



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

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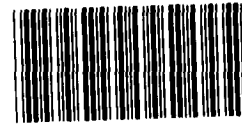
DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-183363

See Form 115 for title

DECEMBER 20, 1978

General George S. Blanchard
Commander in Chief
United States Army, Europe,
and Seventh Army
APO U.S. Forces 09403



108202

Dear General Blanchard:

This report contains the results of a questionnaire survey ~~we made~~ to evaluate the procedures and controls over revenue and expenditure transactions in the United States Army, Europe, and the Seventh Army. The survey was conducted at command headquarters and seven finance and accounting activities. (See encl. II.) The work was performed pursuant to our responsibilities set forth in the Budget and Accounting Act, 1921 (31 U.S.C. 53) and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The questionnaire was designed to identify potential problem areas in the system of internal controls over collections, disbursements, imprest funds, and obligations. We found several weaknesses or potential weaknesses which we discussed with accounting station officials who, in general, agreed with us. We did not, however, determine the extent of the weaknesses or the precise corrective action needed. Generally, the Command needs to:

- Improve controls over collections received by mail.
- Improve controls over the use of foreign air carriers.
- Develop consistent procedures for taking cash discounts.
- Improve controls over bank statement reconciliations and signature plates.
- Fully implement quality assurance reviews.
- Improve controls over imprest funds.

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--Require that the basis for and computation of estimated obligations be shown on the obligating document.

--Improve certain cash management procedures.

Although headquarters and finance and accounting officials either initiated corrective action or promised to further review the area, we would appreciate your informing us in writing of final corrective actions taken as a result of our survey. We appreciate the courtesies and cooperation extended to us by your staff.

We are sending copies of this report to the Secretary of the Army for further distribution.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury
Director

Enclosures - 2

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES
AT SEVEN ARMY FINANCE AND ACCOUNTING
STATIONS IN EUROPE

NEED TO IMPROVE CONTROLS OVER
COLLECTIONS RECEIVED THROUGH
THE MAIL

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1), agencies must maintain adequate physical controls over all collections. Such controls include having (1) the collections logged in by the person opening the mail and (2) the receipts verified by an individual other than the one responsible for opening the mail.

The seven finance and accounting activities collect about \$62.4 million a month, mostly through the mail. Mail receipts consist primarily of payments for medical services, deposit slips for commissary sales, 1/ and reimbursement for services provided by one Army unit to another. Despite sizeable collections, none of the seven activities logs in collections in the mailroom. Control is not established until the mail collections are received in the disbursement section at which time collection vouchers are prepared. Furthermore, only one activity verified mail collections in the presence of another person. Officials at the other activities said that staffing limitations precluded assigning a second individual to verify receipts. They had not given serious attention to verifying since all checks are payable to the Treasury of the United States, and therefore theft and conversion of the checks would be impossible. Although we agree that the possibility of the theft of collections is remote, without proper controls, receipts can be lost or misplaced resulting in untimely depositing, recording, and accounting of receipts.

An Army Command official stated that this question has recently been addressed as a result of our work, and that two individuals will now be involved in opening and verifying mail receipts.

1/Commissary activities directly deposit their sales receipts in a U.S. banking facility and the bank forwards a copy of the deposit slip to the finance and accounting office.

CONTROLS OVER TRAVEL ON FOREIGN
CARRIERS NEED TIGHTENING

The Comptroller General's Guidelines for Implementation of Section 5 of the International Air Transportation Fair Competitive Practices Act of 1974 (49 U.S.C. 1517), commonly referred to as the Fly America Act, states that:

"The Comptroller General will disallow any expenditures for commercial foreign air transportation on noncertificated air carriers unless there is attached to the appropriate voucher a certificate or memorandum adequately explaining why services by a certificated air carrier were 'unavailable.'"

The transportation audit section of the Command's Central Finance and Accounting Office is responsible for reviewing and approving all Army transportation claims, including air services. The transportation section has been designated by GAO as the final audit authority for all United States Army, Europe (USAREUR) transportation payments. According to the Chief of the Transportation and Commercial Accounting Division, the responsibility for assuring that U.S. carriers are not available before approving the use of foreign flag carriers lies with the individual transportation officers. But since the transportation audit section does not receive or require certification from the officers justifying the use of foreign carriers, they have never disallowed payments for Fly America Act violations.

We believe that the Central Finance and Accounting Office, as the final audit authority, should require explanations of why foreign flag aircraft are used and exercise their disallowance authority when violations are indicated. An Army Command official said the problem would be studied further.

INCONSISTENT PROCEDURES FOR
TAKING CASH DISCOUNTS

Both the Department of the Treasury's Fiscal Requirements Manual (8040.30) and GAO's Policy and Procedures Manual for Guidance of Federal Agencies require that agency payment systems be set up to process invoices promptly to take advantage of cash discounts offered by suppliers. While all the finance and accounting activities surveyed had such procedures and were generally doing a good job of monitoring discounts and taking advantage of them where appropriate, some discounts were being lost.

During the period covered by our questionnaire, about \$100,000 in discounts was not taken, as shown in the following table. Except as otherwise noted, the table shows discount transactions between July 1, 1977, and June 30, 1978.

<u>Activity</u>	<u>Available discounts</u>		<u>Discounts lost</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
27th Finance Section	(a)	\$ 26,000	-	\$ -
8th Finance Section	1,200	48,000	-	-
18th Finance Section (note b)	8,404	1,472,700	74	15,700
VII Corps Regional Finance and Accounting Office	9,619	1,526,378	1,072	70,142
45th Finance Section (note c)	4,624	555,346	45	6,629
63rd Finance Section	84,068	871,934	-	-
Central Finance and Accounting Office (note d)	<u>10,705</u>	<u>400,649</u>	<u>168</u>	<u>6,529</u>
Total	<u>118,620</u>	<u>\$4,901,007</u>	<u>1,359</u>	<u>\$99,000</u>

a/Information not available.

Information covers the period:

b/Oct. 1, 1977, to Aug. 15, 1978.

c/Aug. 1, 1977, to July 30, 1978.

d/June 1, 1977, to May 31, 1978.

Army regulations, which are generally included in contracts for goods or services, stipulate that the discount period begins either on (1) the day following delivery of supplies or (2) the date of receipt of the invoice in the accounting office, whichever is later. Discounts were being lost mainly because receiving reports were not transmitted to the disbursing office promptly. The VII Corps Regional Finance and Accounting Office, the 18th Finance Section, USAREUR Central Finance and Accounting Office, and the 45th Finance Section normally only make payment when they have the actual receiving report in hand--many times this is after the discount period has expired.

VII Corps officials gave two reasons for the high number of lost discounts. First, in late 1977 a personnel shortage existed, but additional personnel were hired and the situation is improving. The other reason given was that about 20 percent of the lost discounts were in the category of less than one-half percent discount if paid in 10 days, and as stipulated by U.S. Treasury regulations, such discounts are not to be taken. We did not verify the percentage of lost discounts in that category, but even if this estimate is correct, the rate of lost discounts in VII Corps would still be higher than any of the other finance and accounting activities surveyed.

In an effort to overcome the problem of not getting the receiving reports in time to take advantage of cash discounts, the 63rd Finance Section now uses verbal confirmation of receipt of goods and services as the basis for making the discounted payment. When the accounting activity receives the actual receiving report, it is compared to the information obtained verbally and any adjustments are made. This procedure helps to reduce discount loss substantially.

We believe that the Command should reemphasize to its units the importance of forwarding receiving reports promptly. Also, the Command should instruct accounting activities to contact the unit and obtain verbal confirmation of receipt of goods when the discount period is about to expire. This practice would allow the accounting activity to take advantage of the discount even if they have not obtained the reports. Verbal confirmation should be recorded and matched with the receiving report when obtained. These procedures are consistent with the purpose of the Department of Defense's fast payment procedures. They are intended to accelerate payments, enabling activities to take advantage of discounts and make payments on time. It is essential, however, that agencies using these procedures have adequate internal controls to ensure that the receiving reports correspond to verbal confirmations.

An Army Command official said that our observations would be discussed at a forthcoming meeting of all finance and accounting officers.

CONTROLS OVER BANK STATEMENT
RECONCILIATION AND SIGNATURE PLATES
GENERALLY GOOD BUT SOME IMPROVEMENT NEEDED

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.6) requires that bank statements

be reconciled to the agency's account and that such reconciliations be reviewed by someone other than the disbursing officer. At the 45th Finance Section, the disbursing officer made the reconciliations, but they were not independently reviewed. While agreeing with us that this constituted a breakdown in internal controls, officials said the current procedures were implemented because of insufficient personnel in the accounting and reconciliation section to make the reconciliations. At the other activities surveyed, the duties were properly separated since the accounting and reconciliation section reconciled the bank statements. A Command official said the situation at the 45th Finance Section would be corrected to provide proper separation of duties.

Another area of control needing improvement was found at the VII Corps Regional Finance and Accounting Office where we found that the signature plate was generally left on the check-signing machine throughout the workday. In our opinion, good internal control dictates that signature plates used on check-signing machines be properly safeguarded. At the other finance and accounting activities that use those machines, the signature plates were removed from the machine and stored in a safe after check signing was completed. VII Corps officials did not show much concern at this practice since unauthorized use of the signature plate would be detected at the end of the day when the number of checks written--based on machine totals--are reconciled to the number of vouchers paid. While unauthorized use of the signature plate probably would be detected, better control of the plate could prevent this from happening. The finance and accounting officer said that in the interest of good internal control, he would instruct the disbursing officer to take the signature plate out of the safe only when necessary.

QUALITY ASSURANCE REVIEWS
SHOULD BE FULLY IMPLEMENTED

Army Regulation 11-37, dated April 14, 1976, requires each financial and accounting activity to establish an internal quality assurance staff. The purpose of these staffs is to review financial transactions for accuracy and adequacy and to recommend changes for improvement, where necessary.

The requirements of this regulation were being carried out in various ways at the seven finance and accounting activities we visited. At three activities--the 8th, 45th,

and 27th Finance Sections--the quality assurance staffs regularly conducted programmed, systematic reviews of financial and accounting activities. At two other activities--VII Corps Regional Finance and Accounting Office and the 18th Finance Section--the staffs had just recently developed systematic review programs. However, as of August 1978, the VII Corps staff still had not performed any programmed reviews. The Central Finance and Accounting Office staff had developed a review program but had not made any reviews. Instead, this staff had been used to responding to problem areas primarily on an as needed basis. At the 63rd Finance Section, the staff had only recently been established and was in the process of developing a systematic review program.

We believe the Command can benefit by having these staffs promptly identify unacceptable practices in financial and accounting activities. The Command should ask the quality assurance staffs to unify their systematic review programs so the Command can better use the results of those reviews to evaluate the effectiveness of its finance and accounting activities. Army Command officials said they would study our suggestion.

NEED TO IMPROVE CONTROLS
OVER IMPREST FUNDS

Army Regulations 37-103 and the GAO Policy and Procedures Manual for Guidance of Federal Agencies require that:

- Safe combinations be changed at least semiannually and whenever a new cashier is assigned.
- Documentation supporting imprest fund vouchers be cancelled to prevent their reuse.
- Imprest funds be maintained in a safe with access to these funds limited to the cashier.
- An inspection of imprest funds be performed quarterly and that such inspections include a cash count and review of security controls.

The purpose of these requirements is to enhance internal control by reducing opportunities for manipulation and unintentional misappropriation of funds.

At four locations we visited, we found instances where these requirements were not being followed. At one location, the combination to the safe in which the imprest funds were maintained had not been changed for nearly a year. At another

location, the safe combination had not been changed for nearly 3 years. One imprest fund cashier did not cancel documentation supporting paid invoices, and at another location, imprest funds were maintained in an unlocked cash box stored in a safe which was accessible to several people other than the cashier. We brought these deficiencies to the attention of responsible officials and corrective action was taken or promised.

The fourth requirement of the regulation was generally being carried out. Officials at five of the six activities having imprest funds said that quarterly inspections of imprest funds were being performed as required and inspection reports prepared. However, at the other activity, officials were uncertain whether the required inspections were being performed since they did not receive copies of the inspection reports. They said they would inform all imprest fund cashiers to forward copies of the inspection reports to the central office.

We believe central office officials should regularly receive these inspection reports to assist them in managing operations. Furthermore, inspection reports should be sent directly to central office officials by the inspection teams rather than by cashiers.

BASIS FOR AND COMPUTATION
OF ESTIMATES NOT SHOWN ON
OBLIGATION DOCUMENTS

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 17.1), when an obligation is based on an estimate, the basis for and computation of the estimate will be shown on the obligation document.

At two of the seven finance activities this requirement was not followed--an estimated obligation was only required for utilities and personal service contracts. The vast majority of the other obligations are for fixed amounts which are known at the time the obligation is incurred, and the Department of the Army has issued guidelines on how to prepare these estimates. However, those guidelines do not require that the basis for and computation of these estimates be shown on the obligation document. Finance activity officials said that the individuals preparing the estimates and certifying the availability of funds are responsible for ensuring that the estimates are valid, not the accounting offices. Therefore, they felt no need to show this information on the obligation documents.

In our opinion, however, the failure to show the basis for the obligation hinders effective management review and audit of the obligation documents. After discussing the need for showing that information on the obligation document, an Army Command official said that they would instruct all finance and accounting offices to do so.

POTENTIAL FOR IMPROVING
CASH MANAGEMENT PROCEDURES

The U.S. Treasury's Fiscal Requirements Manual (8040.20 and 8040.30) states that payments should be made as close as possible to the due date and that discounted payments should be made on the last day of the discount period. However, only one finance office attempts to follow this requirement. No system has been established to ensure that payments are made on the last possible day, but existing delays in the current payment process usually result in just that. However, to ensure compliance with good cash management principles, we believe the Command should inform the finance and accounting activities of the necessity for and advantages of complying with this requirement.

Another potential area of improved cash management concerns the Command's German local national payroll which is estimated to be between \$525 and \$575 million in fiscal year 1978. Local nationals are paid monthly through German Defense Cost Offices located throughout Germany. The Command's regulations require that the finance and accounting activities advance funds for local national payrolls to the Defense Cost Offices not less than 10 working days before payday. However, the actual funding practice varies among the four finance and accounting activities which fund most of the payrolls. For example, one activity adheres to the 10 working-day criterion, while two other activities fund the payroll 10 calendar days in advance. The fourth activity funds the payroll only 5 working days in advance, a practice which, according to officials, was negotiated in 1976 with its Defense Cost Offices and has proved satisfactory to all parties concerned.

We believe the Command should consider negotiating with the German Defense Cost Offices to reduce the advance period for transferring all local national payrolls and change its regulations accordingly. By doing so, considerable interest could be saved by the U.S. Government by keeping the estimated \$44 to \$48 million monthly payroll in the U.S. Treasury as long as possible. Army Command officials told us that they would study this possibility.

SUMMARY OF OBSERVATIONS AT ARMY FINANCE

AND ACCOUNTING STATIONS IN EUROPE

<u>Areas Needing Improvement</u>	<u>Finance Sections and Accounting Offices</u>						
	<u>18th</u>	<u>45th</u>	<u>27th</u>	<u>63rd</u>	<u>8th</u>	<u>CFAO</u> (note a)	<u>VII Corps</u>
Controls over collections received by mail	X	X	X	X	X	X	X
Controls over the use of foreign carriers						X	
Procedures for taking cash discounts	X	X				X	X
Controls over bank statement reconciliation and signature plates		X					X
Quality assurance reviews	X			X		X	X
Controls over imprest funds	X						X
Basis for and computation of estimates on obligation documents	X		X				
Certain cash management procedures	X	X	X	X	X	X	X

a/Central Finance and Accounting Office

ENCLOSURE II

ENCLOSURE II

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