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

CIVIL DIVISION

MAR 31 1972

LM092397

Dear Mr. Gibson:

We have reviewed selected administrative controls and related financial practices including payroll activities of the Washington headquarters of the Maritime Administration, Department of Commerce. The examination was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review was directed toward the settlement of the certifying officers' accounts through the period ending June 30, 1971, and was primarily concerned with the administrative procedures and controls with respect to cash receipts and disbursements, payrolls, revenues, and related accounts, and included such tests of financial transactions as we deemed appropriate.

We found that generally the administrative procedures and controls were adequate. We did, however, find a need for improvement with regard to unliquidated obligations, accounts receivable, fixed assets, and payrolls which are discussed more fully in the attachment to this letter. In addition to the matters discussed in the attachment, several minor deficiencies were brought to the attention of Maritime officials during our review and corrective action was taken or promised. These deficiencies included an overstatement of $942,150 in the recorded cost of fixed assets as of June 30, 1971. This overstatement occurred because the cost of a new library building at the U.S. Merchant Marine Academy was recorded on the asset accounts of both the Washington Office and the Eastern Regional Office.

We wish to acknowledge the courtesies and cooperation extended to our representatives during the review. We would appreciate your comments and advice as to any action planned or taken on the matters discussed in the attachment.

715384

092397

Copies of this letter with the attachment are being sent to the Assistant Secretary for Administration, and the Director, Office of Audits, Department of Commerce, for their information.

Sincerely yours,

Max A. Neuwirth
Max A. Neuwirth
Associate Director

Attachment

The Honorable Andrew E. Gibson
Assistant Secretary for Maritime Affairs
Department of Commerce

NEED TO IMPROVE

FINANCIAL AND PROPERTY ACCOUNTING PRACTICES

Maritime needs to (1) periodically review and make appropriate adjustments to its unliquidated obligations to ensure that the obligations meet the requirements of section 1311 of the Supplemental Appropriation Act, 1955, as amended, (2) take aggressive collection action to recover amounts due the Government, (3) improve its accounting for office furniture and equipment, and (4) improve its payroll controls.

UNLIQUIDATED OBLIGATIONS

We reviewed the undelivered orders and contracts reported at June 30, 1971, as unliquidated obligations in the salaries and expense appropriations for fiscal years 1969 and 1970. The majority of these obligations did not meet the requirements for reporting financial transactions as obligations as prescribed in section 1311 of the Supplemental Appropriation Act, 1955, as amended. While we did not review the $866,000 of unliquidated obligations reported for the fiscal year 1971 salaries and expense appropriation, we believe that because of the procedures being followed the problem still exists.

We estimate that at least $81,000 of the approximately $94,600 of unliquidated obligations reported in the fiscal year 1969 salaries and expense appropriation and at least $57,500 of the $120,600 of unliquidated obligations reported in the fiscal year 1970 salaries and expense appropriation were not valid obligations at June 30, 1971. Some of these invalid obligations could have been identified prior to the end of the fiscal year for which the funds were appropriated and the funds identified would have been available to meet other needs.

We believe that the overstatement of unliquidated obligations has occurred primarily because the amounts recorded as estimated obligations have not been adjusted to actual cost. We further believe that this condition occurred because:

(1) Operating division personnel have failed to notify the Division of Accounts that obligations should be cancelled or that the invoices, especially for services and employee travel, are final. The Division of Accounts' normal procedure is to liquidate obligations incurred only for the amount of the payment made unless they have evidence that the invoice being paid is the final one for that obligation.

(2) The Division of Accounts has not periodically reviewed the unliquidated obligations to identify those which are no longer valid.

The Department of Commerce accounting principles and standards require that, for proper control over obligations, the unliquidated obligations be reviewed critically at the end of each fiscal year to determine that they meet the requirements of section 1311 of the Supplemental Appropriation Act, 1955, as amended. We were informed by an official in the Division of Accounts that the unliquidated obligations were not reviewed at the Washington headquarters in fiscal year 1971 because of the additional time required to convert to the new financial information system.

Recommendations

We recommend that immediate action be taken by the Division of Accounts to review the documents supporting the unliquidated obligations and cancel those found not valid. In the future the unliquidated obligations should be reviewed critically near the end of each fiscal year to determine that all obligations reported meet the requirements prescribed by law. Appropriate adjustments should be made where estimates were used in recording an obligation. We also recommend that the procedures for notifying the Division of Accounts regarding the status of obligations be reemphasized to operating personnel.

ACCOUNTS RECEIVABLE

We noted that Maritime has not been taking aggressive collection action to recover amounts due the Government. Failure to take prompt and aggressive action results in delays which may prevent collection of the receivable. We noted several claims in Maritime's accounts receivable which we believe may be difficult to settle because the collection action has been delayed for periods of 6 months to 2 years.

The joint regulations, issued pursuant to the Federal Claims Collection Act of 1966 and published as title 4, chapter II, of the Code of Federal Regulations, prescribes standards for the administrative collection of claims. The agency is required to take aggressive action on a timely basis with effective follow-up to collect all claims of the Government. The appropriate follow-up to be made with the debtor consists of three written demands to be made at 30-day intervals unless a response to the first or second demand indicates a further demand would be futile or more prompt action is required. We believe that Maritime's demands, to recover amounts due the Government, are not being made on a timely basis as contemplated by the act and the standards.

For example, two claims totaling $44,128, owed by Hudson Engineering Company, have been outstanding for three years. The Company appealed one claim for $42,333, and a hearing was granted. The appeal was disallowed in September 1969, but the Division of Accounts did not receive a copy of the final opinion and order. No written demands for payment were made until we brought the matter to the attention of Maritime officials in October 1971. A letter was sent on October 14, 1971, to the Hudson Engineering Company demanding immediate payment.

A claim for $1,125.80 is still owed by a former Maritime employee because of an erroneous payment for housing allowance he received while employed in Vietnam during fiscal year 1968. The employee transferred to another Government agency in January 1971 and no payments have been made by the employee subsequent to his leaving, nor have any written demands been made upon the debtor since he left the Maritime Administration. We also noted several other receivables on which follow-up letters demanding payment were written only at intervals of 2 to 15 months apart.

Recommendation

We recommend that instructions be issued to ensure that the standards for the administrative collection of claims are complied with and the demands for payment are made promptly as required by the joint regulations.

IMPROVEMENTS NEEDED IN THE ACCOUNTING FOR OFFICE FURNITURE AND EQUIPMENT

We believe that Maritime needs to improve its accounting for office furniture and equipment. Specifically, we believe the agency should (1) capitalize these assets at cost, (2) adjust the accumulated depreciation accounts when property is disposed of, and (3) improve its control over certain types of assets. The present practices have resulted in an understatement of the cost of the assets, an overstatement of accumulated depreciation, and the loss of some assets.

Capitalization of assets

Maritime has been using an established standard unit cost as the basis for capitalization of its office furniture and equipment. We noted that on several purchases in fiscal year 1971 the amount capitalized varied considerably from the actual cost of the furniture. The standard cost is generally not revised unless the new additions substantially increase the quantity of such property on hand. For most items the standard cost has not changed since the standards were established in 1961.

We believe a more simplified method, to accurately record costs and avoid differences of this type, would be to capitalize the property at actual cost. Because the property loses its individual identity after being capitalized, a periodically revised standard cost could be used when property is disposed of.

Accumulated depreciation

Maritime depreciates its office furniture and equipment by using a group method by class of asset. Generally accepted accounting principles provide that, when the group method is used, depreciation and related accumulated depreciation will not be associated with any particular asset within the group and individual assets will be considered fully depreciated at the time of disposal.

Therefore, when an asset is disposed of, the cost of that asset should be removed from the asset account and the cost less salvage should be removed from the related accumulated depreciation account, and no loss or gain recognized.

If disposals or transfers in significant amounts take place for reasons not contemplated when the group depreciation rate was established (such as the transfer in 1970 to the Department of Commerce of books and equipment with an original cost of about $302,000) with the result that the asset should obviously not be considered fully depreciated, the accumulated depreciation account may be charged with only the depreciation provided at the group rate during the period of use.

Using this method, a periodic review of the accumulated depreciation would be required to ensure that the depreciation rates are reasonable. The Department of Commerce accounting principles and standards provide for a review of the depreciation rates on a schedule of five equally spaced periods throughout the estimated useful life but not more than once every two years.

We noted, however, that whenever Maritime disposes of office furniture and equipment, it makes no adjustments at that time to the accumulated depreciation accounts. Instead, the adjustments are made at the end of the year on the basis of the estimated average age of the assets on hand compared to the expected life of that class of assets.

In addition to being unnecessary, the procedure of annually adjusting the accumulated depreciation has resulted in an overstatement of the accumulated depreciation because of the failure to properly adjust the estimated average age of the office furniture and fixtures on hand.

The Washington office furniture and equipment were recorded at a cost of $1.5 million as of June 30, 1968, with an accumulated depreciation of $600,000 and thus had a net book value of $900,000. During the next 3 years, additions totaled $300,000 and property capitalized at a cost of $600,000 was disposed of. At June 30, 1971, even though the cost of the furniture and equipment on hand had been reduced to $1.2 million, the accumulated depreciation account had increased from $600,000 to $840,000 and the net book value was only $360,000. Thus, while the capitalized cost of the assets, most of which had an estimated 30 year life, decreased by only 20 percent, the net book value of the assets decreased 60 percent during this 3-year period.

This decrease in the net book value of the assets occurred because the Division of Accounts, instead of determining the average age of the furniture and equipment on hand, merely added one year to the previous year's estimate even though new furniture and equipment was purchased and old furniture and equipment disposed of.

We were informed by the Division of Accounts that the average age and average life of Maritime's fixed assets other than vessels were furnished by the Office of Administrative Services about 10 years ago. Some small adjustments in the depreciation rates were made in the first 2 or 3 years. Since that time the Division of Accounts has been adding one year to the average age each year to arrive at a year-end accumulated depreciation balance and the depreciation expense to be taken the following year.

Control of Assets

We found that property records showing the location and personnel charged with the custody of furniture and equipment have not been maintained. We believe that the Office of Administrative Services should expedite its planned implementation of a system of control over this property.

As an example of the types of items needing greater control, we found that during the last inventory of personal property, exclusive of certain adjustments, 74 ships clocks could not be located and were removed from the property records. These clocks had been capitalized at $35 to $75 each.

Recommendations

We recommend that Maritime (1) capitalize new furniture and equipment at actual cost and use a standard cost to record disposals, (2) review and adjust the accumulated depreciation accounts to properly reflect the net book value and average remaining life of existing assets, (3) adjust accumulated depreciation accounts when property is disposed of, and (4) expedite its planned implementation of a system of control over office furniture and equipment.

PAYROLL CONTROL OVER RATES-OF-PAY

We found that Maritime's payroll office does not use predetermined control totals over rates-of-pay. We were informed by an official in the Division of Accounts that the predetermined control totals have not been used during the implementation period of the new payroll system, which started in fiscal year 1971, because of the time required to compute the many control totals. The official agreed that the use of the control for rates-of-pay is an important element of control procedure, and that Maritime plans to implement this control.

The lack of control over the rates-of-pay prevents Maritime from (1) being able to determine if all the payroll rates have been accurately processed, and (2) having adequate confidence in the accuracy of the payroll amounts. We noted one underpayment to an employee which could have been detected and corrected if the predetermined control totals had been in use. In a letter to agency heads dated September 18, 1957 (B-115369), the Comptroller General stated that, in processing payrolls, predetermined control totals of at least hours and rates-of-pay should be utilized to provide a means of checking the accuracy of the data being processed. The agency is presently utilizing a control over the total hours worked by the employees each pay period.

Recommendation

We recommend that instructions be issued to require the utilization of suitable control procedures in the payroll system to ensure that payroll rates have been accurately processed.