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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of The Army

Internal Control Problems At The U.S. Army Corps Of Engineers Should Be Corrected

Because the Congress and GAO consider improving the government's internal controls a priority, GAO surveyed selected internal financial and accounting controls at several Corps of Engineers accounting stations. The work was limited to civil works appropriations and the Corps revolving fund.

The Corps systems of internal control contain some weaknesses that increase the risks of waste, loss, and misuse of agency resources. The Corps recently issued policy guidance to better manage its cash, protect its assets, and promptly record accounting transactions. It established a quality assurance branch to ensure that internal control problems are resolved, including those identified by GAO. The report recommends additional steps to improve Corps internal control systems.

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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-219772

The Honorable John O. Marsh, Jr.
The Secretary of the Army

Dear Mr. Secretary:

The Accounting and Auditing Act of 1950 (31 U.S.C. 3512) requires the head of each federal executive agency to establish and maintain a system of accounting and internal controls to effectively control and account for the agency's assets. This requirement was strengthened in September 1982 with the Federal Managers' Financial Integrity Act (FIA). That act is intended to help reduce fraud, waste, and abuse in the federal government by having each agency annually assess its internal controls and accounting systems. Notwithstanding these requirements, our survey and recent Army Audit Agency (AAA) reports have identified several weaknesses in internal controls of the U.S. Army Corps of Engineers (Corps). Because of these weaknesses, the risks of waste, loss, and misuse of Corps resources are increased, and the accuracy and reliability of its financial and statistical reports are reduced.

This report presents the results of our survey performed during 1984 that included the Corps Headquarters Finance and Accounting Division, 9 of the 28 Corps civil accounting stations, and several outposts of these stations. We selected these offices to provide a broad spectrum of Corps activities and geographic locations. The report also incorporates similar findings of AAA auditors who evaluated internal controls at other Corps locations during the same 1984 period. This work, which was limited to civil works appropriations and the Corps revolving fund, disclosed internal control weaknesses as follows:

--Collection controls needed improvement, especially at recreation areas where camping and other fees are collected from the public. Collections were not properly logged or adequately safeguarded, duties of employees handling collections were not divided, and, in seven instances, collections were not deposited promptly.

--Prenumbered receipt forms were not always used for over-the-counter collections at five Corps locations. Where they were used, they were not safeguarded.

--Accounts receivable were not sufficiently managed at most accounting stations. Airline refund claims and other receivables were not entered in the accounting records, and efforts to collect outstanding receivables were neither prompt nor aggressive.

--Travel advances were not properly managed at most accounting stations. A national credit card designed for better cash management was not being used to lessen the need for advances. Also, advances were not periodically reviewed or reconciled and amounts exceeding employees' needs were not promptly recovered.

--Disbursement controls were weak at all stations. Vouchers were not adequately preaudited or certified, and payments were not scheduled to coincide with due dates. Many invoices were paid early while others were paid late, resulting in losses of discounts and/or interest penalties.

--Four stations did not file required information tax returns for personal service contractors who were paid $600 or more during a tax year.

--Government Transportation Requests (GTRs) were not effectively controlled at four locations. They were not periodically reconciled or adequately safeguarded. One station still used the inefficient method of issuing individual GTRs to procure airline tickets rather than using bulk ticketing arrangements.

--Controls over check-signing machines and their signature plates and blank government checks were insufficient at seven stations. Efficiency of accounting operations would improve if the Corps used noncheck transfers to settle accounts between federal accounting stations.

--Imprest funds were not properly managed. The funds were not protected at all times, verifications and audits of funds were not made at required intervals, fund sizes exceeded needs, and duties were not appropriately segregated.

--Obligation controls were insufficient at most locations. Obligations were sometimes incurred before the availability of funds was determined, were not always promptly entered in Corps accounting records, and were sometimes recorded without the accounting station verifying the authenticity and authority of persons obligating federal funds.

The weaknesses we and the AAA identified are discussed in detail in appendix I. The accounting stations for the locations where the control problems were observed are shown in appendix II. We believe that these weaknesses may also apply to controls over Corps military accounting and financial operations that we did not survey, but which are very similar to the civil works functions surveyed and are often handled by the same staff working on civil matters.

The internal control weaknesses occurred either because of deficiencies in Corps-wide policies and procedures or because established procedures were not consistently followed. We and AAA noted that quality assurance programs designed to alert managers to potential control problems were not effective at several locations. Upon completing our work, we presented the results to program and financial managers at Corps headquarters and at each accounting station. The managers agreed that many corrective actions were needed to strengthen internal controls and said some solutions were already being considered. Moreover, in September 1984 the Assistant Secretary of the Army for Financial Management ordered the Corps to initiate actions to correct the financial management deficiencies then coming to his attention from AAA. Corps officials said the 1984 FIA reports had been completed and forwarded to the Secretary of the Army prior to our briefing on the deficiencies we found. Corps officials stated, however, that many weaknesses we cited were also identified by AAA in a recent financial management review and the AAA findings were considered in their 1984 FIA reports. Corps officials indicated that internal control weaknesses we identified that were not covered by the AAA report would be considered in their 1985 FIA reports.

We based our survey on audit guidelines designed to identify internal control problems and on interviews and discussions with appropriate managers and fiscal office personnel. When responses indicated potential weaknesses, we examined selected transactions to determine if the weaknesses existed. We did not attempt to establish the extent or the precise corrective actions needed for any weaknesses found. Our work was performed in accordance with generally accepted government auditing standards. Additional information on our objectives, scope, and methodology is in appendix I.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report (pp. 43-52), DOD concurred with our findings and conclusions. Furthermore, the Corps has initiated corrective action by providing policy guidance to its installations, which, if properly implemented, should remedy most weaknesses discussed in this report and the AAA report.

Issuing new guidance to Corps installations was only the first step to improve internal controls. Also, the Corps established a quality assurance activity at headquarters and directed that a similar function be established at its field installations to review and monitor implementation of that guidance and to ensure that it is, in fact, implemented and that internal controls problems are resolved. One of the specific quality assurance responsibilities will be to conduct reviews of reports on actions taken to correct deficiencies reported by us. If this is done, most of the internal control problems discussed in our report should be corrected.

CONCLUSIONS

Internal control weaknesses were noted at each location we visited. We believe the weaknesses are not unique to the stations surveyed and the ones we did not visit probably share some of them. These weaknesses and those disclosed by recent AAA reviews suggest the Corps accounting system is not operating in accordance with the Corps procedures and with guidelines established by us and the Department of the Treasury. Individually, any one weakness may not significantly affect the Corps financial condition. However, we believe that in the aggregate, these weaknesses, if unchecked, may be detrimental to overall financial operations because assets may not be properly controlled, accounted for, and safeguarded.

Our analysis of the Corps action plan showed that some specific issues discussed in our report were not covered in the new guidance. (See pp. 13, 16, 18, 24, and 34.) Because the Corps has issued guidance to correct many internal control weaknesses and is planning to monitor the corrections needed as well as future internal control problems which may arise, the recommendations in this report have been redirected to address the specific issues presented on which the Corps has not yet acted. To meet the FIA objective of establishing and maintaining sound internal control and accounting systems, it is essential that the Corps ensure all corrective actions are completed.

RECOMMENDATIONS TO THE SECRETARY OF THE ARMY

Therefore, in view of the potential adverse effects of the internal control weaknesses identified, we recommend that the Corps implement controls to ensure

--cash collections are protected at all times by being (1) logged in promptly, (2) signed for upon transfer, and (3) stored in safes which have had their combinations changed when appropriate,

--all accounts receivable are collected according to federal claims collection standards,

--the use of blanket travel orders is limited,

--disbursement transactions are properly authorized so that travel vouchers and credit card purchases receive appropriate supervisory approval,

--information tax returns are filed as required by federal tax laws, and

--the quality assurance function is implemented in field installations. To facilitate full implementation and monitoring, the Corps should develop an overall plan for conducting its quality assurance reviews at all Corps installations and include provisions for verifying the adequacy of corrective actions on the deficiencies identified by us and AAA.

We also recommend that the Army, in its annual statements required by the Federal Managers' Financial Integrity Act, discuss whether any weaknesses identified have not been corrected.

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As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the Chief of Engineers and the Army Auditor General. We appreciate the courtesies and cooperation extended to us at each location we visited.

Sincerely yours,

Frederick D. Wolf
Director

Appendixes

ABBREVIATIONS

AAA	Army Audit Agency
FIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GSA	General Services Administration
GTR	Government Transportation Request
OMB	Office of Management and Budget
TFM	Treasury Financial Manual

INTERNAL CONTROL PROBLEMS

AT THE U.S. ARMY CORPS OF ENGINEERS

SHOULD BE CORRECTED

INTRODUCTION

The U.S. Army Corps of Engineers is responsible for the design, construction, and maintenance of water resource projects such as flood control. The Corps, for fiscal year 1984, received over $2.6 billion in civil works appropriations and an additional estimated $190 million in reimbursements from federal agencies and the public. The Corps also has a revolving fund used (1) for the acquisition, operation, and maintenance of plant and equipment used in civil works functions, (2) to temporarily finance services chargeable to civil appropriations, and (3) to furnish facilities and services for military functions of the Army, other federal agencies, and private persons. This fund had about $1.7 billion of activity in 1984. About 26,000 employees carry out the Corps civil works functions.

Corps civil functions are performed through 36 district offices responsible for the hundreds of field offices, locks and dams, and recreation areas the Corps operates. Thirteen division offices provide supervision and the Office of the Chief of Engineers provides policy guidance. The Corps also has research laboratories and other activities that support both civil and military functions.

Civil works and revolving fund accounting is accomplished at 28 accounting stations. These accounting stations, which serve from one to six major offices or activities, maintain the accounting records and/or disburse funds for the serviced activities. Other financial management functions, such as fee collections and imprest fund payments, are performed at serviced offices and other outlying locations such as locks and dams and recreation areas, but are accounted for at the 28 accounting stations. The Comptroller General approved the design of the Corps accounting system in July 1977.[1]

Internal audit oversight of the Corps is provided by the Army Audit Agency (AAA). The Corps also has an audit branch that performs contract audits and internal reviews of civil works operations and related internal controls.

Internal control requirements

The Accounting and Auditing Act of 1950 (31 U.S.C. 3512) requires the head of each executive agency to establish and

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[1] Summary Report on Accounting System Design, Corps of Engineers, Department of the Army, GAO, FGMSD-77-45, July 21, 1977.

maintain systems of accounting and internal controls. The Federal Managers' Financial Integrity Act further requires that control systems reasonably ensure

--obligations and costs comply with applicable laws;

--all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and

--revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

We and others have issued guidance to help agencies meet their accounting and internal control system responsibilities. The Comptroller General's 1983 Standards For Internal Controls In The Federal Government establishes a minimum level of quality acceptable for internal control systems. These standards are the criteria against which systems are to be evaluated. This guidance requires that all transactions and other significant events be clearly documented, promptly recorded, properly classified, and be authorized and executed by persons acting within the scope of their authority. The standards also require that (1) more than one individual be involved in authorizing, processing, recording, and reviewing transactions; (2) access to resources and records be limited to authorized individuals; (3) accountability be established and maintained for custody and use of resources; and (4) supervision be provided to ensure the system is functioning properly. The GAO Policy and Procedures Manual for Guidance of Federal Agencies (GAO manual) establishes principles and standards for accounting systems (title 2), audit (title 3), payroll systems (title 6), and fiscal operations such as collecting or disbursing money (title 7).

Treasury, the Office of Management and Budget (OMB), and the Office of Personnel Management have also issued pertinent guidance in these areas. Volume I of the Treasury Financial Manual (TFM) establishes requirements for agencies to follow in the areas of central accounting and reporting, payrolls, disbursing, deposit regulations, and other fiscal matters. These requirements complement those in our policy manual. OMB, through its circulars, has provided guidance on such items as obligation accounting, prompt payment of bills, and internal control systems. OPM, through its Federal Personnel Manual, sets governmentwide requirements for the authorization, performance, and payment of overtime work.

Objective, scope, and methodology

The objective of our survey was to assess selected areas of internal controls and identify those controls that need improvement. Specifically, we surveyed the controls over collections, receivables, travel advances, disbursements, Government Transportation Requests, imprest funds, and obligations.

Our work was based on our audit guidelines designed to determine whether the controls were functioning according to federal requirements. Our methodology was designed to identify those areas in need of management's attention, rather than to establish the extent of the control deficiencies or the precise corrective action needed.

We performed our work at Corps headquarters, nine accounting stations, and selected offices and recreation areas serviced by these accounting stations. In selecting these offices, we considered the geographic location, type of activity, and prior audit and review coverage to provide a broad overview of the Corps' activities. As a result, we did not survey all internal control areas at each location.

The survey, conducted from February through mid-September 1984, was performed in accordance with generally accepted government auditing standards. We interviewed administrative, managerial, and fiscal office personnel and observed the internal controls in place. When the responses or our observation indicated potential weaknesses, we examined selected transactions to determine if the weaknesses existed. Generally, because we did not intend to establish the extent of the weakness, a small number of transactions were judgmentally selected for examination.

When our survey began, AAA was reporting[2] on the adequacy of the Corps' controls over temporary duty travel. At the Army's request, AAA later reviewed the Corps financial management.[3] This review was concurrent with our survey, but generally at different locations. We coordinated audit site selection to prevent duplicative coverage and reviewed the AAA reports and supporting workpapers. Results of both AAA audits are incorporated in this report.

The matrix in appendix II shows the accounting stations where we surveyed the internal controls and the weaknesses identified for each. In addition, although AAA's financial management report did not identify specific locations where internal control weaknesses existed, we included the results of its work in the matrix of internal control weaknesses in appendix II.

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[2]Temporary Duty Travel, U.S. Army Corps of Engineers, Washington, D.C., (WE 84-705, May 22, 1984).

[3]Advisory Report on Financial Management, U.S. Army Corps of Engineers (SW 85-A2, October 3, 1984).

Although the scope of our work was limited, we observed areas that warrant management attention. These weaknesses individually may not have a material effect on the Corps financial condition but we believe that, in the aggregate, the weaknesses discussed in the following sections, may be detrimental to the overall operations if not corrected.

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

Corps accounting stations collect and deposit about $95 million a month. During the camping season, over 600 recreation areas collect over $10 million dollars in currency and personal checks. Despite the risks of loss, theft, or misuse involved when handling currency and checks, Corps accounting stations were not effectively controlling collections to ensure that all collections were (1) properly accounted for, (2) safeguarded, and (3) promptly deposited. Also, collection duties were not always properly segregated.

Collections not placed under immediate accounting control

Cash and checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, the GAO manual (7 GAO 10.1) specifies that agency collections should be placed under appropriate accounting controls as soon as they are received. Such controls should, among other things, provide for collections to be logged in upon receipt, endorsement of checks, and proper accounting for checks until deposit.

Recording collections when received establishes immediate control and provides a permanent record to determine whether all receipts are subsequently processed and deposited. Placing a restrictive endorsement on checks at that time lessens their negotiability in the event the checks are lost or stolen. None of the stations surveyed immediately endorsed checks received through the mail or over the counter. Collections at three stations were not always immediately logged in or otherwise accounted for until the day after receipt.

Further, at two locations, receipts were not always used to accompany collections transferred from one processing point to another. At these sites, mailroom employees turned collections over to the teller, but the teller did not sign for the funds. Should a loss occur, fixing responsibility would be difficult.

Need to improve use of and controls over prenumbered receipt forms

Prenumbered receipt forms can help prevent the loss or theft of collections. However, prenumbered receipts were not routinely used for over-the-counter collections such as map and chart sales and docking permit fees at five accounting stations. At one station where they were used, unused forms were left out on a desk. During its financial management review, AAA also found that prenumbered receipts were not used to control over-the-counter receipts at two offices.

Corps recreation areas were using prenumbered receipts to record payments for camping fees, but the receipts were not properly controlled or safeguarded when not in use. At six recreation areas visited, we observed them stored in such places as warehouses and closets, file cabinets, and desk drawers. Some locations did not ensure that receipts were used in sequential order, making reconciliation difficult or impossible. In addition, two locations had more than 10,000 receipts on hand, over a 1-year supply, increasing the risk of loss.

Collections not deposited promptly

When collections are not deposited promptly, access to the funds by the Treasury is delayed, thus increasing the amount the Treasury may need to borrow and raising the government's interest costs. Moreover, keeping cash on hand increases the potential for loss, theft, or misuse.

The Treasury manual (TFM-6-8020.30) states that agencies' deposit procedures should have as their objective the lowest total cost to the government, including agency direct costs, the cost of purchased services, and the internal cost of money being collected. Specifically, the Treasury requires that collections of $1,000 or more be deposited daily, but that smaller collections may be accumulated and deposited when the total reaches $1,000. Still, deposits must be made at least weekly regardless of amount.

Corps procedures incorporate the above requirements and the agency places considerable emphasis on promptness of deposits. Overall, most collections at the locations visited appeared to be deposited promptly, but several improvements were needed. For example:

--Some Corps accounting stations serve several offices. Deposit delays sometimes ensued when the serviced office sent collections to the accounting station rather than making local deposits. In addition, sending the deposits to the accounting station increases the potential for loss or theft. For example, one district office, instead of depositing collections in the Federal Reserve Bank in the same city as the district, sent them to the accounting station for deposit in the Federal Reserve Bank at that location. Thus, the accounting station's deposit of $19,400 on February 1, 1984, covered the serviced district's collections first received on

January 3, 1984. In contrast, the four district offices served by another Corps accounting station each deposited their own collections with the Federal Reserve Bank in their district.

--At three stations, some collections were held for long periods while the Corps was determining the proper accounts to credit. For instance, a station held $8,500 in checks from 9 days to almost 2 months. Station fiscal personnel agreed that these amounts should have been deposited and credited to a suspense account until appropriate disposition was determined.

--At four accounting stations deposits were not made with the required frequency, (i.e., when $1,000 was accumulated). For example, one station deposited collections every Monday, Wednesday, and Friday regardless of amount. Two stations did not make deposits after a specific cutoff date each month in order to prepare required fiscal reports. Instead, funds received after the cutoff were held in the safe and were not deposited until the next month.

--Recreational fee cashiers (Corp employees who collect and consolidate recreation fees before forwarding them for deposit) for four accounting stations were not forwarding collections weekly or did so whenever they accumulated $1,000. One cashier had $4,350, a full week's collections, on hand the day we visited. This same recreation area held $19,000 for over 2 months before forwarding it to the accounting station in August 1984. Another cashier forwarded camping fees three times a week, but sent cash from other collection activities monthly.

Collections not adequately safeguarded

Because currency and checks are highly susceptible to improper conversion and loss, control procedures should provide for adequate physical security. Army regulations (AR 37-103) specify that facilities such as vaults or safes are to be used to store collections, and require collections to be kept from public view at all times. Collections were not properly safeguarded at seven of the eight accounting stations where we surveyed collection controls.

Recreation areas

In fiscal 1984, Corps recreation areas collected more than $10 million in fees from campers and other users of the facilities. The Corps used both its own employees and 576 contract gate attendants to collect the fees.

We visited seven recreation areas affiliated with five accounting stations. None of the facilities maintained adequate physical security over collections, thereby allowing easy access and increasing the risk of loss. Corps internal reviewers have also noted insufficient controls over collections at the five stations. To illustrate:

--At three of five sites where contract attendants were used, security over the currency and personal checks in the possession of the collectors was inadequate. Collections were kept in containers such as zippered pouches or small lock boxes in the gate house, or in the attendant's car or camper-trailer. In one instance, theft of the attendant's car resulted in a loss of $318.

--Facilities used by Corps employees for storing cash were either not secure or were accessible to many staff. For instance, receipts were kept for 2 or 3 days in a locked file cabinet in a power house at one site. Seven Corps employees with collection duties had access to the file cabinet key and the receipts. At two other sites where safes were provided, other employees with access to the safe were not provided separate lock boxes or drawers. Separate lock boxes would preclude employees from having access to each other's collections.

--In July 1982 Corps internal reviewers reported that contract gate attendants at recreation sites in one district had large amounts of cash on hand and were quite vulnerable to robbery. Two years later, when we visited one of the same sites, we noted little improvement in the safeguarding of government funds. Contract gate attendants were accumulating as much as $1,400 in unsecure facilities before transfer to Corps cashiers for safekeeping and ultimate deposit. The potential for loss or theft had not been reduced.

Station collections

We also identified weaknesses in security for collections at six of the eight accounting stations. For example:

--Although Army procedures require that safe combinations be changed semiannually or whenever an employee is no longer assigned to an activity, three stations had safes where the combination had not been changed semiannually.

--Safekeeping facilities at four locations were accessible to several people. At two stations, seven people knew the combinations to the safes where collections were stored. Station officials, however, could not provide any reasons why so many people needed access to the safes.

--Collections at two stations were processed in open areas that were not sufficiently separated from other employees and the general public. For example, at one site collections were sometimes left on a desk or countertop during the workday and were accessible to other employees. At another station, collections were processed in a disbursing cage with 5-1/2 foot high walls and a door that did not lock. This station was located in a building that had unrestricted public access.

Collection duties not properly segregated

A specific internal control standard is to divide critical functions between two or more persons, a technique referred to as separation of duties. Errors are more likely to be prevented or detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO manual (7 GAO 10.2) states that persons responsible for handling cash receipts should not participate in accounting or operating functions that would permit them to conceal the misuse of cash receipts.

At six facilities, duties of employees handling collections were not adequately segregated to ensure effective control over receipts. For example, at four stations, employees responsible for receiving or recording collections also prepared deposit tickets. At one of these locations, the same employees also reconciled collection records to confirmed deposits. At two locations, collection officers prepared follow-up letters on delinquent accounts receivable.

Agency comments and our evaluation

Corps financial management officials attributed the control deficiencies we identified to a lack of effective enforcement of existing policies. The Corps addressed many of these problems in its action plan responding to AAA's financial management report and issued guidance requiring accounting stations to ensure that (1) bank deposits are safeguarded, (2) accountability for over-the-counter receipts is maintained, and (3) duties are separated for employees who manage cash receipts and deposits.

The actions planned by the Corps should correct many of the weaknesses described in this report. However, our analysis of the Corps guidance showed that it did not specifically address some of the issues we identified such as the need to log in all collections upon receipt, requiring individuals to sign for receipt of funds upon transfer, the use of safes for storing funds, and the intervals at which safe combinations should be changed.

NEED TO IMPROVE CONTROL OVER ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due the government and therefore are assets to be controlled, safeguarded, and collected. As of September 30, 1984, the Corps reported total accounts receivable of nearly $340 million; $172 million was owed by the public and $167 million was owed by other federal entities. Of the amounts owed by the public, about $147 million resulted from long-term cost sharing agreements with state and local interests for rights to reservoir and recreation facilities. At all stations visited, certain amounts due the Corps were not recorded as receivables and collection efforts were not prompt or aggressive. As a result, financial statements and reports will be misstated and amounts due may not be collected promptly or at all.

Receivables not recorded promptly

Accounting for receivables is an important form of control over agency resources in that it results in a systematic record of amounts due. Accounts receivable should be recorded accurately and promptly upon completion of the acts that entitle the agency to collect amounts it is owed. However, Corps accounting stations did not always do this for some types of receivables.

Airline refund claims

After obtaining airline tickets, Corps employees sometimes cancel flights or alter planned itineraries creating a credit against previous charges. General Services Administration (GSA) procedures require agencies to file refund claims for unused and partially used tickets with the carrier. Unlike some debts, domestic airline refunds can not be recovered through offset against amounts due the carrier.

Seven stations did not record refund claims as receivables when they were filed. Instead, a receivable was both established and liquidated when the refund was received. One station did not file airline refund claims from October 1983 to July 1984. Refund claims can be substantial. For example, a station reported collecting $43,400 on 248 refund claims during a 1-year period.

Two stations also did not pursue recovery of these claims. Once the initial refund claim was filed, the stations performed minimal or no follow-up. For example, one station had $7,500 of refund requests outstanding, some dating back to 1980. An employee checked the status of the filed refund requests once a year. At the other station, refund requests were kept in a box in the disbursing office and the refund request was pulled when a check was received. However, for about a year prior to our visit, no effort was made to determine whether refund requests dating back to 1980 had been paid by the airlines.

Employee debts

Occasionally Corps employees become indebted to the agency because of fraudulent or erroneous travel claims. When such debts are substantial, the employees can arrange to repay these in installments through payroll offsets. However, at two stations visited, the unpaid portions of these debts were not recorded as receivables in the accounting system. For instance, at one station 10 employees making repayments still owed $35,600, including interest, as of June 1984.

Collection actions not prompt or aggressive

Federal claims collection standards (4 C.F.R. 101-105) require agencies to act promptly and aggressively to collect amounts owed the government. The standards further require (1) three written demands be made at 30-day intervals, (2) interest be charged on delinquent amounts and debts be settled in installments, (3) delinquent debts be offset against future payments, and (4) other persistent actions to achieve collection be attempted. Various Army and Corps procedures incorporate these requirements and also specify other actions such as telephone contacts aimed at soliciting prompt payment.

Despite the above requirements, eight accounting stations' collection actions were neither forceful nor prompt. Initial demands for payment often did not specify the due date or policies for assessing late payment charges. Some stations did not follow up on receivables until the bills were 30 days past due. The follow-up that was done was generally sporadic with several months elapsing between collection attempts. Several stations were not making use of offset procedures to settle debts, especially intra-Corps and interagency receivables.

To illustrate:

--A station billed a local community $40,565 as the amount due under a cost-sharing agreement in July 1983. Although the community did not respond to the request, the station did not follow up for 9 months. The debtor has since disputed the bill.

--Another station, citing higher priority work, had generally not billed or followed up on accounts receivable between October and December 1983. Bills were sent out in January 1984 and regular billing was resumed in March 1984. Because of this delay, the stations' accounts receivable have become progressively older; as of April 30, 1984, 80 percent or $8.2 million of receivables were current and 6 percent, or $636,000 were more than 60 days past due. As of July 31, 1984, only

45 percent or $2.1 million of the accounts receivable were current and $1.2 million or 27 percent were more than 60 days past due.

Agency comments and our evaluation

Corps officials agreed that weaknesses existed in recording and collecting accounts receivable. Our analysis of the Corps action plan showed that the Corps directed its accounting stations to record long-term receivables but the plan did not address collecting them. We believe the recording of long-term receivables is only one step to ensuring that accounts receivable are controlled and collected. The Corps should provide the necessary guidance to its accounting stations to ensure follow-up actions are instituted to collect its receivables in accordance with federal claims collection standards.

NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES

Travel advances represent sizable amounts of government funds--the Corps alone reported $6.3 million in travel advances outstanding as of September 30, 1984. Unless proper control is exercised over advances, funds needed for travel are unnecessarily tied up and the risk that advances might not be recovered is increased. Our manual and Corps procedures specify controls needed so that (1) travel advance records are accurate and reliable, (2) travel advances are made only for authorized travel, (3) the size of the advances does not exceed appropriate limits, and (4) advances are cleared promptly by repayment or travel vouchers.

Corps accounting stations have not been exercising adequate control over advances, account balances may not be accurate, and advances that were unjustified or excessive remained outstanding for long periods. The Corps, while participating in a program designed to use credit cards as a cash management tool, did not reduce travel advances. AAA made similar observations at the stations it reviewed.

Advances not periodically reconciled

The GAO manual (7 GAO 21.6) requires agencies to maintain control accounts supported by individual records of outstanding travel advances. Moreover, the manual and Corps procedures require that these accounts be periodically reconciled to source documents. Five stations though, did not perform reconciliations, and therefore, the Corps could not be ensured that amounts shown as advances in its accounting records and reported to Treasury were accurate.

We noted discrepancies between automated and source records. For example, travel advances reported for the headquarters accounting station totaled $9,800 as of July 1984, whereas officials informed us that individual records totaled $245,000. One reason was that accounting personnel had charged advances as expenses directly to appropriations, rather than establishing a receivable, making a reconciliation difficult. Tests at other stations disclosed variances caused by the Corps either not updating individual manual records or wrongly entering transactions in the automated records. At one station AAA identified eight advances totaling $6,500 that were not posted to individual travel records.

Advances not reviewed or aggressively pursued

The GAO manual provides that agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum.

Eight accounting stations did not exercise such control over travel advances. At some stations, advances were not periodically analyzed. Where they were analyzed, the analyses were ineffective. Consequently, continuous advances were often unwarranted and single trip advances remained outstanding for a long time. The following examples illustrate some of the problems.

--All 20 continuous travel advances examined at one station exceeded employees' needs. Average monthly travel claims for three employees with $1,000 advances were less than $150. The station also did not follow up on single trip advances after travel should have been completed. For example, we noted no action as of July 1984 on a $500 advance given in September 1983 for a trip that was cancelled. The station was also making little effort to collect an $800 advance from a former employee.

--At another station, 18 of 32 continuous advances examined were in excess of immediate needs. An employee with a $400 advance had made no trips in 8 months.

--Another station made little effort to collect unliquidated advances during an 8-month period when special priorities precluded immediate follow-up to recover advances. During that time, the station was attempting to convert from a manual to an automated system. As of July 1984, $71,560 was still owed on 143 single trip advances that were 4 months to 3 years old. Some employees held more than one unliquidated advance.

--At one station the AAA reviewed, 13 advances totaling $7,620 issued before May 1982 were still outstanding as of May 1984. One employee owed $1,146 from an advance received in September 1979.

Ineffective use of Diners Club cards to manage travel advances

Recognizing the administrative costs associated with processing travel advances, GSA contracted with Citicorp to provide its Diners Club credit card to federal employees who travel frequently. The program, which began on a limited basis in fiscal year 1984, was expected to be implemented governmentwide in 1985. The card is to be used for official business and no interest is charged, but employees are expected to settle their accounts within 25 days of bill receipt. The company began issuing credit cards to Corps employees in October 1983, and a year later about 5,000 were signed up. GSA has issued regulations for controlling the use of the cards.

The onset of the credit card program did not result in a noticeable decline in outstanding travel advances at the Corps. None of the stations visited used the cards to reduce cash advances. Moreover, rather than saving administrative costs as GSA claimed, the program may be more costly as controls are needed to prevent employee abuse (e.g., charging personal travel expenses and not settling accounts within 25 days of the billing date as required). One accounting station revoked the cards of two employees: one employee incurred $8,500 of personal and official travel costs and was delinquent paying the bill; the second employee used the credit card to charge unauthorized expenses.

Corps management had done little to ensure that the program operated as GSA intended or to provide a basis for measuring its benefits. Acceptance and use of the credit cards was voluntary and cardholders were able to receive travel advances on the same basis as noncard holders. As a result, many employees who rarely travel on official business had credit cards while others who traveled frequently did not. For instance, at one station where 426 employees had cards, only 22 of the 147 employees with continuous advances were issued credit cards, and taking the credit card did not affect the amounts of the continuous advances. At another station, the travel records of 33 cardholders showed that 8 of these 33 employees had no official travel for at least 6 months before and after issuance of the card. The AAA, too, noted that travel advances were not being reduced as a result of the credit card program.

Agency comments and our evaluation

Corps officials agreed that weaknesses existed in the management of and accounting for travel advances. Our analysis of the Corps action plan showed that guidance was issued to limit travel advances to credit card holders and to ensure timely settlement of travel advances. These actions, if properly implemented, should correct the weaknesses described in this report. Although the Corps also agreed to improve its recordkeeping for travel advances, the Corps also needs to ensure that travel advance control accounts are periodically reconciled to individual travel records.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

Corps accounting stations did not have controls in place to ensure that disbursements were proper, accurate, and legal. Consequently, federal funds were unnecessarily exposed to the risk of loss, theft, or other misuse. Moreover, the stations often did not conform to sound cash management principles or the Prompt Payment Act in timing the payment of bills. The Prompt Payment Act (Public Law 97-177) requires agencies to pay their bills when due, to pay interest penalties when payments are made more than 15 days late (except 3 days for meat products and 5 days for certain perishables), and to take discounts only when payments are made within the discount period. For most items the due date is the date specified in a contract or agreement, or the later of 30 days after receipt of a proper invoice in the payment office, or receipt of the item or service. OMB Circular A-125 contains policies and procedures for implementing the act's requirements. The Corps has issued further guidance to its stations.

Vouchers should be approved before payment

To make sure that disbursements are proper, the GAO manual (7 GAO 19.1) requires that all invoices, vouchers, or bills be authenticated by an administrative official cognizant of the facts stated therein. Moreover, since May 1984 federal travel regulations require travel voucher review and approval by persons knowledgeable of the traveler's activities. Despite these requirements, several stations paid gasoline credit card billings with no administrative approval.

No supervisory approval of travel vouchers

Many Corps employees travel extensively, some almost continually. In fiscal year 1984, travel costs charged to civil works appropriations and the revolving fund totaled about $42 million.

A series of audits and investigations have documented numerous instances where Corps employees on extended travel have filed fraudulent travel claims since 1976. In May 1984, AAA issued a report summarizing the work it had done. The report indicated that Corps employees were filing improper travel claims by submitting bogus lodging receipts, and inflating meal costs, and individual employees were claiming full reimbursement for shared lodging costs. At one station we visited, 12 employees had collaborated in filing false travel claims exceeding $77,000. Five of those involved were fired, indicted, and convicted, with some receiving jail terms. As of October 1984, the Corps tally of improper claims was $475,000.

AAA concluded that the major deficiency allowing false travel claims to be processed and not be detected was the lack of supervisory approval of travel vouchers. Indeed, as of October 1984 neither Army nor Corps regulations required any review of these vouchers before payment. Four stations we visited were processing travel vouchers without supervisory review and approval, including the station where the 12 employees had conspired to file false claims. Another station instituted such a requirement during our visit, citing the publicized incidents of Corps travel fraud. The other four stations already required supervisory approval.

Controls over gasoline credit card purchases

The Corps has a fleet of 9,600 vehicles for employee use in carrying out agency activities across the country. Drivers are issued government credit cards for purchasing gasoline and other services and products at private service stations. Payments to oil companies are substantial. During fiscal year 1984, the Corps had 13,500 credit cards outstanding and used them to purchase over 3.5 million gallons of gasoline.

Although the GAO manual (7 GAO 18.8) specifies that special care is needed to prevent unauthorized credit card use, controls were less extensive than for other types of disbursements at three stations. Vendor invoices were sent directly to the accounting unit and were processed for payment without administrative approval or any other check for unauthorized purchases.

The risks and the results of lax controls over credit card purchases were illustrated in some AAA reports and Corps internal reviews. For example:

--Internal reviewers reported in December 1982 that an oil company was paid $2,000 for purchases on four credit cards after the cards were reported missing.

--In February 1982, Corps reviewers reported numerous instances of potential credit card misuse at a district office, such as multiple purchases on the same day, purchase of quantities of gasoline above the capacity of the vehicle listed, and other discrepancies. The reviewers attributed the problems to lack of verification of the oil company billings. Management rejected the finding, considering it impractical to install controls in view of the large number of individual transactions. The number of transactions should not dictate whether controls over this type of purchase are needed. Although verification of all transactions may not be practical, the Corps can consider alternatives such as spot-checking or sampling selected billings, to provide some reasonable degree of assurance that the purchases are authentic.

--In 1979, AAA reported that at one district, credit cards were used to make purchases outside reported duty hours and purchases of unauthorized automotive products. AAA recommended that an administrative unit review all credit card purchases before payment, and during this survey we verified that the procedure was adopted and in place.

Legality, propriety, and accuracy of disbursements should be checked before payments are made

Because disbursement transactions are susceptible to misuse and diversion, GAO, Treasury, and the Corps provide guidance to make sure payments are accurate, legal, and proper. For example, the GAO manual (7 GAO 20.2) requires a preaudit of vouchers before they are certified for payment. The preaudit should, among other things, (1) verify the data on the vouchers, (2) ascertain that the vouchers and supporting documents are properly authorized, (3) determine that the transactions are legal and the goods and services are received, and (4) determine that any required special certifications are furnished. Despite these requirements, we noted ineffective preaudits at all nine accounting stations reviewed. The AAA made similar observations.

While fiscal personnel claimed preaudits were being done in accordance with our requirements, we believe they generally did not understand the requirements and the control objectives they were designed to achieve. At five stations, the preaudit was considered to be performed when the voucher was prepared. The GAO manual (3 GAO 47) acknowledges that certain preaudit objectives are achieved as part of the process of matching invoices with receiving reports and otherwise preparing vouchers for payment. However, these steps are not considered part of the preaudit that should be separated from the voucher preparation. All vouchers over $750 must be preaudited, while vouchers less than $750 may be selected for preaudit using statistical sampling procedures.

At one of the stations where a separate preaudit function was in place, vouchers were examined on a sample basis, but not all vouchers over $750 were preaudited as we require in our manual. Instead, these vouchers also were examined on a sample basis. Moreover, while voucher examiners at all stations had access to lists of officials who had authority to approve documents such as receiving reports and invoices, the lists at eight stations were incomplete. Generally, these lists were not being checked during the voucher preparation or preaudit processes. Consequently, the examiners were not in a position to know if the approvals were proper.

The examiners at three stations assumed that the vendors listed on payment documents were legitimate businesses. Making such an assumption is especially risky at the Corps where many small purchases are made through the use of Standard Form 44. This multiuse form serves as a purchase order, invoice, and receiving report. In October 1984, more than 1,300 Corps employees had authority to procure supplies and services from local vendors using this form. Some employees had authority for up to $2,500 a transaction. While these forms by their very nature can be easily misued, they were not safeguarded like cash or prenumbered to control their use. Thus, there is a need for controls at time of disbursement to not only make sure the payment is properly authorized, but also that the vendor is valid.

AAA also cited ineffective preaudits by accounting station personnel as contributing to the travel fraud previously mentioned. At some locations, we too noted that the validity of lodging or meal costs were not checked before or after vouchers were processed for payment. Voucher examiners accepted hotel receipts at face value as evidence of lodging despite the nonprofessional appearance of many receipts. AAA followed up on many suspicious looking handwritten receipts, determined that many were potentially fraudulent, and subsequently referred them to a criminal unit for further investigation.

Payments not scheduled to coincide with due dates

In keeping with the Prompt Payment Act and to avoid unnecessary borrowing costs, the Treasury requires agencies to control the time of disbursements so that bills are paid when due--neither early nor late. Early payments can accelerate the flow of cash from the Treasury and cost the government substantial amounts in interest. Late payments can cause unnecessary interest penalty payments, are contrary to good business practices, and can cause cash flow problems for vendors and contractors.

Early payments

All accounting stations were scheduling certain types of invoices for payment long before the due date. For example:

--At seven locations, payments to airlines, other carriers, and travel agencies were scheduled upon immediate receipt of a voucher rather than waiting 30 days. The stations followed outdated procedures written before the Prompt Payment Act.

--Rental payments for leasing space and equipment were made early at six stations. For the cases we examined, an authorizing official approved them for payment before the performance period ended or even began. For instance, a station paid a vendor $2,635 on May 1, 1984, for lease of a computer during April 1984. Not only was the payment 19 days early, but the invoice was approved for payment on March 20 or 11 days before contract performance began.

--Other types of payments that were made early at two or more stations included those for Standard Form 44 purchases, utility bills, blanket purchasing agreements, and maintenance service contracts. At one station, 28 of 35 disbursements examined were paid from 2 to 24 days early.

These early payments occurred because, notwithstanding Corps guidance, officials at some stations said they were necessary to maintain good vendor relations. Also, some stations were misinterpreting guidance that reversed such longstanding practices as paying bills as soon as possible.

Late payments

At seven stations visited, unnecessary interest penalties and lost discounts were occurring because controls did not ensure that bills were paid when due. Receiving reports and other essential documents were sometimes not sent promptly to the accounting station so that bills could be paid. In other cases, delays occurred in the payment office because of staffing shortages and other difficulties. Late payments also resulted because invoices were received before an obligating document was prepared.

Whatever the reasons, late payments can be costly. In fiscal year 1984, the Corps reported 2,383 interest penalty payments totaling $66,985. These figures may be understated because not all required interest payments were made. Seven stations we visited did not report some lost discounts or paid bills late, and overlooked or ignored the interest penalties. In addition, six stations we visited were making payments during the 15-day grace period when no interest was due. The following examples illustrate some of the late payment problems.

--Of $56,280 in time discounts offered one station between July 1983 and June 1984, it reported losing $39,510 of them or 70 percent. The station also reported paying 3.1 percent of its bills more than 15 days late during the first 9 months of fiscal year 1984, incurring over $12,000 in penalties.

--A second station paid a $3,353 invoice, which offered a 1 percent discount if paid within 30 days, 33 days after the due date. The lost discount of $33.53 and the reasons therefor were not recorded or reported. In addition, the station did not pay the interest penalty of about $25. Of 49 vouchers examined at this station, we identified nine late payments where an interest penalty was due but not paid. Of 74 vouchers examined at a third station, seven were paid more than 15 days after the due date, yet an interest penalty was paid for only one.

--Another station paid interest on late payments only when vendors demanded it. This is not in the spirit of the Prompt Payment Act and is contrary to OMB guidance.

Federal agencies that do work for the Corps bill the Corps for services rendered or goods provided. While the GAO manual (7 GAO 7.3) requires that undisputed intergovernmental bills be settled within 15 days of billing, our survey disclosed that late payments were made. For instance, a Corps station made a $2,862 payment to the Government Printing Office 42 days late. Besides the administrative costs of keeping these accounts open so long, late payments harm revolving funds that depend on reimbursements to finance their activities.

Duplicate payment controls need improvement

At seven accounting stations, controls such as stamping or perforating all vouchers and supporting documents in such a way as to prevent their reuse and possible duplicate payments of the same invoice were not being used. Several stations did not take the added precautions necessary when payments were based on copies of invoices or when making recurring payments. Because of time constraints, we did not attempt to determine whether any duplicate payments occurred.

Information tax returns not filed

Federal tax laws require employers to file Form 1099, U.S. Information Return, for individual contractors who are paid $600 or more during a tax year. The Corps awards many personal service contracts for such tasks as camping fee collections, maintenance, consulting, and engineering studies and, as such, is obliged to submit the returns. At least four stations visited, however, did not file such returns, thereby denying the Internal Revenue Service the means to detect or verify taxable income. These payments can be substantial. For instance, one station filed returns on 114 individuals who were paid $805,000 during 1983, and another station filed returns on 83 persons who earned $348,000.

Agency comments and our evaluation

Corps officials agreed actions were needed to make sure vouchers were preaudited and paid when due. Our analysis of the Corps action plan prepared in response to the AAA report showed that the Corps would issue new policy directions on most of these issues. If properly implemented, the new guidance should correct these weaknesses. However, our analysis of the Corps action plan showed that it did not provide guidance to ensure

--travel vouchers and credit card purchases receive appropriate supervisory approval before payment and

--information tax returns are filed as required by the federal tax laws.

NEED TO IMPROVE CONTROLS OVER GOVERNMENT TRANSPORTATION REQUESTS

Government Transportation Requests, when presented to a carrier, authorize the carrier to issue tickets and to bill the government agency for the tickets' cost. As these documents can be easily misused to obtain tickets, it is essential that they be protected. GTR accountability records or usage were not reconciled and/or GTRs were not safeguarded at four of the six accounting stations where we reviewed their usage.

GSA regulations require each agency to establish procedures to control GTR procurement and use and establish safeguards to prevent their improper or unauthorized use. Corps guidance also requires the accounting system to include procedures for administrative accountability and control of unused blank stocks of GTRs.

Both we and AAA identified weaknesses in the accountability for and safeguarding of GTRs. For example:

--One accounting station neither inventoried GTRs on hand nor reconciled them when issued and used. According to station personnel it would be a monumental task to do so. If handled properly, we believe a simple periodic reconciliation could be done expeditiously. This would simply entail a comparison between the amount that should be on hand according to accounting records and the amount actually on hand based on a physical count. Also, at a subordinate field location, unused GTRs were stored in a safe normally left open all day in an office accessible to at least three employees. If a loss occurred, fixing accountability would be difficult.

--Another accounting station reconciled GTR and airline tickets issued and used, but GTRs on hand were not inventoried. According to the responsible supervisor, there was no need to periodically count GTRs because losses have not occurred and only two people have access to them. Unless an inventory is done, however, it could be difficult to determine if GTRs are missing.

--During its financial management review, AAA reported that reconciliations of unissued GTRs were not performed and no check was made to determine the ultimate disposition of GTRs that were issued. At one district, at least one GTR was used by someone other than the authorized traveler and other GTRs could have been used for unofficial travel. At one district, GTRs were inadequately safeguarded; five were missing and could not be accounted for.

In 1978 we recommended that federal agencies make greater use of bulk ticketing procedures as a way to increase efficiency, reduce costs, and reduce accountability problems for GTRs.[4] One station visited, however, still used individual GTRs to buy airline tickets, even though a nearby activity supported by that accounting station was using bulk ticketing arrangements.

Agency comments and our evaluation

The Corps agreed with our findings that GTRs need to be better controlled. Its action plan, responding to the AAA audit, provided guidance to its installations for safeguarding GTRs, reconciling their use, and requiring travelers to report GTR use. The planned actions in the guidance, if properly implemented, should eliminate the weaknesses described by both us and AAA.

CHECK-WRITING PROCESS LACKS ADEQUATE SAFEGUARDS AND MAY BE INEFFICIENT

In contrast to most civil agencies, the Corps prepares its own checks. Seven of the nine accounting stations visited did not have sufficient controls in place to ensure that checks were drawn correctly and were not improperly obtained and fraudulently used. The Corps could reduce the number of checks it writes and receives if it used alternative means to settle accounts between Corps stations and other federal agencies.

Check preparation controls missing

The GAO manual (7 GAO 20.6) requires agencies to establish controls over disbursements so that checks drawn by disbursing officers are in accordance with payments certified on vouchers. The Treasury manual (1 TFM 4-5040 et seq.) requires that blank checks be stored in combination safes or vaults with access restricted to authorized persons as well as that disbursing officers or authorized representatives conduct unannounced inventories at irregular intervals and that check-signing

[4] Use of Discount Airline Fares and Teleticketing Would Help Save on Government Travel Expenses, GAO, FGMSD 78-46, July 21, 1978.

machines have mechanical features to prevent their unauthorized use. Corps guidance requires that blank checks and signature plates be safeguarded, and that the signature plates only be used by or in the presence of the finance and accounting officer or a deputy. The objectives of these controls are to prevent or detect loss, theft, or misuse of these checks. Corps accounting stations, however, did not provide all necessary safeguards.

The following examples illustrate the weaknesses noted at seven stations that would allow loss or misuse of government checks:

--One station neither inventoried blank checks, nor reconciled facsimile signature plate usage with check issuance. The disbursing section kept a box of checks and keys to the check-signing machine in its safe, and on a daily basis, took custody of the signature plate. Thus, if someone were to obtain and misuse a government check, it would not be known until it cleared the Treasury or the check was discovered missing.

--Another accounting station left the facsimile signature plate in the check-signing machine overnight and did not periodically inventory blank checks. Neither the finance and accounting officer nor his two deputies were present when the facsimile signature plate was used. Thus, there was no independent assurance that checks were drawn in the proper amount to the right payee.

--At a third station that did not inventory blank checks, the finance and accounting officer and his three deputies all had access to the safe where blank checks and facsimile signature plates were stored. Moreover, the four fiscal personnel manually signed checks occasionally. Because checks were not inventoried, it was possible that a stolen check would not be detected until it cleared Treasury. Allowing checks to be manually signed makes it easier to misuse them. On the other hand, allowing checks to be signed only with the signature plate can help to provide greater control over the process.

<u>Use of noncheck transfer procedures could improve efficiency</u>

The Corps performs its own disbursing. However, we believe the number of checks written could be reduced if the Corps could use noncheck transfer procedures for transactions between itself and other agencies and used internal accounting adjustments to process billings among Corps offices. This would also reduce the subsequent administrative burden of receipting, accounting for, and depositing the checks written within or between Corps offices.

Corps offices receive services from and perform services for other Corps offices and federal agencies and are required by Corps regulations to settle these accounts by check. As a result, the Corps accounting stations were unable to use various forms of noncheck transfers to settle accounts among Corps districts or between the Corps and other federal agencies. About 6.5 percent of the 525,000 nonpayroll checks Corps accounting stations wrote in fiscal year 1984 were to other Corps offices and federal agencies. In many instances this meant two checks were written to pay for one expenditure; one station would pay for the initial expenditure and a second station would reimburse the first station for the expenditure. For example, a station that performs 50 percent of its work on a reimbursable basis received $6 million a month, 99 percent of which came from other Corps offices or government agencies. In another case, an accounting station that serviced five Corps offices prepared checks for one district in payment of amounts owed to other serviced offices. Corps staff stated the checks had to be logged in and deposited the same as any other check.

According to a Treasury spokesperson, the Corps should be able to process noncheck transfers both as bills and as payments for intergovernmental transactions. The spokesperson also stated that it would be unnecessary to write checks for payments within the Corps if the accounting system allowed fund transfer through bookkeeping entries.

Agency comments and our evaluation

Corps officials agreed that weaknesses existed in the controls over check writing. On July 29, 1985, the Corps issued guidance to all Corps installations with disbursing functions, requiring each installation to maintain full compliance with Treasury, Army, and Corps regulations on control over blank checks, use of check-writing machines, and signature plates.

The Corps also plans to review the use of noncheck transfer procedures to determine if they can be used for transactions between Corps installations and other federal agencies. Since the Corps has not established a definite timeframe for resolving the issue, we believe the Corps needs to continue to pursue this matter.

NEED FOR MORE EFFECTIVE CONTROL OF IMPREST FUNDS

Imprest funds are "cash on hand" funds comprising currency, coin, or government checks advanced by a Corps disbursing office to its imprest fund cashiers. At the Corps, imprest funds are used for small purchases, local travel reimbursements and other expenses generally less than $150. The Corps civil works offices have many small imprest funds, most less than $5,000, that totaled $582,000 as of September 1984.

Because these funds are susceptible to misuse, loss, or theft, extensive guidance for their control and management has been provided by Treasury, GAO, and the Army. However, we and AAA noted that despite the widely recognized need for stringent controls over imprest funds, established procedures and controls were not always followed. To illustrate:

--Duties were not properly separated at several locations. We identified five stations where some imprest fund custodians served as recreation fee cashiers or otherwise were involved in handling collections. When collections are handled by imprest fund custodians, they have the opportunity to use collections to cover shortages in imprest funds. Also, we identified three situations where imprest fund custodians had authority to make small purchases or could approve imprest fund purchases. In 1981, AAA reported that a Corps custodian was able to divert at least $138,000 in imprest funds for personal use over 6 years because, among other things, he had purchasing authority. The diversion was finally discovered after a comparison of imprest fund payments and Treasury check payments showed that vendors had actually been paid by check for invoices that were also processed through the imprest fund for payment.

--Cashiers at five locations did not cancel all documents supporting imprest fund disbursements. The Treasury manual requires this procedure to reduce the chance that documents, such as vendor receipts, will be reused and result in duplicate payments.

--Cashiers at two offices disbursed funds without asking for identification when they did not know the payee. Making imprest fund payments without requiring such proof could result in improper or fraudulent payments.

--At four locations, cashiers did not have a list of individuals authorized to approve disbursements from the fund. Such documents are necessary so that only authorized disbursements are made from imprest funds. Our tests at one location disclosed several invoices approved by persons without delegated authority.

--One facility had not established requirements for the prompt liquidation of advances from the fund. According to Treasury guidance, purchases for which cash has been advanced should be confirmed within 5 workdays. At the time of our visit, two advances were outstanding more than 5 days, including one for 12 days.

--Imprest fund subvouchers were not properly safeguarded at two locations. Subvouchers were kept on desk tops and left unattended. Because subvouchers are the basis for replenishing the fund, they should be secured the same as cash, that is, placed in a safe or vault under the control of the fund cashier.

--Physical control weaknesses at one station included two cashiers using the same cash box and a safe combination not being changed when a cashier was replaced.

Funds not audited/verified with required frequency

The GAO manual (7 GAO 22.7) requires quarterly verifications of imprest fund balances and unannounced audits of the funds to determine whether they are being used properly, are adequately protected against loss or misuse, and are properly accounted for. Army regulations require quarterly verification of imprest funds, but do not mention periodic audits. One station visited audits its funds triennially, but they are announced in advance, negating the surprise element necessary to detect misuse of the funds.

While seven accounting stations verified their imprest funds, some imprest funds of two accounting stations were not verified at the required frequency. For instance, at one station three funds had not been verified for over 9 months. Also, at two stations it visited, AAA reported that 83 percent of the required verifications were not performed and concluded that the checks made were not thorough enough to detect potential fraud and waste. As an example, AAA cited a fund where reimbursements were paid even though invoices were visibly altered, improperly certified, and questionable.

Size of imprest funds should be reduced

An imprest fund should be limited to the smallest amount commensurate with the authorized purposes of the fund (7 GAO 22.4). Moreover, Treasury guidance specifies that fund size should generally not exceed an average month's needs. At three stations, we noted funds far in excess of the Treasury standard. For instance, one station had a $5,000 fund that had not been used in more than 1-1/2 years. At another station, the average monthly payments from a $1,500 fund were only $678.

AAA's analysis of 68 funds valued at $88,000 showed that the funds could be reduced by $57,400. Our similar analysis of 17 funds totaling $41,000 at one station showed that the fund level exceeded the Treasury standard for 16 of the funds. Monthly average expenditures from the funds ranged from $200 to $1,000 a month less than the size of the fund.

Agency comments and our evaluation

The Corps agreed that weaknesses exist in its controls over imprest funds. Our analysis of the Corps action plan showed that guidance was issued to its field installations. If the guidance is properly implemented, it should improve the Corps controls over imprest funds.

NEED TO IMPROVE CONTROLS OVER OBLIGATIONS

Obligations are financial commitments that will require cash outlays during the current or some future period. The basic objective of obligation control is to ensure that obligations are valid and do not exceed the resources of an organization. To varying degrees, seven stations were not meeting this objective. Staff were not always ensuring that (1) funds were available before obligations were incurred and (2) persons incurring obligations were acting within the scope of their authority. In addition, obligations were not always recorded when they should have been or periodically reviewed to determine their continuing validity. Further, blanket travel orders, obligating documents that authorize travelers to take numerous trips without specific authorization, were not reviewed and monitored as required.

Obligations not validated

The GAO manual (7 GAO 16.2) and Corps guidance require a positive funds control system whereby obligations are validated before they are incurred. This assures that funds are available in the cited appropriation and that the appropriation is available for the purpose of the expenditure. This system was not effectively operating at four stations where our tests indicated obligations were not always validated before incurrence.

At those four stations, accounting staff depended on authorized program officials to cite the proper appropriation and made little effort, other than ensuring cost codes were correct, to determine if the cited appropriation was proper. Thus, they did not assure that funds were available to pay for the goods or services ordered on these purchase orders, contracts, or other obligating documents; or that these obligations were charged to the proper appropriation. For example:

--At one accounting station, 7 of 11 obligations reviewed, ranging from $45 to $15,000, were incurred from 1 to 12 days before funds were certified available.

--At another station, 13 of 62 obligations examined were apparently incurred before fund availability was determined. Officials attributed this to problems with the procurement function which was located at another Corps location.

--At a third accounting station, 8 of 17 fiscal year 1984 obligations were not validated before incurred. The amounts of these obligations ranged from $100 to

$47,500. In addition, two projects faced a $1 million funding shortfall because project management staff, who the district relied upon to determine fund availability and propriety, were not doing so. As of July 3, 1984, these two projects had uncommitted balances totaling $36,300 and documents awaiting commitment totaling $31,700. The project also needed more funds to meet payrolls for August and September.

--AAA, in its financial management review, reported that apparent violations of Army funds control regulations occurred because two districts inappropriately used $722,351 in excess project construction funds to acquire 27 pieces of equipment for operation and maintenance work. AAA concluded that this was a misapplication of funds because construction funds were not used for their intended purposes.

Lists of obligating officials not available or not used

A basic tenet of internal control systems is that clear lines of authority and responsibility exist. Army internal control guidance requires that evidence be maintained to show officials were acting within the scope of their authority, and the transactions they approve conform to the terms of their authority. Persons who incur an agency's obligations should have formally delegated authority, and the accounting staff should have a list of them in order to verify that persons incurring obligations are acting with authority. Without this check, a person could begin the payment process by inserting a false obligation into the system.

Most Corps accounting stations serve several offices, making it especially important that staff have and use lists of delegated authority so they know transactions are authorized before recording them. Nevertheless, six stations either did not maintain or use these lists and relied on accounting staff to remember the authorities delegated. Thus, there was no assurance all obligations were incurred by persons with authority, or that they represented valid claims against the government.

Inappropriate recording of obligations

The GAO manual (7 GAO 16.1) requires that all obligations be promptly recorded as charges against the applicable appropriations to meet the requirements for funds control, provide essential management information, and facilitate preparing statements and required reports. Four accounting stations were either recording obligations before they were incurred or long after they were incurred. To illustrate:

--One station recorded 29 of 53 obligations more than 7 days after the obligation was incurred. For example, a $64,000 contract modification was not recorded until 6 months after it was actually obligated.

--At another station, 7 of 41 obligations examined were recorded 5 to 34 days before they were valid obligations. An obligation for $15,700 was recorded on September 22, 1983, but was not legally obligated until October 3, 1984.

--During its 1984 review of the Corps financial management, the AAA found that obligations were recorded late. At one station 5 of 8 contracts reviewed had obligations totaling $956,000 that were recorded 29 to 54 days after they were incurred.

Obligations not reviewed and reconciled as required

Both the GAO manual (7 GAO 16.3) and Corps guidance require periodic reconciliations of unliquidated obligating documents to control accounts, and periodic and year-end reviews to determine the continuing validity of unliquidated obligations. At four accounting stations, however, obligations were not being sufficiently reviewed or reconciled or reviews were not documented. Consequently, assurance was lacking that recorded obligations were valid and all excess funds were being released and made available for obligation on other projects, or returned to the Treasury. To illustrate:

--One station we visited neither reviewed open obligations at fiscal year end, nor periodically reconciled obligations. None of seven open obligations we examined had been reviewed for at least 6 months. Two obligations incurred in August 1983 had no charges against them as of July 1984. One obligation for $28,900 to buy desk top computers neither named the vendor, nor gave the number of computers being bought.

--Another station conducted a year-end review of open obligations, but the review was not complete. Of eight contracts we examined, only two showed evidence of the year-end review.

--A third station was performing an emergency review of unliquidated obligations for two projects in an attempt to find funds to overcome a potential $1 million funding shortfall. Project management staff had been regularly reporting that all obligations for these projects were valid and could not be deobligated. This exercise casts doubt on the adequacy of prior reviews.

--In its financial management review, AAA determined that reviews of outstanding obligations were not ensuring they were valid and properly supported. Some 46 percent of the 362 unliquidated obligations reviewed had not been verified and 33 percent had no support documents. AAA concluded that $243,000 in invalid obligations could have been made available for valid requirements.

Use of blanket travel orders

Blanket travel orders that authorize personnel to travel without a specific authorization for each trip, diminish control over the use of travel funds. OMB issued guidance in 1982 that was intended to put limits on the use of these obligating documents. According to the guidance, such orders are appropriate for persons on continuous travel as long as the orders are revalidated quarterly and they specify limits on purposes, geographic areas, trip duration, and cost. This guidance has since been incorporated into federal travel regulations. According to Corps regulations, the use of blanket travel orders is to be restricted.

Two Corps stations where we examined the use of blanket travel orders were not following these guidelines. For instance, according to agency personnel, one station had over 150 blanket travel orders outstanding. Another station had 80 blanket travel orders outstanding and quarterly revalidations were not evident. Likewise, in its 1984 report on Corps travel, AAA described problems in using blanket orders. Nine of the 11 stations the auditors visited issued such orders and 6 of the 9 had not implemented effective controls, such as periodic reviews of the necessity of the orders and time and cost limitations.

Agency comments and our evaluation

The Corps agreed that better control is needed over obligations and issued guidance to its accounting installations to ensure proper validation as well as prompt recording and reconciliation of its obligations. We believe the guidance, if properly implemented, should provide for improved obligation control. In implementing the new guidance, the Corps should ensure that lists of the staff authorized to incur obligations are available to the accounting staff. The Corps action plan did not specifically address the need for strengthening controls to limit the use of blanket travel orders.

NEED TO STRENGTHEN AUDIT RESOLUTION AND QUALITY ASSURANCE FUNCTIONS

An important element in any internal control system is the systematic review of operations to determine whether controls are adhered to. Within the Corps, the Army Audit Agency and Corps internal review staff provide an outside look at how well internal controls are functioning. The Army also requires that each finance and accounting office establish a quality assurance program to help financial managers identify problems, clarify procedures, and identify who is responsible for taking corrective action. However, these internal control elements have not been fully effective in the Corps. Deficiencies identified in internal audit and review reports have not always been corrected, and the quality assurance function was not operational at all accounting stations.

<u>Need to correct control deficiencies identified in internal audits and reviews</u>

Internal audits and reviews are widely recognized as part of an agency's system of financial controls. They are effective tools for improving operations when managers act promptly to correct deficiencies identified. In this regard, Army procedures require managers to take timely and constructive follow-up actions to ensure that problems identified by auditors and review teams are corrected. At most stations visited, however, we noted some internal control weaknesses that had previously been disclosed still existed. AAA also found major problems with the Corps audit resolution effort. To illustrate:

--In May 1983 internal reviewers reported that a station did not have effective controls over continuous travel advances. Continuous travel advances for many travelers were excessive. Although station management concurred with the finding and promised corrective action, a year later the station still had funds unnecessarily tied up in travel advances.

--At another station, AAA auditors concluded that controls should be strengthened to limit overtime to that absolutely essential. AAA found that overtime requests generally did not contain enough details to justify the overtime hours and did not explain why the work could not be rescheduled and performed during normal duty hours. The same conditions were noted at the time of our survey.

--AAA, in its report of Corps financial management, made 16 observations on the adequacy of financial management practices within the Corps. Since 1976, 12 of the 16 observations were reported 73 times in 42 AAA reports.

One factor that contributed to the resolution problem was the reporting level. Results of internal review were generally not reported to Corps headquarters for review and analysis to determine whether the corrective actions taken were sufficient and whether the problems identified were systemic. In addition, one Corps division internal review chief did not regularly get copies of reports his staff had done at subordinate districts. These conditions prevented any trend analysis to determine whether weaknesses were systemic. We also believe this hampered effective implementation of the Federal Managers' Financial

Integrity Act, which requires agencies to annually report known control weaknesses and the corrective action that will be taken.

Quality assurance program can be improved

The internal control problems identified in this report may not have developed to the extent they did if the Corps' quality assurance program was operating as intended. Each accounting station was to have a quality assurance program responsible for, among other things, checking systems and controls for proper operation and identifying problems in time to permit corrective action by the finance and accounting officer. Both we and AAA found the quality assurance program was not functioning effectively. At four stations we visited, the programs were not adequately staffed or assigned staff were detailed to other duties. AAA concluded that quality assurance programs were not adequately staffed and reviews were not sufficiently comprehensive or adequately documented.

An effective quality assurance program would strengthen the Corps' defenses against waste and abuse by assuring the internal controls are in place and functioning. For example, we found many operating procedures--basic control mechanisms to help ensure that work is done correctly--incomplete or out of date. Had quality assurance reviews noted this and required updated operating procedures, we believe, for example, that many Prompt Payment Act interest penalties could have been avoided. Again, if quality assurance reviews were done, many of the problems in recreation area collections would not have existed. In addition, AAA believed a more effective quality assurance program would have prevented many erroneous travel payments.

Agency comments and our evaluation

On June 4, 1985, a headquarters quality assurance branch became operational. This branch is required to perform quality assurance reviews and monitor quality assurance activities of Corps installations to ensure they are operating effectively to remedy control problems. In addition, the Chief of Engineers directed each Corps installation to establish and staff a quality assurance function in the finance and accounting branch. The Corps internal review staff will also review all major internal reviews and external audit findings semiannually to determine if corrective actions taken were sufficient. We believe these actions will benefit the Corps and provide a mechanism to determine whether the internal control system is functioning properly.

Overall evaluation of agency comments

In commenting on this report, DOD officials agreed with our findings and conclusions. The Corps has initiated corrective action by providing guidance to its installations on many of the proposals discussed in our draft report. (See pp. 13, 16, 18, 24, 26, 28, 30, 34, and 36.) Specifically, the Corps provided guidance to ensure

--check-signing machines, and GTRs are protected at all times;

--collections are placed under immediate accounting control including use of prenumbered receipts for all over-the-counter collections;

--individuals are not assigned incompatible duties, such as an imprest fund cashier also having procurement authority;

--all amounts owed to the Corps are recorded as receivables;

--cash is better managed including (1) promptly depositing collections, (2) paying bills neither early nor late, (3) limiting employee travel advances, and (4) reducing the size of imprest funds;

--obligation and disbursement transactions are accurate, properly authorized in advance, and entered appropriately in the accounting records; and

--the quality assurance and internal review functions operate effectively to remedy internal control problems.

Issuing new guidance to Corps installations was only the first step to improve internal controls. Also, the Corps established a quality assurance activity at headquarters and directed that a similar function be established at its field installations to review and monitor implementation of that guidance and to ensure that it is, in fact, implemented and that internal control problems are resolved. One of the specific quality assurance responsibilities will be to conduct reviews of reports on actions taken to correct deficiencies reported by GAO. If this is done, most of the internal control problems discussed in our report should be corrected.

CONCLUSIONS

Internal control weaknesses were noted at each location we visited. We believe the weaknesses are not unique to the stations surveyed and the ones we did not visit probably share some of them. These weaknesses and those disclosed by recent AAA reviews suggest the Corps accounting system is not operating in accordance with the Corps procedures and with guidelines established by GAO and Treasury. Individually, any one weakness may not significantly affect the Corps financial condition. However, we believe that in the aggregate, these weaknesses, if unchecked, may be detrimental to overall financial operations because assets may not be properly controlled, accounted for, and safeguarded.

Our analysis of the Corps action plan showed that some specific issues discussed in our report were not covered in the new guidance. Because the Corps has issued guidance to correct many internal control weaknesses and is planning to monitor the corrections needed as well as future internal control problems which may arise, the recommendations in this report have been redirected to address the specific issues on which the Corps has not yet acted. To meet the FIA objective of establishing and maintaining sound internal control and accounting systems, it is essential that the Corps ensure all corrective actions are completed.

RECOMMENDATIONS TO THE SECRETARY OF THE ARMY

In view of the potential adverse effects of the internal control weaknesses identified, we recommend that the Corps ensure

--cash collections are protected at all times by being (1) logged in promptly, (2) signed for upon transfer, and (3) stored in safes which have had their combinations changed when appropriate,

--all accounts receivable are collected according to federal claims collection standards,

--the use of blanket travel orders is limited,

--disbursement transactions are properly authorized so that travel vouchers and credit card purchases receive appropriate supervisory approval,

--information tax returns are filed as required by federal tax laws, and

--the quality assurance function is implemented in field installations. To facilitate full implementation and monitoring, the Corps should develop an overall plan for conducting its quality assurance reviews at all Corps installations and include provisions for verifying the adequacy of corrective actions on the deficiencies identified by us and AAA.

We also recommend that the Army, in its annual statements required by the Federal Managers' Financial Integrity Act, discuss whether any weaknesses identified have not been corrected.

DOD, in its response to this report, stated that our recommendations on reporting uncorrected weaknesses in the annual statements required by the Federal Managers' Financial Integrity Act are required by existing DOD policy. In addition, DOD stated that any material weaknesses remaining uncorrected will be reported in the Army's fiscal year 1985 statement of assurance to the Secretary of Defense.

SUMMARY OF INTERNAL CONTROL WEAKNESSES IDENTIFIED AT NINE U.S. ARMY CORPS OF ENGINEERS ACCOUNTING STATIONS AND BY U.S. ARMY AUDIT AGENCY

	Chicago	St. Paul	Ft. Belvoir	Vicksburg	Cincinnati	Memphis	Omaha	Savannah	Mobile	Total	Army Audit Agency[a]
Collections											
Collections not adequately safeguarded	X	X			X	X	X	X	X	7	X
Collections not placed under immediate accounting control	X	X		X	X	X	X	X	X	8	
Prenumbered receipt forms not properly used and controlled		X			X		X	X	X	5	X
Collections not deposited promptly		X		X	X	X	X	X	X	7	X
Collection duties not properly segregated	X	X				X	X	X	X	6	X
Accounts Receivable											
Receivables not recorded promptly	X	X		X	X	X	X	X	X	8	X
Collection actions not prompt or aggressive	X	X		X	X	X	X	X	X	8	X
Travel advances											
Advances not periodically reconciled		X	X	X	X		X			5	
Advances not reviewed nor aggressively pursued	X	X		X		X	X	X	X	7	X
Diners Club cards not effectively used to manage travel advances	X	X		X	X	X	X	X	X	8	X

[a] AAA's financial management report did not identify specific locations where internal control weaknesses existed.

	Chicago	St. Paul	Ft. Belvoir	Vicksburg	Cincinnati	Memphis	Omaha	Savannah	Mobile	Total	Army Audit Agency[a]
<u>Disbursements</u>											
Vouchers not approved before payment			X	X	X		X	X	X	6	
Legality, property, and accuracy of disbursements not adequately checked before payments are made	X	X	X	X	X	X	X	X	X	9	X
Payments not scheduled to coincide with due dates	X	X	X	X	X	X	X	X	X	9	X
Controls to prevent duplicate payments not adequate	X	X		X	X		X	X	X	7	X
Information tax returns not filed	X	X	X					X		4	
<u>Government Transportation Requests (GTRs)</u>											
GTRs not adequately controlled	X					X	X	X		4	X
<u>Imprest fund</u>											
Daily operating controls not sufficient	X	X			X	X	X	X	X	7	X
Funds not audited/verified with required frequency					X		X			2	X
Size of funds should be reduced	X				X		X			3	X
<u>Check writing</u>											
Check preparation controls not in place	X	X	X	X		X		X	X	7	

[a]AAA's financial management report did not identify specific locations where internal control weaknesses existed.

	Chicago	St. Paul	Ft. Belvoir	Vicksburg	Cincinnati	Memphis	Omaha	Savannah	Mobile	Total	Army Audit Agency[a]
Obligations											
Obligations not validated	X						X	X	X	4	
List of obligating officials not available or not used	X	X	X	X				X	X	6	
Obligations not appropriately recorded	X	X						X	X	4	X
Obligations not reviewed and reconciled as required		X	X	X				X		4	X
Blanket travel orders not fully controlled		X					X			2	
Internal audit and quality assurance											
Deficiencies identified in internal audits and reviews not corrected	X	X		X			X	X	X	6	X
Quality assurance program could be improved		X	X	X	X					4	X

[a]AAA's financial management report did not identify specific locations where internal control weaknesses existed.

COMMENTS FROM THE ASSISTANT SECRETARY OF DEFENSE

Note: GAO comments supplementing those in the report text appear at the end of this appendix

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

COMPTROLLER

1 AUG 1985

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
US General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled, "Internal Control Problems At The U.S. Army Corps of Engineers Should Be Corrected," dated June 20, 1985, (GAO Code 905085), OSD Case No. 6786.

The DoD concurs with all findings and recommendations in the draft report. GAO findings A-F and H and recommendations 2-6 are very similar to the findings and recommendations in Army Audit Agency (AAA) Advisory Report Number SW 85-A2 issued to the US Army Corps of Engineers on October 3, 1984. To correct the deficiencies identified in the AAA Report, HQ, US Army Corps of Engineers issued appropriate policy guidance on September 25, 1984 and November 9, 1984, to subordinate commanders. Since then, management reviews and other monitoring of field implementation have been conducted on a continuous basis.

See page references on enclosures, now pp. 43-52.

These actions already have achieved the necessary corrections to problems identified in the AAA report and reiterated in the GAO draft report. Accordingly, while the DoD concurs in these findings and recommendations, detailed comments are not being provided. Enclosed are specific comments and identification of corrective actions undertaken by DoD to correct the weaknesses cited in findings G, I, and J and recommendations 1, 7, and 8, which are new in the GAO report or which needed additional corrective action.

Thank you for the opportunity to respond.

Sincerely,

John R. Quetsch

Enclosure

John R. Quetsch
Principal Deputy Assistant Secretary of Defense
(Comptroller)

GAO DRAFT REPORT GAO/AFMD-85-51- DATED JUNE 20, 1985
(GAO CODE 905085) - OSD CASE 6786

"INTERNAL CONTROL PROBLEMS AT THE U.S. ARMY CORPS OF ENGINEERS SHOULD BE CORRECTED"

FINDINGS AND RECOMMENDATIONS TO BE ADDRESSED IN THE DOD RESPONSE TO THE GAO DRAFT REPORT

* * * * *

FINDINGS

FINDING A. Weaknesses Identified In Internal Controls Of The U.S. Army Corps Of Engineers (Corps). The GAO reported that the Accounting and Auditing Act of 1950 (31 U.S.C. 3512) requires the head of each federal executive agency to establish and maintain a system of accounting and internal controls to provide effective control over and accountability for the agency's assets. This requirement was strengthened in September 1982, with the Federal Managers' Financial Integrity Act (FMFIA). In addition, the GAO further reported that it and others have issued guidance to help agencies meet their accounting and internal control system responsibilities. The GAO found that, notwithstanding these requirements, its audit and recent Army Audit Agency (AAA) reports have identified several weaknesses in internal controls of the Corps, which for fiscal year 1984, received over $2.6 billion in civil works appropriations and an additional estimated $190 million in reimbursements from other federal agencies and the public. The GAO noted that civil works and revolving fund accounting is accomplished through 28 accounting stations. The GAO further found that the internal control weaknesses occurred either because of deficiencies in Corps-wide policies and procedures or because established procedures were not consistently followed. The GAO further noted that Corps managers agreed that corrective actions were needed and some stated solutions were already being considered. Moreover, in September 1984, the Assistant Secretary of the Army for Financial Management ordered the Corps to initiate actions to correct noted deficiencies. The GAO concluded that because of these internal control weaknesses, the risks of waste, loss, and misuse of Corps resources is increased, and the accuracy and reliability of its financial and statistical reports are reduced. The GAO further concluded that these weaknesses may also apply to controls over Corps military accounting and financial operations it did not survey, but which are very similar and are often handled by the same staff. The GAO also concluded that on an individual basis, any one weakness may not significantly affect the Corps financial condition, however, in the aggregate, if unchecked, they may be detrimental to overall financial operations. (pp. 1, 3-5, Letter; pp. 1, 3, Appendix I, GAO Draft Report)

Now on pp. 1-4, Letter; pp. 6-7, Appendix I.

See comment 1. **RESPONSE:** See cover letter.

FINDING B. Need To Improve Controls Over Collections. The GAO found that Corps accounting stations collected and deposited about $95 million a month, however, they were not effectively controlling collections. Specifically, (1) collections were not placed under immediate accounting control, i.e., none of the stations surveyed immediately endorsed checks received through the mail or over the counter, (2) at five accounting stations prenumbered receipts were not routinely used for over-the-counter collections, (3) collections were not deposited promptly, i.e., at three stations, some collections were held for long periods while the Corps determined the proper accounts to credit, and (4) in seven of eight accounting stations collections were not adequately safeguarded. The GAO further found that none of the seven recreation areas visited were maintaining adequate physical security over collections, and at six facilities, duties of employees handling collections were not adequately segregated to ensure effective control over receipts. For example, safekeeping facilities at four locations were accessible to several people. The GAO concluded that the Corps accounting stations were increasing the risks of loss, theft, or misuse involved when handling currency and checks, by not effectively controlling collections. The GAO further concluded that most of the control deficiencies were attributable to a lack of effective enforcement of existing policies. (pp. 5-13, Appendix I, GAO Draft Report) Now on pp. 9-13

See comment 2. **RESPONSE:** See cover letter.

FINDING C. Need To Improve Control Over Accounts Receivable. The GAO found that at all stations visited, certain amounts due the Corps were not recorded as receivables and collection efforts were not prompt or aggressive. For example, (1) seven stations did not record airline refund claims as receivables when they were filed, and two stations did not pursue recovery of these claims, (2) the unpaid portions of employee debts were not recorded as receivables in the accounting system, and (3) eight accounting stations' collection actions were neither forceful nor prompt. The GAO concluded that as a result of the weaknesses that existed in the recording and collecting of accounts receivable, financial statements and reports will be misstated. The GAO further concluded that amounts due the Government may not be collected in a timely manner or collected at all. (pp. 13-16, Appendix I, GAO Draft Report) Now on pp. 14-16

See comment 3. **RESPONSE:** See cover letter.

FINDING D. Need To Improve Control Over Travel Advances. The GAO reported that travel advances represent sizeable amounts of Government funds. The Corps alone reported $6.3 million in travel advances outstanding as of September 30, 1984. The GAO found that five stations did not perform reconciliations, therefore, the Corps could not be ensured that amounts shown as advances in its accounting records and reported to the Treasury were accurate. The GAO further found that, although, the GAO manual provided that agency accounting systems should include procedures for the periodic review and analysis of outstanding travel advances, eight accounting stations did not exercise this control therefore, continuous advances were often unwarranted and single trip advances remained outstanding for a long time. The GAO also found that the Corps, while participating in a program designed to use credit cards as a cash management tool, did not reduce travel advances and rather than saving administrative costs as the General Services Administration (GSA) claimed, the program may be more costly. The GAO noted that Corps officials explained that the first year of the program was a test to determine whether the program was workable and whether the credit cards would be accepted by Corps employees and merchants. The GAO concluded that unless proper control is exercised over advances, funds needed for travel are unnecessarily tied up and the risk that advances might not be recovered is increased. The GAO further concluded that Corps management has done little to ensure that the credit card program is operating as GSA intended or to provide a basis for measuring its benefits. (pp. 16-21, Appendix I, GAO Draft Report)

Now on pp. 16-19.

See comment 4.

RESPONSE: See cover letter.

FINDING E. Need To Improve Controls Over Disbursements.. The GAO reported that in order to make sure that disbursements are proper, the GAO manual (7 GAO 19.1) requires that all invoices, vouchers, or bills be authenticated by an administrative official cognizant of the facts stated therein. The GAO found, however, that Corps accounting stations did not have controls in place to ensure that disbursements were proper, accurate, and legal. Specifically, (1) several stations paid gasoline credit card billings with no administrative approval, (2) there were numerous instances where Corps employees on extended travel have filed fraudulent claims since 1976, (3) four stations were processing travel vouchers without supervisory review and approval, (4) at three stations controls to prevent unauthorized credit card use were less extensive than for other types of disbursements, and (5) ineffective preaudits were noted at all nine accounting stations reviewed. Treasury requires agencies to control the time of disbursements so that bills are paid when due, however, GAO further found that all accounting stations were scheduling certain types of invoices for payment long before the due date, and at seven stations, unnecessary interest penalties and lost discounts were occurring because controls did not ensure that bills were paid when due. The GAO also found that duplicate payment controls needed improvement and information tax returns are not being filed as required. The GAO concluded that Corps accounting stations did not have controls in place to ensure that disbursements were proper, accurate and legal therefore, federal funds were unnecessarily exposed to the risk of loss, theft, or other misuse. The GAO further concluded that the stations did not conform to sound cash management principles or the Prompt Payment Act in timing the payment of bills. (pp. 21-30, Appendix I, GAO Draft Report)

Now on pp. 19-25.

See comment 5. **RESPONSE:** See cover letter.

FINDING F: Need To Improve Controls Over Government Transportation Requests (GTRs). The GAO found that GTR accountability records or usage were not reconciled and/or GTRs were not safeguarded at four of the six accounting stations. Specifically: (1) one accounting station neither inventoried GTRs on hand nor reconciled them when issued and used, and (2) another accounting station reconciled GTR, and airlines tickets issued and used, but GTRs on hand were not inventoried. In 1978, the GAO recommended that federal agencies make greater use of bulk ticketing procedures as a way to increase efficiency, reduce costs, and reduce accountability problems for GTR issuance. The GAO further found, however, that one station still used individual GTRs to buy airline tickets, even though a nearby activity supported by that accounting station was using bulk ticketing arrangements. The GAO concluded that GTRs can be easily misused to obtain tickets, therefore, it is essential that they be protected. (pp. 30-32, Appendix I, GAO Draft Report)

Now on pp. 25-26.

See comment 6. **RESPONSE:** See cover letter.

FINDING G: Check Writing Process Lacks Adequate Safeguards And May Be Inefficient. The GAO reported that in contrast to most civil agencies, the Corps prepares its own checks. The GAO Manual (7 GAO 20.6) requires agencies to establish controls over disbursements so that checks drawn by disbursing officers are in accordance with payments certified on vouchers. Although guidance requires various controls designed to prevent or detect loss, theft, or misuse of checks, GAO found that Corps accounting stations did not provide all necessary safeguards. For example, one station neither inventoried blank checks nor reconciled facsimile signature plate usage with check issuance. The GAO further found that Corps offices receive services from and perform services for other Corps offices and federal agencies and are required by Corps regulations to settle these accounts by check. Therefore, Corps accounting stations were unable to use various forms of noncheck transfers to settle accounts among Corps districts or between the Corps and other federal agencies--in many instances this meant two checks were written to pay one expenditure. The GAO concluded that the number of checks written could be reduced if the Corps could use noncheck transfer procedures for transactions between itself and other agencies and used internal accounting adjustments to process billings among Corps offices. The GAO further concluded this would reduce the subsequent administrative burden of receipting, accounting for, and depositing the checks written within or between Corps offices. The GAO also concluded that

Now on pp. 26-28.

the Corps should continue to pursue the matter and investigate how to implement it. (pp. 33-36, Appendix I, GAO Draft Report)

RESPONSE: DoD concurs. HQUSACE has provided guidance for controls over disbursements, however, the finding on safeguarding check writing process was not addressed previously. HQUSACE will issue a directive by 31 July 1985 to all Corps installations with disbursing functions that full compliance with Treasury, Army and Corps regulations on control over blank checks, use of check writing machines and signature plates must be maintained. HQUSACE will pursue the matter of using noncheck transfer procedures for transactions between Corps installations.

See comment 7.

FINDING H. Need For More Effective Control Of Imprest Funds. The GAO reported that the Corps civil works has many small imprest funds, most less than $5,000, that totaled $582,000 as of September 1984. The GAO found that, despite the widely recognized need for stringent controls over imprest funds, established procedures and controls were not always followed. For example, cashiers at five locations did not cancel all documents supporting imprest fund disbursements; at four locations, cashiers did not have a list of individuals authorized to approve disbursements from the fund. The GAO manual requires quarterly verifications of imprest fund balances and unannounced audits of the funds. The GAO further found however, that one station audited its funds triennially, but they were announced in advance, and while seven accounting stations verified their imprest funds, imprest funds of two of the accounting stations were not verified at the required frequency. The GAO also found imprest funds at three stations were far in excess of the Treasury standard which requires that imprest funds not exceed an average month's needs. GAO noted that one station had a $5,000 fund that had not been used in more than one and one-half years. The GAO concluded that because imprest funds are susceptible to misuse, loss, or theft, accounting stations should correct the cited imprest fund deficiencies. (pp. 36-39, Appendix I, GAO Draft Report).

Now on pp. 28-31.

See comment 8.

RESPONSE: See cover letter.

FINDING I. Need To Improve Controls Over Obligations. The GAO reported that the basic objective of obligation control is to ensure that obligations are valid and do not exceed the resources an organization has available to meet its mission. The GAO found, however, to varying degrees, seven stations were not meeting this objective. For example, staff were not always ensuring that funds were available before obligations were incurred and persons incurring obligations were acting within the scope of their authority. The GAO further found that (1) obligations were not always recorded when they should have been and four accounting stations were either recording obligations before they were incurred or long after they were incurred, and (2) at four accounting stations obligations were not always periodically reviewed to determine their continuing validity. The GAO also found that two accounting stations were not following OMB guidelines that were intended to put limits on the use of blanket travel orders--one station had over 150 blanket travel orders outstanding. The GAO concluded that there is a need to improve controls over obligations to ensure that obligations are valid and do not exceed the resources an organization has available to meet its mission. (pp. 40-45, Appendix I, GAO Draft Report)

Now on pp. 31-34.

RESPONSE: DoD concurs. HQUSACE has issued guidance on improving controls over obligations. Local commanders are required to establish and maintain effective control of funds to prevent exceeding statutory or administrative limitations (AR 37-20). All local Comptrollers/Resource Management Officers were required to sign a report to HQUSACE that a system is maintained that assures the timely recording of obligations and that an effective document control system is in place. In addition, local commanders were tasked with the requirement to ensure the validation, adjustments and deobligation of recorded obligations is accomplished in accordance with prescribed regulatory guidance and that joint reviews of unliquidated obligations are performed no less frequently than 3 times each year with a 100 percent review in the last 2 months of the fiscal year. Certified reports on unliquidated obligations review are now required to be submitted to HQUSACE 3 times each fiscal year.

See comment 9.

FINDING J. Need To Strengthen Audit Resolution And Quality Assurance Functions. GAO reported that an important element in any internal control system is the systematic review of operations to determine whether controls are adhered to. The GAO further reported that the Army also requires that each finance and accounting office establish a quality assurance program. The GAO found, however, that these internal control elements have not been fully effective in the Corps. The GAO further found that at most stations some internal control weaknesses that had previously been disclosed still existed. The GAO noted that the AAA also found major problems with the Corps audit resolution effort. One factor that contributed to the problem was the reporting level, which GAO concluded hampered effective implementation of the FMFIA. The GAO also found that the quality assurance program was not functioning effectively and at four stations the programs were not adequately staffed or assigned staff were detailed to other duties. The GAO further concluded that an effective quality assurance program would strengthen the Corps defenses against waste and abuse by assuring that internal controls are in place and functioning. The GAO also concluded that had the quality assurance program been operating as intended, (1) many Prompt Payment Act interest penalties could have been avoided, (2) many of the problems in recreation area collections would not have existed, and (3) internal control problems identified may not have developed

Now on pp. 34-36. to the extent they did. (pp. 45-48, Appendix I, GAO Draft Report)

RESPONSE: DoD concurs. On September 25, 1984, the Chief of Engineers, recognizing the need to strengthen the internal review and Quality Assurance (QA) functions and to improve internal controls in the financial management area, authorized a 10 person HQ Quality Assurance Branch in the Finance and Accounting Division and a 5 person HQ Audit Team in the Audit and Internal Review Division. The QA Branch and Audit Team became fully operational on June 4, 1985. Local commanders were directed to provide adequate resources to perform all required finance and accounting functions. Local QA personnel were directed to perform QA reviews of all aspects of financial operations on a cyclical basis, and to ensure that all reviews are completely documented. The HQUSACE Quality Assurance Branch personnel, in addition to performing regularly scheduled reviews, will monitor the activities of installation QA operations to ensure compliance with AR 11-37, Quality Assurance Program. Headquarters and field internal review personnel are currently performing followup reviews to determine the adequacy of actions taken to correct deficiencies identified by AAA and GAO. Followup reports will be evaluated by headquarters personnel to ensure proper corrective action has been taken. See comment 10.

RECOMMENDATIONS

Recommendation 1. The GAO recommended that the Corps implement controls to ensure Corps assets such as cash collections, check signing machines, GTRs and other accountable documents are protected at all times. (p. 49, Appendix I, GAO Draft Report) See comment 11.

RESPONSE: DoD concurs. HQUSACE has provided guidance for implementing controls and safeguarding of cash collections GTR's and other accountable documents. Policies and procedures for control of checkwriting machines, signature plates, and blank checks are provided in Army and Corps regulations. HQUSACE will issue a directive by 31 July 1985 to all Corps Finance and Accounting Officers to implement required controls. Compliance will be monitored by the Corps Quality Assurance and Internal Review personnel. See comment 12.

Recommendation 2. The GAO recommended that the Corps implement controls to ensure collections are placed under immediate accounting control with prenumbered receipts used for all over-the-counter collections. (p. 49, Appendix I, GAO Draft Report) See comment 13.

See comment 14. **RESPONSE:** See cover letter.

Recommendation 3. The GAO recommended that the Corps implement controls to ensure individuals are not assigned incompatible duties such as an impress fund cashier having procurement authority. (p. 49, Appendix I, GAO Draft Report) See comment 15.

See comment 16. **RESPONSE:** See cover letter.

Recommendation 4. The GAO recommended that the Corps implement controls to ensure all accounts owed are recorded as receivables and collected according to federal claims collection standards. (p. 50, Appendix I, GAO Draft Report)
See comment 17.

See comment 18. **RESPONSE:** See cover letter.

Recommendation 5. The GAO recommended that the Corps implement controls to ensure cash is better managed including (1) promptly depositing collections, (2) paying bills on time, i.e., neither early nor late, (3) limiting employee travel advances, and (4) reducing the size of imprest funds. (p. 50, Appendix I, GAO Draft Report)
See comment 19.

See comment 20. **RESPONSE:** See cover letter.

Recommendation 6. The GAO recommended that the Corps implement controls to ensure obligation and disbursement transactions are accurate, properly authorized in advance, and entered appropriately in the accounting records. (p. 50, Appendix I, GAO Draft Report)
See comment 21.

See comment 22. **RESPONSE:** See cover letter.

Recommendation 7. The GAO recommended that the Corps implement controls to ensure the quality assurance and internal review functions operate effectively to remedy internal control problems. (p. 50, Appendix I, GAO Draft Report)
See comment 23.

RESPONSE: DoD concurs. On September 25, 1984, HQUSACE took positive action by authorizing the establishment of a Headquarters Quality Assurance Branch staffed with professional accountants. The Headquarters Quality Assurance (QA) Branch, which became fully operational on June 4, 1985, will, in addition to performing QA reviews, monitor QA activities of Corps installations to ensure that they are operating effectively to remedy internal control problems (AR 11-37). In addition, the Chief of Engineers has directed that each Corps installation establish and adequately staff a QA function in the Finance and Accounting Branch Office. HQUSACE internal review personnel will review followup reports on action taken to correct deficiencies reported by AAA and GAO. The HQUSACE internal review staff will also review all major internal review and external audit findings semiannually to determine if corrective actions taken were sufficient. If warranted, based on this analysis, a Corps deficiency trends letter will be issued alerting the field to potential systemic problems.
See comment 24.

Recommendation 8. The GAO recommended that the Army, in its annual statements required by the Federal Managers' Financial

APPENDIX III

Integrity Act, discuss whether any weaknesses identified have not been corrected. (p. 50, Appendix I, GAO Draft Report)

See comment 25.

RESPONSE: DoD concurs. The recommended action is required by existing DoD policy on the Internal Management Control Program. The Army reported material weakness "upgrade Quality Assurance program in the Corps of Engineers" (Army #4-16) in its FY 1984 statement of assurance. Any other material weaknesses remaining uncorrected will be reported in the Army's FY 1985 statement of assurance to the Secretary of Defense. However, DoD wishes to point out that the FMFIA and DoD guidance require that only "material" weaknesses, not merely "any" weakness be reported in the annual statement of assurance to the Secretary of Defense.

See comment 26.

The following are GAO's comments on the Department of Defense's letter dated August 1, 1985

GAO Comments

1. Agency comment and our evaluation are presented on pages 3 and 4.
2. Agency comment and our evaluation are presented on page 13.
3. Agency comment and our evaluation are presented on page 16.
4. Agency comment and our evaluation are presented on pages 18 and 19.
5. Agency comment and our evaluation are presented on pages 24 and 25.
6. Agency comment and our evaluation are presented on page 26.
7. Agency comment and our evaluation are presented on page 28.
8. Agency comment and our evaluation are presented on pages 30 and 31.
9. Agency comment and our evaluation are presented on page 34.
10. Agency comment and our evaluation are presented on page 36.
11. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

12. Agency comment and our evaluation are presented on pages 13, 26, and 28.

13. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

14. Agency comment and our evaluation are presented on page 13.

15. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

16. Agency comment and our evaluation are presented on page 13.

17. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

18. Agency comment and our evaluation are presented on page 16.

19. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

20. Agency comment and our evaluation are presented on pages 13, 18, 19, 24, 25, 30, and 31.

21. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

22. Agency comment and our evaluation are presented on pages 24, 25, and 34.

23. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

24. Agency comment and our evaluation are presented on page 36.

25. Our recommendations now appear on page 38. The recommendations, noted in DOD's August 1, 1985, letter, no longer appear in the same form in this report. We have redirected them to address those issues on which the Corps of Engineers had not acted.

26. Agency comment is presented on page 39.

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