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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-183363

JULY 10, 1979

Admiral M. F. Weisner, USN
Commander in Chief
U.S. Pacific Fleet DLG01666

Dear Admiral Weisner:

This report contains the results of our survey of accounting controls over revenue and expenditure transactions at 21 accounting stations in your Command, including stations from the surface, submarine, and naval air forces. The control weaknesses that we noted are detailed in enclosure I and the locations of such weaknesses are shown in enclosure II.

Briefly, our survey efforts identified many internal control weaknesses in your Command's accounting system. The weaknesses were prevalent in ship disbursing officers' funds, imprest funds, disbursements and collections, and were severe enough to prevent reliance upon the financial management system to properly control and safeguard financial resources.

We discussed our survey results with the responsible U.S. Pacific Fleet officials at all locations visited and, in most cases, they initiated or promised to take actions to correct the weaknesses we cited. Because of this, we are not making any formal recommendations at this time, but are providing you with details of the weaknesses to help in discharging your responsibilities under the Accounting and Auditing Act of 1950 (31 U.S.C. 66a). As you know, that law requires agencies to provide effective control and accountability over all funds for which they are responsible.

You should have appropriate Command officials determine whether actions to correct system weaknesses discussed in this report were completed promptly and effectively. We specifically encourage you to periodically monitor your Command's imprest funds because of questionable disbursements we found and because the funds, by their nature, readily provide opportunities for misuse.

For your information, we evaluated the accounting controls using questionnaires designed to identify potential problem areas. The questionnaires covered the system of in-

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ternal controls over collections, imprest funds, accounts receivable, government transportation requests, travel advances, disbursements, and obligations. The questionnaires were the basis of our interviews and discussions with responsible officials. When responses to questions indicated potential weaknesses in financial controls, we tested selected transactions to determine whether the weaknesses actually existed. However, we limited our work to identifying weaknesses in internal controls and did not attempt to establish either the extent of weaknesses or the precise corrective actions needed.

We are sending copies of this report to the Department of the Navy's Office of Audit for use in planning reviews of accounting controls and transactions and to the Assistant Comptroller, Navy Financial Management Systems. We would appreciate being informed in writing of the corrective actions taken on the specific system weaknesses discussed in this letter and its enclosures.

We appreciate the courtesies and cooperation extended to us by your staff.

Sincerely yours,

H. C. Kensky for

D. L. Scantlebury
Director

Enclosures

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES

AT 21 U.S. PACIFIC FLEET 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 control to provide effective control over and accountability for all the agency's assets. Our survey evaluated existing accounting controls at 21 accounting stations including 12 ships, the Naval Amphibious Base of the Surface Force, 2 submarines, 2 bases of the Submarine Force, two naval air stations, and an air squadron. The survey disclosed that: the following weaknesses existed at one or more of the locations:

--Excessive cash levels were being retained by ships' disbursing officers, a longstanding problem in the Navy previously reported by GAO. (See footnote on p. 2.)

--Imprest funds were not properly managed at several locations; basic control procedures were not in use, questionable expenditures were being made, and excess cash balances were being held.

--Disbursements for travel were not effectively controlled; the vouchers were not adequately preaudited and excess advances were not recovered.

--Collections were not properly handled, adequately safeguarded, or promptly deposited; effective collection action was not taken on delinquent accounts, and the duties of employees involved in cash collections were not segregated.

--Statistical sampling procedures were being applied to vouchers with dollar values much greater than those authorized by the Comptroller General.

The above weaknesses existed at one or more of the locations we visited. Enclosure II summarizes specific weaknesses we found at each office. The details of those weaknesses follow.

EXCESS CASH HELD BY SHIPS' DISBURSING OFFICERS

Our and the Treasury's guidance to Federal agencies emphasizes that excessive cash balances should not be held outside the U.S. Treasury because such excesses can unnecessarily increase the Federal Government's interest costs on the public debt. Since 1974, GAO has twice reported that disbursing officers on naval ships were holding excessive cash balances. We observed similar conditions during our recent review.

GAO specifies cash management standards for disbursing officers in its Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 21 and 28). The Navy Comptroller Manual specifies that excess cash should be deposited daily to the account of the U.S. Treasury and, when not possible, the excess cash should be delivered to another disbursing officer who needs the cash or who can readily transfer it to the Treasury. Excess cash is defined by the Navy as amounts greater than the disbursing officer's personal risk limit which is computed by determining the disbursing officer's maximum cash needs at any given time during a 6-month period. The risk limit represents the maximum amount of cash that should be on hand, except amounts to cover large planned disbursements, such as the payroll.

Despite the specific instructions and our previous reports on excessive cash being held on naval ships, 1/ disbursing officers on seven of eight ships we visited were depositing only the checks and small change that were collected and were holding currency collections for reuse. As a result of this practice, the seven ships' disbursing officers exceeded their personal risk limit by amounts ranging from $9,000 to $50,000. The following table shows the extent of the excesses on each ship we visited while in port during August or September 1978.

1/"Cash Management Policy and Procedures Need Improvement," B-159797, Mar. 17, 1978; "Savings in Interest Costs Realized by Reducing Cash on Hand at Overseas Activities," B-159797, Mar. 21, 1974.

Ships in port	Cash balances On hand	Risk limit	Excess amount
U.S.S. Tripoli	$36,000	$15,000	$21,000
U.S.S. Duluth	31,000	8,000	23,000
U.S.S. Buchanan	17,000	8,000	9,000
U.S.S. Wilson	57,000	10,000	47,000
U.S.S. Bainbridge	59,000	10,000	49,000
U.S.S. Lang	2,000	2,000	0
U.S.S. England	41,000	10,000	31,000
U.S.S. Stein	55,000	5,000	50,000

Officials of the Naval Air Forces, Pacific, said that aircraft carriers also have an excess cash problem.

The San Diego Fleet Center is responsible for monthly reviews of cash balances being held by the Pacific Fleet's disbursing officers but has not discharged this responsibility. Center officials said the limited information provided in financial reports by the ships' disbursing officers precluded effective reviews.

During our survey, the Commander in Chief, U.S. Pacific Fleet emphasized the need for disbursing officers to determine cash needs in accordance with Navy regulations. The instructions also emphasized the importance of review responsibilities related to verifying the need for cash balances and instructed Navy officials to comply with them. We believe that the Navy's actions should help strengthen cash management, but improvements are also needed in financial reporting.

NEED TO IMPROVE CONTROL OVER IMPREST FUNDS

By their nature, imprest funds are susceptible to misuse, loss, and theft. These conditions can be minimized by exercising control procedures set forth in Navy regulations which are consistent with GAO prescribed standards. At 15 of the 24 funds we reviewed, however, the prescribed control procedures were not being followed and, in some instances, excessive cash balances were accumulated. Our analysis of the activities of two of the funds with excessive cash balances disclosed several questionable disbursements from imprest funds.

Control procedures not followed

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27.6) instructs agencies to develop controls to ensure that imprest fund cashiers account for the full amount of funds advanced to them. The Navy Comptroller Manual contains general guidelines for operating the funds and the specific operating procedures are in Navy Supply Publication 467. The Navy Supply Publication specifies that one individual should be accountable for each fund, safe combinations should be changed at least annually, each disbursement should be documented, and unannounced verifications of cash balances should be made at least quarterly.

Our survey showed that prescribed procedures were not being followed at 15 accounting stations we visited. For example, for some imprest funds, we found that (1) more than one person or organization had access to the fund, (2) safe combinations were not changed as required, (3) disbursement vouchers were not properly numbered for control purposes, and (4) unannounced cash verifications were either not made or were improperly scheduled in advance.

The deficient controls were brought to the attention of appropriate Navy officials. They agreed to follow the prescribed procedures in operating their imprest funds in the future.

Excess cash held in imprest funds

The Navy Comptroller Manual states that the amount of an imprest fund should be maintained at the minimum necessary for operation. Despite the requirement, we found five imprest funds with cash in excess of needs. For example:

--A Navy commissary had a smaller sales volume than a nearby Air Force commissary, yet it had a $25,000 imprest fund compared with the Air Force activity's $5,000 fund.

--A Pacific Fleet headquarters' fund had a $1,000 fund balance which was reduced to about $190 after the Command imposed proper controls on use of the fund as the result of our review.

We brought these excessive cash levels to the attention of Navy officials. They agreed to reduce the levels to amounts needed and, in some cases, the levels had been reduced by the time our field work was completed.

Questionable disbursements

Because of the apparent weaknesses in control over and the seemingly high level of some funds, we selected disbursements from two imprest funds with a large number of transactions to find out if they were appropriate for an imprest fund activity. We identified many items, particularly in one fund, that should not have been purchased or that could have been obtained either on a reimbursable basis from Navy supply activities or through check payments to commercial sources in accordance with blanket purchase agreements. The funds were for the headquarters' support activities within the unified Pacific Command and the Pacific Fleet.

The Pacific Command fund's volume was excessive in our opinion, because the fund was used for many purchases that could have been more efficiently provided through the normal Navy supply system. The Pacific Fleet's fund, however, included numerous questionable purchases which appeared to warrant investigation. The purchases included (1) a frame for a Charley Brown cartoon, (2) aloha shirts for employees at an admiral's house, (3) tennis court squeegees, (4) cameras and calculators allegedly of foreign manufacture, and (5) coffee supplies. Before the fund level was reduced, as previously discussed, this particular fund was averaging over $4,000 monthly in cash advances for purchases. The unnecessarily high volume was partially attributable to two things--the improper practice of frequently splitting purchases to avoid the Navy's $150 limitation for each imprest fund transaction, and the purchase of items which could have been obtained by either purchase agreements or from Navy supply stocks.

Once Pacific Fleet officials took steps to tighten controls over this fund, 1978 disbursements dropped from $4,500 in August to $186 in October. We are bringing these problems to your attention so that you can investigate other funds to determine how widespread abuses are in the imprest funds and whether illegal disbursements have been made.

NEED TO IMPROVE CONTROL OVER DISBURSEMENTS FOR TRAVEL

Our Policy and Procedures Manual for Guidance of Federal Agencies provides standards to be followed by Federal agencies in developing procedures to control disbursements. The Navy's implementing regulations generally comply with those standards. However, we found that some stations were not adequately preauditing travel vouchers before their certification for payment and, as a result, more than $700,000 was overpaid in travel advances. Also, travel advances were outstanding for long periods at offices we reviewed.

Travel vouchers not adequately preaudited

As specified in our Guidance to Federal Agencies, the Navy Comptroller Manual requires vouchers to be preaudited before being certified for payment. The manual states that an objective of the preaudit is to determine whether the payment amount is correct. In April 1978 we issued a report on the tens of thousands of Navy travel and leave errors which were uncorrected because of insufficient staff (FGMSD-78-29).

We found that this condition still exists. The Fleet's Accounting and Disbursing Center in San Diego is responsible for examining vouchers paid by the ships and the foreign stations that pay officers' accounts. Based on the Center's figures, the error rate for these averaged about 13 percent during July and August 1978, resulting in about $710,300 in overpayments and about $17,600 in underpayments. The 13-percent error rate is extremely high, far exceeding the 1.5-percent rate experienced by shore activities during the same period. The error rate on ships' and foreign stations' travel vouchers continued to be a serious problem at the time of our visit.

In the summer of 1978, the San Diego Center was receiving about 40,000 vouchers to examine every month. Because of the high error rate coupled with an inadequate staffing level, the Center had a backlog of over 135,000 vouchers to examine in August 1978.

In the same month, the Center requested additional staff to handle the workload and seminars were planned to train Navy personnel to properly prepare travel vouchers. One additional position had been authorized for the Center, and calculators had been ordered to use when preparing vouchers. We believe that these actions, when completed, will strengthen the Pacific Fleet's travel voucher examination program, but further actions may be necessary to correct the problem.

Excess travel advances not recovered

As specified in the Navy Comptroller Manual, the Pacific Fleet Command's accounting systems should include procedures for periodic reviews and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep advances to a minimum. The review and analysis were not being made at the accounting stations we visited and, as a result, excessive travel advances were not being followed up and corrected promptly.

At the accounting stations we visited, as of August 1978, over 18,000 advances for more than $1 million were more than 60 days old. The majority of the old travel advances were to Naval Surface and Naval Air Force personnel. When asked about the problem, a Navy official said that the Naval Audit Service had recently found that the Pacific Command's Naval Air Forces had excessive travel advances. The Service said that travel advances remained outstanding too long because periodic listings of travel are not reviewed promptly.

During our review, the Naval Surface Forces initiated a procedure calling for review of all travel advances outstanding for more than 30 days. This requirement should be placed on all U.S. Pacific Fleet forces to ensure that travel advances do not remain outstanding for excessive periods and unnecessarily tie up funds.

NEED TO IMPROVE CONTROL OVER COLLECTIONS

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11 and 12.2) provides standards to be followed by Federal agencies in controlling fund collections. As specified in this manual and incorporated in the Navy's manual, agencies' collections should be promptly collected, deposited, and adequately safeguarded, and responsibilities related to cash collections should be adequately segregated. As discussed below, many Navy accounting stations did not follow the specified guidelines for controlling collections.

Collections not adequately safeguarded

Collections were not adequately safeguarded at five locations. The Navy Comptroller Manual requires that all cash in possession of an accountable person be kept in a safe or security container with the combination known only to that person.

Despite this guidance, at five naval activities we visited more than one person had access to funds. For example:

--Safe combinations were known to more than one person.

--Safe combinations were sealed in an envelope which was available to other personnel.

--Collections were placed in unlocked containers.

We advised Navy officials that the unlimited access to collections increases risk of loss and precludes individual accountability--a key element for maintaining good internal control over collections. This problem should be corrected and periodically reviewed to ensure the integrity of the internal control system.

Duties not properly segregated

As stated in our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.2), and as recognized in Navy manuals, persons handling cash collections or receipts should not participate in accounting functions related to controlling accounts receivable. At 13 accounting offices we visited, duties related to collections were not properly segregated. Individuals in these offices handled collections and also participated in the billing function or helped with accounts receivable records. For example:

--At eight shore activities, personnel involved in collections also controlled accounts receivable and related subsidiary records.

--At five activities, collection personnel also prepared or mailed statements and balances due.

Rotating cashiers provides some control over collections, but this was not always done. For example, although military personnel rotate assignments, civilian cashiers at three locations had not rotated positions for several years.

Our Policy and Procedures Manual requires that cash handling be segregated from the accounting and operating functions. The purpose of this policy is to prevent the potential misuse of cash receipts and concealment of such misuses in accounting records. We believe this matter should receive greater attention to reduce the chances for Government losses.

Collections not promptly deposited

Our and the Treasury's guidance to Federal agencies emphasizes the importance of collections being deposited promptly and specifies how often collections should be deposited. The criteria has been incorporated into the Navy's Comptroller Manual. Most shore accounting stations we visited were following the specified criteria; only two stations were not depositing collections as required.

In our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 12.2), we specify standards for Federal agencies to follow in depositing collections. The manual emphasizes that, whenever possible, collections should be deposited daily. The Department of the Treasury has provided more specifics on the frequency of deposits in its Fiscal Requirements Manual for Guidance of Departments and Agencies (I TFRM 6-8000). The Treasury manual allows collections to be accumulated and deposited when the total reaches $1,000 and states that all deposits must be made no less frequently than weekly, regardless of the amount accumulated.

The Navy has incorporated these requirements into the Navy Comptroller Manual with modifications for the Navy's operational needs. Essentially, the manual states that all receipts shall be deposited daily except when not practical. Two accounting stations and naval shore facilities we visited were not making deposits as frequently as possible. To illustrate:

--One of the shore facilities made deposits at 15-day intervals.

--The other shore facility made deposits of $2,500 twice a week, even though a depository available on the base facilitated daily deposits.

We pointed out to Command officials that holding collections delays the use of these funds by the Department of the Treasury and increases the potential for funds to be lost or misplaced. They agreed to have collections deposited properly in the future.

Prompt actions not taken on delinquent accounts

As specified in the Navy Comptroller Manual, each accountable officer is responsible for ensuring that all reasonable steps are taken to promptly collect amounts due the Navy. This was not being done at four Navy activities we visited. The delinquent accounts involved about $2,150 in Government funds, as shown on the next page.

	Date due	Amount
Naval Station, Pearl Harbor	Aug. 3, 1975	$1,274.20
Naval Air Station, Barber's Point	Dec. 25, 1975	149.75
Naval Station, Pearl Harbor (Ford Island)	May 25-29, 1978	725.95

In addition, one shore facility had established 90 days as the timeframe in which to initiate followup on delinquent accounts. Despite this, no action had been taken to collect $844 due from accounts delinquent from 96 to 224 days.

Navy officials agreed to take the necessary steps to collect the Navy's delinquent accounts. The action should be properly documented, including the reasons any amounts are considered to be uncollectable, and adequate collection procedures should be established.

PRESCRIBED SAMPLING LIMITS NOT OBSERVED

Public Law 88-521 (31 U.S.C. 82b-1) permits the use of statistical sampling procedures in examining disbursement vouchers not exceeding amounts established by the Comptroller General. At one accounting station we visited, statistical sampling procedures were being used in review of vouchers with amounts exceeding the $500 limitation currently prescribed.

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 23) explains that, in the interest of efficiency and economy in agency disbursement operations, an agency head may prescribe the use of statistical sampling procedures. However, the procedures must conform to the principles, standards, and related requirements contained in the manual's title 3 which specifies a limit of $500 on vouchers to be subjected to statisticl sampling procedures.

We found that the Navy Supply Center, Pearl Harbor, was using statistical sampling procedures in examining disbursement vouchers up to $5,000. Supply Center officials were unaware of the $500 limitation and requested headquarters' guidance on how their sampling plan should be changed. The requested guidance had not been received at the time our review was completed. However, the Comptroller General sets the $500 limit to comply with his responsibilities under the General Accounting Office Act of 1974 (Public Law 93-604), and agencies sampling of disbursement vouchers must comply with it.

ENCLOSURE II

SUMMARY OF OBSERVATIONS AT PACIFIC FLEET ACCOUNTING STATIONS

Summary Schedule of Control Weaknesses in Commands

Activities visited

	Naval Surface Forces										Naval Air Forces			Submarine Forces	
	U.S.S.														
Weaknesses noted	Bryce Canyon	Stein	England	Lang	Brainbridge	Wilson	Buchanan	Duluth	Tripoli	Command Pacific	U.S.S. Kittyhawk	Naval Air Station, Barber's Point	Command Pacific	U.S.S. Pogy	Submarine Base, Pearl Harbor
Excess cash held by ships' disbursing officers		●	●	●	●	●	●	●	●						
Control procedures not followed	●		●		●				●			●		●	
Excess cash held in imprest funds											●				
Travel vouchers not adequately preaudited										●			●		
Excess travel advances not recovered										●			●		
Collections not adequately safeguarded												●		●	
Duties not properly segregated												●			●
Prompt actions not taken on delinquent accounts												●			

SUMMARY OF OBSERVATIONS AT PACIFIC FLEET ACCOUNTING STATIONS

Summary Schedule of Control Weaknesses at Shore Facilities

Weaknesses noted	Commander-in-Chief, Pacific Fleet, Headquarters Support Activity	Commander-in-Chief, Pacific Headquarters Support Activity	Naval Communications, Area Master Station	Fleet Activity, Disbursing Center-Pacific, San Diego	Navy Commissary Store, Barber's Point	Navy Regional Medical Clinic, Hawaii	Naval Magazine, Lualualei	Navy Commissary Store, Pearl Harbor	Navy Supply Center, Pearl Harbor	Naval Station, Pearl Harbor	Navy Finance Office, Pearl Harbor
Excess cash held by ship's disbursing officers				●							
Control procedures not followed	●	●	●		●						
Excess cash held in imprest funds	●	●			●			●			
Questionable disbursements	●	●									
Travel vouchers not adequately preaudited				●							
Collections not adequately safeguarded			●			●	●				
Duties not properly segregated			●	●		●	●		●	●	
Collections not promptly deposited						●				●	
Prompt actions not taken on delinquent accounts						●				●	●
Prescribed sampling limits not observed									●		

(Activities visited)

ENCLOSURE II