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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-161948

NOVEMBER 23, 1982

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The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Secretary:

Subject: Assessment of Internal Financial and Accounting Controls at the Forest Service's Fiscal Offices (GAO/AFMD-83-21)

This report gives the results of our survey of internal controls over income and expenses at 11 of the Forest Service's fiscal offices and at its headquarters in Washington, D.C. The survey identified some weaknesses in internal controls over collections, receivables, disbursements, and imprest funds at these locations. We also noted a lack of internal audit coverage of field and headquarters accounting and finance activities.

The information in this report should help you in discharging your legal responsibility to operate effective systems of internal control within your agency, as required by the Accounting and Auditing Act of 1950.

This requirement was strengthened in September 1982, when the Federal Managers' Financial Integrity Act of 1982 was signed into law. The new law amends the 1950 act by establishing a number of requirements to help ensure that adequate systems of control are in fact developed and used by Federal agencies. One is that Federal agencies must conduct ongoing evaluations of the adequacy of their systems of internal control. Another is that, beginning in December 1983, the head of each executive agency must make an annual report to the Congress certifying to the effectiveness of the agency's internal controls including, if necessary, a schedule for strengthening any weaknesses identified in those controls.

We based our survey on audit guidelines designed to identify potential internal control problems and on interviews and discussions with fiscal office personnel. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish their extent or the precise corrective actions needed. The weaknesses we identified are discussed in enclosure I and their

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locations are shown in enclosure II. Our work was performed in accordance with generally accepted Government audit standards.

Our survey did not cover the processing of disbursement transactions carried out by the Agriculture Finance Center in New Orleans. We are considering certain aspects of the Center's operation in a separate review, and expect to report the results of that review in the near future.

We discussed our survey results with responsible fiscal office and headquarters personnel. In most instances, they initiated or promised corrective action. However, because we noted some weaknesses at each location we visited, we recommend that you (1) follow up to ensure that the weaknesses we have identified are corrected, (2) issue instructions emphasizing that all established procedures are to be followed, and (3) instruct your Inspector General to increase audit coverage of the Forest Service's financial operations, with particular emphasis on internal controls.

We also recommend that internal control weaknesses of the types identified in our survey be covered as part of your agency's evaluation of internal controls required by the Financial Managers' Integrity Act of 1982 and that, in preparing your required annual statement, you consider whether such weaknesses have been corrected.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending a copy of this report to the Chief, Forest Service and to your Inspector General.

We appreciate the courtesies and cooperation extended to us at each location we visited.

Sincerely yours,

W. D. Campbell

W. D. Campbell
Acting Director

Enclosures - 2

INTERNAL CONTROL WEAKNESSES AT TWELVE

FOREST SERVICE ACCOUNTING STATIONS

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain a system of accounting and internal controls to provide effective control over, and accountability for, all agency assets. Our survey evaluated accounting controls at 11 Forest Service fiscal offices and its headquarters office and disclosed a number of weaknesses. At least one weakness existed at each of the offices we reviewed.

--Collections were not adequately controlled at most locations. They were not deposited promptly or adequately safeguarded, and duties of employees were not adequately divided between handling collections and other functions.

--Accounts receivable were not well controlled at several fiscal offices. They were not always promptly recorded or collected and accounts receivable functions were not always segregated from collection duties.

--Imprest funds were not adequately controlled or safeguarded and imprest safe combinations were not always safeguarded or changed annually as required. Some cashiers shared the same cashbox, and cashier duties were not always properly separated from other responsibilities. Imprest reconciliations and audits were not always performed as frequently as required.

--Disbursement duties were not properly separated at some locations.

--Government Transportation Requests (GTRs) were not always adequately safeguarded or properly reconciled.

--Internal audits of financial activities, particularly internal accounting controls, had not been performed recently.

These internal control weaknesses, most of which existed at several locations, are discussed in detail below.

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

Control requirements for collections are specified in manuals issued by the General Accounting Office, the Department of the

Treasury, and the Forest Service. The Forest Service fiscal offices we visited were not effectively using many of these controls. We found that some of the fiscal offices did not (1) record collections immediately upon receipt, (2) make timely deposits to the Treasury, or (3) have adequate safeguarding facilities for collections. In addition, most fiscal offices did not adequately separate collection officer duties or reconcile confirmed deposits to collection logs. Average monthly collections at these offices were significant; they ranged from about $31,000 to about $4.4 million.

Collections not logged in or handled properly

Cash and checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, our Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12) specifies that agency collections should be placed under appropriate accounting controls as soon as they are received. Such controls should, among other things, provide that collections be logged in immediately upon receipt and properly accounted for until deposited.

Many of the accounting stations we surveyed, however, were not exercising these controls. For example, at seven fiscal offices, mail containing checks was not opened and recorded immediately upon receipt. Instead, mail was usually routed unopened to the addressee who then forwarded any remittances to the designated collection officials. A better practice would be to open all mail at one central point, record any checks or money received at that time, and then forward the mail and remittances to the recipient. This would provide an immediate record of all money received and would facilitate the reconciliations discussed below.

To ensure that all receipts are properly processed and deposited, fiscal offices should periodically reconcile receipt records to deposit records. Five fiscal offices did not routinely do this. Forest Service officials at one office stated that they perform the reconciliations only when requested to do so by the Department of Agriculture's National Finance Center. Reconciling amounts received to amounts deposited should be done routinely.

Collections not deposited promptly

When collections are not deposited promptly, access to the funds by Treasury is delayed and the potential for loss, theft, or misuse of funds is increased. Undue delays in depositing money collected mean that the Treasury is denied use of the funds and, as a result, must borrow--thus increasing the Government's interest costs.

Because timely deposits are important, both GAO and Treasury manuals contain guidance on how frequently collections should be deposited. According to the GAO manual (7 GAO 12.2), collections generally should be deposited daily. More specifically, the Treasury Fiscal Requirements Manual (1 TFRM 6-8030) states that collections of $1,000 or more should be deposited daily, and collections of a lesser amount may be accumulated and deposited when the total reaches $1,000. However, the manual points out that all deposits must be made at least weekly regardless of the amount accumulated.

Despite the above requirements, five of the fiscal offices were not depositing collections promptly. Because of the poor accounting for collections, we found it difficult to determine how long receipts were kept before deposit. The average size of the deposits ranged from about $2,400 to more than $16,800. We noted at the headquarters office that collections were held an average of 23 days and the average deposit totaled more than $10,400.

Collection duties not properly segregated

One of the basic principles of internal control is that critical functions should be divided between two or more persons, a technique referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO manual (7 GAO 11.2) states that persons responsible for handling cash receipts should not participate in accounting or operating functions that would permit them to conceal misuse of the receipts.

We found that 11 fiscal offices did not adequately segregate the duties of employees handling collections. In each office, the same person received, collected, and deposited receipts. In addition, employees handling collections at five offices were also responsible for maintaining the accounts receivable records. At another location, the collection clerk also had purchasing or disbursing responsibilities.

Collections not adequately safeguarded

Because currency and checks are highly susceptible to improper conversion and loss, control procedures should provide adequate physical security. Five fiscal offices were not following one of the most basic security measures: limiting access to the container in which collections were stored. To illustrate:

--Collections at three offices were stored in a locked cabinet or safe until deposited. However, the cabinet keys or safe combinations were kept in unlocked desk drawers nearby.

--At another office, collections were kept in a safe but five people knew the combination.

--One office kept the facility used to safeguard collections open all day. This practice allowed a loss of about $50 in 1978; yet no procedural changes were made. Also, more than one person had access to the key to this facility.

--Two offices had not changed their safe combinations for more than a year.

Forest Service officials generally agreed that better security measures were needed and indicated that corrective actions would be taken.

NEED TO IMPROVE CONTROLS OVER ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from operations and, therefore, are Government assets to be controlled, safeguarded, and--most importantly--collected. The GAO manual (2 GAO 12.4) emphasizes the importance of controlling accounts receivable, stating that they should be recorded accurately and as soon as the acts entitling an agency to collect the amounts involved are completed. When amounts due are not recorded in the appropriate records, the agency's financial statements and reports are incomplete, and management is not in an informed position to take the actions necessary to collect all moneys owed the agency.

Forest Service officials at several locations stated that accounts receivable are established only for debts unpaid at the end of the month. Thus, if a debt is incurred and paid within a month, no account receivable is established. A better practice would be to record all receivables.

Some fiscal activities revealed a need for better division of accounts receivable responsibilities. For example, five offices did not adequately separate accounts receivable duties from collection duties--a generally accepted technique to minimize the risk of misusing cash receipts.

We also noted that one office had 18 outstanding receivables that ranged from 90 to 720 days old and totaled more than $500,000. These debts were owed by other Government agencies, so the overall effect on the Government may be minimal. At the same time, however, it does indicate a weakness in the Forest Service's debt collection efforts.

NEED TO IMPROVE CONTROLS AND USE OF IMPREST FUNDS

Imprest funds are cash-on-hand funds comprised of currency, coin, or Government checks advanced by a U.S. Treasury disbursing office to agency imprest fund cashiers. By their nature, imprest funds are susceptible to misuse, loss, and theft. Accounting and physical controls are needed to minimize this susceptibility. Forest Service regulations encourage the use of imprest funds for small purchases of supplies and non-personal services because the method is less costly than other purchasing procedures which require the processing of purchase orders, vouchers, and checks. We reviewed 12 Forest Service imprest funds ranging from $1,000 to $10,000 and noted at least some control weaknesses in 11 of them.

Basic control procedures not followed

Accounting and physical controls to minimize opportunities for misuse or loss of imprest funds are specified in the GAO manual (7 GAO 27), Treasury's Manual of Procedures and Instructions for Cashiers, and Forest Service manuals and instructions. Despite the widely recognized value of such controls, we noted that they were not being utilized at 10 Forest Service fiscal offices. For example:

--At two locations, the cashier did not mark payment documents "paid" to prevent their reuse. At three locations, the cashier did not lock payment documents such as invoices in the safe with the imprest funds.

--At one location, the combinations of two safes were kept in an unlocked drawer. One of those safes contained about $4,400 in currency and uncashed checks.

--At two locations, the imprest cashier and the alternate cashier shared the same safekeeping facilities. Under these circumstances, it would be difficult to determine accountability for any shortage of funds that might occur.

--At six locations, the imprest cashier was also responsible for other collection and disbursement functions. This violates the basic internal control principle of dividing critical functions between two or more persons.

--At six locations, the safe combination was not changed annually, as required by Treasury procedures. One accounting station had not changed the safe combination in about 5 years.

--At four locations, unannounced imprest fund cash verifications were not always made quarterly, as required by Treasury regulations.

--At six locations, the imprest funds appeared to be larger than the offices' operating needs would require. Two regional offices initiated action during our review to reduce the size of imprest funds in their regions.

--At two locations, no alternate cashier had been designated, thus preventing use of the imprest funds when the designated cashier was absent.

Adequate records not available for audits of imprest funds

Both the GAO and Treasury manuals require periodic, unannounced audits and examinations of imprest funds. The purpose is to determine whether (1) funds are properly accounted for, (2) amounts are in correct proportion to cash requirements, (3) procedures are followed to protect funds adequately from loss or misuse, and (4) funds are used for authorized purposes only. Moreover, the GAO manual (8 GAO 8.1) specifies that accountable officer records, including those of imprest funds, be maintained onsite for a minimum of 1 year to facilitate any audits of the records. Forest Service procedures also provide for annual audits of imprest funds, and we noted that limited audits had been performed at each location we visited. However, the value of these audits is limited because local offices do not maintain all records of the funds' transactions. Instead, some of these records are sent to the Department of Agriculture's National Finance Center with each request for reimbursement to the imprest funds.

This practice prevents the funds from being audited, except for current transactions, unless the records are first obtained from the Finance Center. Records of audits performed at the locations we visited indicated that this had not been done. Sending the imprest records to the Finance Center also places the cashiers in a vulnerable position. If the records are lost in transit or at the finance center, the imprest fund cashiers cannot readily support their disbursements. We believe a better alternative to this practice would be to certify and maintain the records locally.

NEED TO IMPROVE CONTROL OVER DISBURSEMENTS

Most Forest Service disbursements are made by the Department of Agriculture's National Finance Center in New Orleans. We are now reviewing some aspects of the Finance Center's operations and expect to report on that review in the near future. Since we did not visit the Finance Center during this review, however, we cannot comment at this time on the adequacy of internal controls for much of the Forest Service's disbursing process. We did examine the procedures used by the Forest Service locations we visited to accumulate, process, and send documents to New Orleans for certification and payment. In several instances we noted a need for greater separation of duties.

The GAO manual (7 GAO 24.5) provides for disbursing operations to be segregated from such operations and functions as purchasing of goods and services, recording receipt of goods and services, examining invoices, and preparing vouchers. Three locations we visited did separate all these functions. At two offices, one person ordered and received goods, and also prepared the documents supporting payments. Another office had one person preparing and certifying vouchers for payment.

Transportation requests not well controlled

Government Transportation Requests authorize a carrier to issue tickets to Government travelers and bill the Government agency for the cost of the tickets. By their nature, these documents can easily be improperly used. It is essential that they be kept under adequate safeguards and controls.

The General Services Administration's Federal Property Management Regulations specify accountability controls that agencies should use for GTRs. The regulations state that

> "each agency shall prescribe procedures to control GTR procurement, stocking, distribution, and accountability and shall establish safeguards to prevent their improper or unauthorized use."

As indicated below, a number of fiscal offices we visited did not exercise adequate control over GTRs.

--Five fiscal offices did not perform periodic reconciliations of GTRs issued, used, and on hand.

--Two offices allowed the GTR custodian to perform the reconciliations, a violation of the separation-of-duties concept.

--Five offices did not adequately safeguard GTRs against loss or misuse. They were kept in drawers and file cabinets which were either unlocked or locked with the key stored in a nearby unlocked desk.

Because of these weaknesses, GTRs were vulnerable to loss or abuse; should either occur, detection and establishment of accountability would be extremely difficult.

NEED FOR INCREASED INTERNAL AUDIT COVERAGE

Internal audits are widely recognized as a part of an agency's system of financial controls and could have detected the weaknesses noted, allowing management to take prompt corrective actions. Under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal controls, including internal audits.

We noted that the Forest Service's internal control system for the financial operations covered in our survey had not received comprehensive internal audits for more than 3 years. At some fiscal offices the Forest Service had conducted management reviews, including portions of financial operations. But neither the Forest Service nor Agriculture's Office of Inspector General had conducted a comprehensive internal accounting control review of the Forest Service during that period.

CONCLUSIONS AND RECOMMENDATIONS

As discussed in this report, some internal control weaknesses existed at all of the 12 Forest Service offices we reviewed. In many cases, the weaknesses existed because the Forest Service was not following its own prescribed internal control procedures. Although no individual weakness we noted is likely to have a significant impact on the agency's financial condition, in the aggregate such weaknesses could be detrimental to the Forest Service's overall financial operations. They should not be allowed to continue unchecked.

Internal financial control weaknesses of the type discussed in this report should be considered as part of the evaluation of internal controls the Department is required to perform under the Federal Managers' Financial Integrity Act of 1982.

In response to our findings, appropriate officials generally agreed to take corrective actions. Such actions, however, will yield significant benefits only if implemented at all accounting stations rather than just at the ones we visited. Additionally, experience has shown that constant vigilance by top management is necessary to ensure continued effective operation of any internal control. Accordingly, we recommend that you instruct the Chief, Forest Service, to:

--Implement followup procedures to ensure that the weaknesses we have identified are corrected.

--Issue instructions emphasizing that all established internal control procedures must be followed.

We also recommend that you instruct your Inspector General to increase audit coverage of the Forest Service's financial operations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

SUMMARY OF WEAKNESSES NOTED AT FOREST SERVICE FISCAL OFFICES

Weaknesses	Rocky Mountain Regional Office	Pikes Peak-San Isabel Forest Supervisor's Office	Pikes Peak District Office	Red Feather District Office	Arapaho-Roosevelt Forest Supervisor's Office	Alabama Forest Supervisor's Office	Talladega District Office	Superior Forest Supervisor's Office	Siuslaw Forest Supervisor's Office	Mount Baker-Snoqualmie Supervisor's Office	Darrington District Office	Headquarters Office	Total
NEED TO IMPROVE CONTROLS OVER COLLECTIONS													
Collections not properly logged in		x	x	x	x	x		x	x				7
Reconciliations of confirmed deposits to collection logs not done	x	x	x		x							x	5
Collections not deposited promptly		x			x	x		x				x	5
Collection duties not properly segregated	x	x	x	x	x	x		x	x	x	x	x	11
Collections not adequately safeguarded	x	x	x		x		x		x				6
NEED TO IMPROVE CONTROLS OVER ACCOUNTS RECEIVABLE													
Separation of duties inadequate	x				x			x		x		x	5
Debt collection efforts inadequate												x	1
NEED TO IMPROVE CONTROLS OVER IMPREST FUNDS													
Payment documents not canceled or safeguarded to prevent reuse									x	x	x		3
Safeguarding of imprest fund inadequate							x						1
Imprest fund cash box shared		x										x	2
Imprest fund cashier's duties not separated from other collection and disbursement functions			x	x	x				x	x	x		6
Safe combination not changed annually		x	x				x	x		x		x	6
Unannounced verifications not always made quarterly				x	x			x				x	4
Fund level exceeds need			x	x				x	x	x	x		6
Small purchases not made with imprest funds						x	x		x	x	x		5
No alternate imprest fund cashier				x							x		2
NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS													
Separation of duties inadequate				x							x	x	3
All vouchers not pre-audited								x				x	2
Government Transportation Request not properly controlled or safeguarded		x	x		x	x		x	x	x	x	x	9