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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION



October 14, 1970

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Dear General Clarke:

This report presents the results of our review for settlement of accountable officers' accounts during which review we placed special emphasis on the Corps-wide system of administrative procedures and internal controls.

Our review was conducted primarily in the Kansas City District and included financial transactions for fiscal year 1969. We reviewed selected accounting and internal controls and made such tests of receipt and disbursement transactions as we deemed appropriate. Our review of payroll activities was conducted at the Central Payroll Office (CPO), Southern Area, and two other district offices serviced by the GEO (Tulsa and St. Louis).

Our review was made pursuant to 31 U.S.C. 71 with particular emphasis on the criteria set forth in the Comptroller General's letter, B-161457, dated August 1, 1969.

In that letter, the Comptroller General pointed out that section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain systems of accounting and internal controls, including appropriate internal audit, to provide, among other things, effective control over and accountability for all funds, property, and other assets for which the agency is responsible. He further stated that relative to functions of accountable officers, this responsibility includes providing assurance of the legality, propriety, and correctness of disbursements and collections of public funds, and that:

"In recognition that the basic responsibility for proper accounting and internal control is that of each agency, the GAO audit of accountable officers' functions will place its major emphasis on the adequacy and effectiveness of the accounting and internal controls, including internal audit, of the departments and agencies in assuring that the accountable officers' functions are discharged correctly and in accordance with the requirements of all applicable laws and regulations."

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With the exception of certain matters needing corrective action as discussed in the following sections of this report, we found the Corps' system of administrative procedures and internal controls to be generally satisfactory in assuring that the accountable officers' functions were discharged correctly and in accordance with the requirements of all applicable laws and regulations.

NEED FOR SEPARATION OF DUTIES IN  
THE FINANCE AND ACCOUNTING BRANCH

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The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies states that responsibility for assigned duties and functions should be appropriately segregated as between authorization, performance, keeping of records, custody of resources, and review, so as to provide proper internal checks on performance and to minimize opportunities for carrying out unauthorized, fraudulent, or otherwise irregular acts. Further, Army regulations provide that finance and accounting offices shall be so organized as to identify the functional responsibilities of each segment of the organization and to provide a system of internal control.

In the Corps, the Finance and Accounting Branch receives and deposits cash collections, prepares vouchers for disbursement, preaudits the vouchers, makes the disbursements, and records accounting entries. The head of this Branch also functions as the disbursing officer. Because of the multifaceted duties of the Branch and the dual functions of the head of the Branch, we believe that a special need exists for appropriate separation of duties within the Branch.

We found, however, that such duties are not always appropriately segregated. We observed that an employee in the Kansas City District disbursing section receives collections for deposit, prepares the deposit ticket, makes the deposit, receives the stamped duplicate deposit ticket from the bank, and follows up on dishonored customer checks which are returned to him. This employee also has access to blank checks.

We believe that improved internal control would be attainable if all of the above-cited aspects of the collection function were not performed by one individual.

Recommendation

Accordingly, we recommend that the Chief of Engineers prescribe more detailed instructions concerning the separation of duties in the Finance and Accounting Branch in the various Corps districts and divisions.

NEED FOR STRENGTHENING  
PROCUREMENT PRACTICES

In our review of procurement practices, we found a need to (1) separate purchasing and receiving duties and (2) improve control over returns and allowances. Each of these matters is discussed below.

Need to separate purchasing  
and receiving duties

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Responsibility for civil works procurement generally is decentralized to divisions, districts, and separate installations and activities. As a part of this decentralized procedure, Corps regulations authorize the appointment of Ordering Officers and Responsible Employees.

Ordering Officers make over-the-counter purchases up to a specified amount while Responsible Employees receive and control Government property. We could locate no Corps regulation, however, which places restrictions on the appointment of the same individual both as an Ordering Officer and as a Responsible Employee. We found that in the Kansas City District 35 of the 61 Ordering Officers and their alternates, or about 57 percent, were also Responsible Employees or their alternates.

Need for improved control  
over return of goods

Corps regulations require that receiving reports be properly annotated when goods received are not those specified in the contract or purchase order and be forwarded to the Finance and Accounting Branch. We could not locate any regulations, however, which provide for the procurement office to notify the Branch in writing of goods returned to, and adjustments to be received from, vendors after the receiving report has been sent to the Branch.

Information furnished to us by Kansas City District officials indicated that, after the receiving report is sent to the Branch, systematic written notification is not furnished to the Branch when goods are returned to the vendors. We were advised, however, that returns often come to the attention of the Branch through contact with the vendor or by receipt of the vendor's credit memorandum.

Recommendations

To provide assurance that the purchasing and receiving functions are properly separated throughout the Corps, we recommend that Corps regulations require that separate individuals be appointed to these functions whenever possible. When it is necessary to designate one