of interest, administrative costs, and penalties if they make a determination that collection of these charges would not be in the best interest of the Government.

ALAC employees should have assessed interest and administrative costs totaling $15,317 on the 11 valid accounts receivable reviewed. In addition, penalties totaling $57,340 should have been assessed on eight of the accounts receivable. Assessing interest and other late charges would provide vendors an incentive to pay their debts timely and to promptly dispute any invalid debts. ALAC employees did not assess interest, administrative costs, or penalties on delinquent debts because automated systems did not calculate the charges and managers believed manual calculations would be unduly burdensome. However, they had not analyzed the costs and benefits and made a determination that assessing these charges was not in the Government's best interest.

ALAC employees subsequently performed a detailed cost/benefit analysis and determined it would not be in the best interest of the Government to assess interest, administrative costs, and penalty charges on these delinquent vendor debts.

Higher Priority Was Needed. ALAC accounts receivable were not effectively managed due to the insufficient priority assigned to this task. Ineffective management of accounts receivable delays recovery of the amounts owed and precludes VA's use of the funds in the interim. In addition, the probability of collection may be reduced. Delays in establishing accounts receivable in FMS and inclusion of invalid accounts receivable result in inaccurate valuations of accounts receivable.

Conclusion

Audit results showed that accounting records did not accurately reflect the value of accounts receivable; ALAC employees did not aggressively pursue collection of debts; and the ALAC did not assess required interest, administrative costs, or penalties on delinquent debts. As a result, recovery of the amounts owed was delayed, and VA did not have use of the funds for extended periods.

Recommendation 3. We recommended that the ALAC Director take actions to ensure that: (a) only valid, outstanding debts are included in FMS; (b) accounts receivable are established in FMS promptly; (c) offsets are initiated timely; (d) follow-up collection letters are sent at 30-day intervals if vendor debts are not paid timely or offset; and (e) procedures are developed and implemented to assess interest, administrative costs, and penalty charges on delinquent vendor debts unless a determination is made that collection of these charges would not be in the best interest of the Government.

Under Secretary for Benefits Comments

The Under Secretary for Benefits agreed with the findings and recommendation. He stated that ALAC personnel canceled the invalid accounts receivable identified during the audit. They are reviewing accounts receivable weekly to ensure that only valid accounts receivable are included in FMS and that collection actions are appropriate and timely. Quality assurance reviews will also be conducted at least annually to ensure that accounts receivable are promptly established and to monitor collection actions. ALAC personnel performed a detailed cost/benefit analysis and determined it would not be in the best interest of the Government to assess interest, administrative costs, and penalty charges on delinquent vendor debts.

Office of Inspector General Comments

We consider the implementation plans acceptable. We will follow up on planned improvement actions until they are completed.

Appendix A

Monetary Benefits in Accordance with IG Act Amendments

Recommendation	Explanation of Benefit(s)	Better Use of Funds
2a	Duplicate and misdirected payments needed to be recovered.	$ 94,557
3c	Accounts receivable owed by vendors needed to be offset against payments to those vendors.	304,209
	Total	$398,766

Appendix B

Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: NOV 1 5 2006

From: Under Secretary for Benefits (20)

Subj: OIG Revised Draft Report: Audit of the Administrative and Loan Accounting Center, Austin, Texas (Project No. 2005-0133-R6-0116)—WebCIMS 345648

To: Assistant Inspector General for Auditing (52)

1. This is in response to your request for VBA review and comment to the OIG Revised Draft Report: Audit of the Administrative and Loan Accounting Center, Austin, Texas. VBA's comments are attached.

2. Questions may be referred to Dee Fielding, VBA's OIG Liaison, at 273-7018.

Daniel L. Cooper

Daniel L. Cooper

Attachment

Attachment

VBA COMMENTS TO OIG REVISED DRAFT REPORT
Audit of the Administrative and Loan Accounting Center, Austin, Texas
(Project No. 2005-0133-R6-0116)

Issue 1: Internal Controls

Finding: Accountability for Transactions in Accounting Records Could Be Improved

VBA Comments: Concur. Although the VBA CFO has implemented significant processes and systems to ensure appropriate controls and accountabilities are in place (as discussed below), additional processes will be initiated as discussed under the "Recommendation" for this finding.

VBA has a decentralized financial management system with systemic, input, and output controls built into the process. The VBA CFO has ultimate accountability for VBA financial reporting and accounting transactions. Although the Administrative and Loan Accounting Center (ALAC) is out-based, ALAC is a division of the CFO's office, and the Director reports directly to the CFO. Each office initiating transactions is required to provide an annual certification statement to the ALAC Director, and then the ALAC Director certifies all of ALAC's accounting records. Therefore, accountability for the transactions in the accounting records is built into the organizational structure, the financial management system, and the control system.

To ensure quality and accountability, the CFO has adopted an aggressive and comprehensive program throughout VBA to implement internal controls outlined in OMB Circulars (i.e., A-123, A-127) in support of applicable laws (i.e., CFO Act, Federal Manager's Financial Integrity Act, Federal Financial Manager's Improvement Act), and GAO guidance (i.e., Standards for Internal Control in the Federal Government). These controls are augmented by ongoing field reviews by VA's Management Quality Assurance Service and the current A-123 review process.

It is acknowledged that ALAC accounting records include transactions that ALAC employees did not initiate or validate. This is in accordance with the decentralized financial management process and the related input, output, systemic, and management controls built into the system (note the certification process mentioned above). Due to the numerous sources, locations, types, and methods in which transactions are recorded, it is not deemed practical or cost effective to provide the ALAC with adequate staff to input or oversee all affected transactions. However, improved controls can be implemented as discussed below under the "Recommendation" for this finding.

Recommendation 1(a): We recommend that the VBA CFO, in coordination with the Director, Loan Guaranty Service (LGY), take action to strengthen accountability for transactions included in ALAC accounting records that are not initiated by ALAC employees.

VBA Comments: Concur. Based on the audit comments, it has been determined that improved accountability and controls can be achieved by implementing increased

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coordination between the VBA CFO, the Director, Loan Guaranty Service, and the ALAC Director. Related actions planned and in progress are discussed below:

1. The Department is currently undergoing the A-123 review process, which will assist in identifying any related control deficiencies.

2. ALAC has had numerous discussions with LGY staff at Central Office (CO) and within the Property Management Oversight Unit (PMOU), and is in the process of developing a financial quality assurance review program on Ocwen invoices to ensure accuracy, appropriateness, and compliance with contract and regulatory requirements. Planned implementation is scheduled for the second of quarter of FY 2007.

3. In addition, ALAC staff have identified all sources, the number, the volume (dollar amount), and types of accounting transactions recorded under Station 105 and will recommend CO identify opportunities for additional compensating controls and additional oversight in conjunction with the restructuring of LGY Finance functions. Planned kickoff meeting for LGY finance restructuring initiative is scheduled for November 2006.

Finding: Duties not segregated.

VBA Comments: Concur. We concur that the duties described were not appropriately segregated. ALAC took corrective action to segregate or to request temporary waiver of payment and obligation functionality. However, the Financial Management System (FMS) has security limitations, which currently prevent segregation between establishment and write-off of receivable authorities.

Recommendation 1(b): We recommend that the VBA CFO take action to: (b) ensure that employee duties are segregated whenever practicable, and implement procedures to identify and provide additional oversight of transactions processed by any employees whose duties are not segregated.

VBA Comments: Concur. The following actions have been taken to address this:

1. ALAC reviewed FMS access rights of staff members during the audit and either removed partial access from staff members who could obligate funds and make payments, or requested waivers to allow for some staff to have conflicting accesses up through full staffing and full implementation of Administrative Accounting Centralization. Currently, within the Administrative Accounting Division, technicians are performing the obligating function and accountants are making payments to allow for separation of those two functions. Two accountants have waivers to provide additional backup until full staffing/implementation has been completed. These actions were completed September 2005.

2. To address the inability of FMS to provide segregation of duties between establishment and write-off of accounts receivable, ALAC has created a compensating control with a procedure requiring management approval of all

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write-offs of receivables through a delegation of authority directive. This was completed November 2005.

3. ALAC will incorporate a quality assurance review of all write-offs to ensure compliance with write-off delegation of authority (noted above). This was implemented in June 2006.

4. ALAC will develop a process for review of FMS access that will be performed on a periodic basis (no less than annually) to ensure employee duties are properly segregated. Planned implementation is January 2007.

5. The Indianapolis RO staff changed user profiles to address the segregation of duties issue at that location. Action was initiated to complete this in April 2006; however, subsequent follow-up revealed the request had not been processed. Therefore, the profiles were changed in November 2006.

6. The Central Office Finance Staff is processing a waiver to address segregation of duties pertaining to obligation, payments, and receipts. Planned completion is November 2006.

Finding: Payments not screened for duplicates.

VBA Comments: Concur. Up until April 2004, the Financial Services Center (FSC) processed ALAC payments and performed duplicate payment reviews. When ALAC took over the payment function, ALAC began exploring processes to cost-effectively identify and collect duplicate payments. Please refer to actions taken in response to recommendations that follow.

Finding: Payment errors not corrected promptly.

VBA Comments: Concur. Refer to actions taken in response to recommendations that follow.

Finding: Increased risk.

VBA Comments: Concur. Refer to actions taken in response to recommendations that follow.

Recommendation 2(a): We recommend the ALAC Director take action to: (a) establish accounts receivable and recover duplicate and misdirected payments detected during the audit.

VBA Comments: Concur. The following actions have been taken to address this:

1. All transactions that were identified as duplicate have a bill of collection established for them. This was completed September 2005.

2. ALAC has collected $54,000 of the duplicate and misdirected funds. The amount not yet collected ($41,000) cannot be offset due to the following reasons: the debtor will not receive any additional payments, and/or the debtor is a veteran

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who is on a payment plan. There are a total of seven remaining bills of collection. Of the seven, three are on payment plans. The other four will be referred to the Treasury Offset Program (TOP) after the 60-day notification letters expire. These letters were submitted to the vendors in October 2006, just after Central Office approved and distributed the final TOP procedures that same month.

Better Use of Funds (Recommendation 2(a): $94, 557 in duplicate and misdirected payments needs to be recouped.

VBA Comments: Concur. See actions noted above.

Recommendation 2(b): We recommend that the ALAC Director take action to develop and implement procedures to detect and recover duplicate payments.

VBA Comments: Concur. In addition to implementing the newly developed duplicate payment review process, ALAC procedures have been updated to require employees making payments to take additional steps to ensure that the payments have not been paid prior to submitting payments. The following action has been taken:

ALAC created a duplicate payment review and is currently completing it on a monthly basis. Potential duplicates entered by ALAC staff are identified off the F829 report and are researched to determine if they are actual duplicates or valid payments. If the payment is determined to be a duplicate, a bill of collection is established. The bill of collection will be tracked until it is closed. ALAC also receives notification from the Financial Services Center's Audit Recovery Portal application when it identifies potential duplicate payments. ALAC researches and responds via the portal, which identifies the payments before they are paid. This was completed January 2006 (ongoing).

Recommendation 2(c): Monitor duplicate, misdirected, and other erroneous payments to detect trends and to identify appropriate preventive measures.

VBA Comments: Concur. The duplicate payment review created by the ALAC uses the F829 report, which allows management to determine the source of the duplicate payment and notify him/her or the owner of the system that is responsible for the error. ALAC is maintaining a database that contains the responses to the identified duplicate payments and actions taken to collect the payment. This was completed January 2006 (ongoing).

Recommendation 2(d): We recommend the ALAC Director take action to contact the appropriate RLCs to verify vendor codes before submitting rejected funding fee refund transactions, and notify appropriate officials of the need to revise the FFPS Release 2 Users Guide.

VBA Comments: Concur. The following actions have been taken to address this issue:

1. ALAC has updated its procedures for funding fee payment rejects. Now, when a payment rejects, ALAC contacts the RLC to determine the appropriate vendor

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code to pay before correcting the rejected payment. (Completed August 2005 with revised direction to staff and procedures subsequently updated.)

2. ALAC notified the Central Office (CO) point of contact regarding the need to change the VA Funding Fee Payment System User Guide and to notify the RLCs of the process change. (RLC Notification occurred August 2005). The User Guide was to be changed to reflect the new CO procedure by June 30, 2006. However, a recent follow-up with CO determined this has not occurred; it is currently scheduled for December 2006.)

Issue 2: Management of Accounts Receivable

Finding: Invalid accounts receivable.

VBA Comments: Concur. The following action was taken: Invalid accounts receivable were canceled. This was completed July 2005.

Recommendation 3(a): We recommend the ALAC Director take action to ensure that only valid, outstanding debts are included in FMS.

VBA Comments: Concur. The following action was taken: The ALAC Loan Guaranty (LGY) Division revised the accounts receivable procedures to improve internal controls by performing weekly reviews of open receivables. In addition, ALAC quality assurance activities incorporate the review of open and closed receivables on a periodic (not less than annually) basis to determine their validity. Items that are identified as invalid are cancelled upon identification. This was completed December 2005.

Finding: Accounts receivable not established promptly.

VBA Comments: Concur. See actions taken in response to recommendation below.

Recommendation 3(b): We recommend the ALAC Director take action to ensure that accounts receivable are established in FMS promptly.

VBA Comments: Concur. ALAC has taken the following actions to address this issue: The ALAC LGY Division revised the accounts receivable procedures to improve internal controls by performing weekly reviews of open receivables. In addition, ALAC quality assurance activities incorporate the review of open and closed receivables on a periodic (not less than annually) basis to ensure they are established in FMS promptly. Once receivables are requested by the RLCs or identified by the ALAC or other reviewer, ALAC has three days to set up a receivable in FMS. (Completed in December 2005.)

Finding: Offsets not initiated timely.

VBA Comments: Concur. See actions completed in response to the recommendation below.

Recommendation 3(c): We recommend the ALAC Director take action to ensure that offsets are initiated timely.

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VBA Comments: Concur. ALAC has implemented new procedures that require a weekly review of all open receivables for possible offsets, receipt of funds, or letter of indebtedness depending upon the circumstances. The weekly review replaces the previous bimonthly review. Quality reviews will also be performed on a monthly basis instead of the current yearly review to ensure that the new procedures are being implemented within the guidelines outlined in the procedure. Follow-up letters will be sent every 30 days on receivables that remain open instead of just the one follow-up letter that was previously sent.

Better Use of Funds (Recommendation 3(c): $304,209 of accounts receivable owed by vendors needed to be offset against payments to those vendors.

VBA Comments: Concur. These accounts receivable were collected as indicated in the report. This was completed August 2005.

Finding: Follow-up letters not timely.

VBA Comments: Concur. See actions taken per recommendation below.

Recommendation 3(d): We recommend the ALAC Director take action to ensure that follow-up collection letters are sent at 30-day intervals if vendor debts are not paid timely or offset.

VBA Comments: Concur. The following action has been taken: The ALAC LGY Division revised the accounts receivable procedures to improve internal controls by performing weekly reviews of open receivables. In addition, ALAC quality assurance activities incorporate the review of open and closed receivables on a periodic (not less than annually) basis to ensure follow-up letters are completed timely. This was completed December 2005.

Finding: Interest, administrative, and penalties not charged.

VBA Comments: Concur with finding.

Recommendation 3(e): We recommend the ALAC Director take action to ensure that procedures are developed and implemented to assess interest, administrative costs, and penalty charges on delinquent vendor debts unless a determination is made that collection of these charges would not be in the best interest of the Government.

VBA Comments: Concur with recommendation; however, after a thorough review and analysis we have determined that it is not cost effective or in the best interest of the government. This requirement has been waived in accordance with 31 USC 3717, Sec. 3717 (h), 31 CFR 919.9 Sec. (g), and VA Directive 4800.9 para. 4.j.

There are two specific receipt accounts used for the deposit of interest and penalties, 36 1435 and 36 3220. Currently the FMS cannot programmatically break-out collections received for interest, and administrative costs, resulting in manual intervention, which is not cost effective.

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The FMS does not provide this functionality, and it is not feasible to re-program the system, which is scheduled to be replaced. The alternative would be to perform this function manually. ALAC completed a detailed benefit/cost analysis and determined the process to assess interest, administrative costs and additional penalty charges on delinquent vendor debts and the associated risk of incorrect charges, augmentation of funds and additional workload is more costly than the projected lost interest, administrative costs and additional penalties. It is therefore not cost effective and presents more downside risk than potential benefits. (Completed in March 2006.)

Better Use of Funds (Recommendation 3(e): $71,000 interest, administrative costs, and penalties.

VBA Comments: Concur. This occurred and was excessive due to the deficiencies identified in the audit report. Due to the actions taken and controls implemented as a result of this audit, future potential amounts of this magnitude are not projected to occur.

Finding: Higher priority needed—accounts receivable.

VBA Comments: Concur. The implementation of actions noted above has placed this issue at a high priority with a substantially increased focus.

Appendix C

OIG Contact and Staff Acknowledgments

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Appendix D

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