
Office of Inspector General
Audit Report

Third Party Draft Payment System

Department of Transportation

Report Number: FI-2001-001

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U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **INFORMATION: Report on Third Party
Draft Payment System, DOT**
FI-2001-001

Date: October 3, 2000

From: John L. Meche
Deputy Assistant Inspector General for Financial,
Information Technology, and Departmentwide Programs

Reply To Meche:x61496
Attn Of:

To: Assistant Secretary for Budget and Programs/
Chief Financial Officer

This report presents the results of our audit of the Department of Transportation (DOT) third party draft payment system. We conducted this audit at the request of the Chairman, Task Force on Housing and Infrastructure, Committee on the Budget, U.S. House of Representatives. Our audit objectives were to evaluate DOT internal controls over third party drafts (checks) and to determine whether DOT violated policies regarding the use of third party drafts.

RESULTS IN BRIEF

On April 12, 2000, the DOT Chief Financial Officer issued a memorandum discontinuing the use of third party drafts within DOT after May 10, 2000. The DOT Chief Financial Officer discontinued this program to "... avoid the possibility as well as the appearance of poor financial management..." We confirmed the use of third party drafts was discontinued. To accomplish our audit objectives, we reviewed 432 checks totaling about \$351,000 and found adequate documentation existed to support issuance of the checks.

We identified internal control weaknesses and internal policy violations associated with 65 of the 432 checks; however, our audit work found all purchases were adequately supported. We identified a \$90 overpayment, which the Federal Aviation Administration (FAA) is attempting to recover. We also found FAA had not received reimbursement of a \$2,000 overpayment that it had identified in July 1999. The vendor delivered a check to FAA in August 2000. We are not making any recommendations concerning the violations and weaknesses we found because DOT had already discontinued the third party draft system.

BACKGROUND

Third party drafts are disbursement mechanisms (checks) authorized for purchases; travel advances; reimbursements; training; conferences; and miscellaneous office goods and services. The checks were to be used when electronic payments, such as electronic fund transfers, or other cash management payment methods, such as Government purchase credit cards, were not feasible in meeting the agencies' needs. For example, third party checks were allowed to be used in situations where the vendor did not accept credit cards or when time constraints precluded preparation and approval of a purchase request.

On May 17, 1999, FAA signed a contract with GELCO Information Network to provide the line of credit for third party check-writing privileges. The contract also included the Federal Highway Administration (FHWA) and the Research and Special Programs Administration Volpe National Transportation Systems Center (Volpe). No other DOT Operating Administration used the GELCO contract. Under the contract, GELCO: (1) arranged and established checking accounts with its bank for each of the participating Operating Administrations; (2) provided a supply of checks to authorized users; (3) ensured that sufficient funds were in the accounts to cover checks presented for payment; and (4) billed each Operating Administration by submitting electronic or paper listings of the cleared checks.

SCOPE AND METHODOLOGY

FAA, FHWA, and Volpe were the only three DOT Operating Administrations that used the GELCO contract for third party drafts. The table below provides data on third party check activity from July 1, 1999, through May 10, 2000.

Data on DOT Third Party Draft Payment System

	FAA	FHWA ^{1/}	VOLPE
Checks	31,000	1,250	13
Check Amounts	\$11,000,000	\$ 660,000	\$62,000
Authorized Users	700 ^{2/}	175	3
Regions/Divisions/Offices	12 ^{2/}	54	1

^{1/} Includes 17 checks totaling about \$5,000 written by one authorized user in the Office of the Secretary.

^{2/} Users were located at hundreds of sites throughout the states covered by each region.

Our audit included third party drafts issued through GELCO. Other DOT check-writing programs, such as credit card checks (convenience checks) through the Government Purchase Card Program with Bank of America, and the FedSelect

Program operated by the U.S. Department of the Treasury were not included in this audit. Based on its evaluation that found the cost of FedSelect outweighed the benefits, Treasury discontinued the FedSelect Program on March 31, 2000.

We used nonstatistical sampling and selected 432 checks totaling about \$351,000 (324 from FAA,¹ 95 from FHWA, and all 13 from Volpe). We did not use statistical sampling because constructing the database would have been too costly. If we had found major problems, such as fraud, our plan was to expand audit coverage to include more checks and perform additional audit procedures.

We reviewed the 432 checks for authorized users, required authorization or identification numbers, established dollar limitations, and proper endorsements (checks were not made payable to the checks' signers). We interviewed DOT officials and vendor representatives, and reviewed supporting documentation² for each check to verify evidence of receipt of the goods or services and to determine whether purchases were supported with adequate documentation.

We conducted our audit during July and August 2000 of checks written by FAA, FHWA, and Volpe during the period July 1, 1999, through May 10, 2000. The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

ANALYSES AND RESULTS

For the 432 checks reviewed, we found adequate documentation, such as purchase requests, purchase orders, invoices, or receipts, existed to support issuance of the checks. However, for 65 checks (15 percent), we found that: (1) supporting documentation did not always include evidence that the goods or services were received by the agency (no receiving reports or invoices stamped as received and initialed by authorized officials); (2) more than one check was used to make payments above the checks' established dollar limitations; (3) checks and supporting documentation did not always include required items or information, such as authorization numbers or signatures; and (4) checks were used in situations where a Government purchase credit card or a Treasury check could have been used.

¹ Our sample covered 5 of the 12 FAA regions and offices authorized to use the system.

² The supporting documents for FHWA and Volpe checks were filed in Washington, DC, and Cambridge, Massachusetts, respectively. The supporting documents for FAA checks were maintained at FAA regional offices.

For the 65 purchases, we performed additional audit procedures using follow-up interviews with DOT employees and vendor representatives, and reviews of additional documentation to satisfy ourselves that the purchases were adequately supported. Our follow-up work resolved all issues except one involving an FAA check for the disposal of hazardous materials. We found the invoice for this service was \$1,235, but the check was issued for \$1,325 (digits were transposed), which resulted in an overpayment. FAA is following up with the vendor to ensure FAA receives the \$90 credit.

Our follow-up reviews also disclosed that FAA had not received reimbursement of a \$2,000 overpayment to a vendor who had been paid twice for the same painting service. In July 1999, FAA identified the overpayment and initiated reimbursement action. The vendor's check for the duplicate payment had not been received by FAA at the time of our review in July 2000. After we discussed this matter with FAA and the vendor, the vendor delivered a check to FAA on August 17, 2000.

In February and March 2000, FAA conducted its own study of the third party draft payment system and found instances similar to those we found where drafts were not being used in accordance with its own policy. On April 7, 2000, the FAA Assistant Administrator for Financial Services clarified when third party drafts were to be used and reiterated the availability of other options for making payments.

On April 12, 2000, the DOT Chief Financial Officer canceled the third party draft payment system within DOT, effective May 10, 2000. The Operating Administrations allowed until June 22, 2000, for checks written on or before May 10 to clear GELCO's bank. We reviewed payment-cleared reports from June 1 through July 31, 2000, and found that GELCO appropriately did not honor (cash) five checks that were submitted for payment after June 22, 2000. DOT is using other payment methods to ensure these five vendors are paid for the services they provided.

ACTION REQUIRED

Because the third party draft payment system is no longer used within DOT, we are not making any recommendations addressing the internal control weaknesses or internal policy violations we identified. Accordingly, no response to this report is required.

We appreciate the courtesies and cooperation of DOT representatives. If you have questions, please call Glenn Griser or me at (202) 366-1496.

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