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

CIVIL DIVISION

December 15, 1970



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Dear Mr. Hall:

On June 26, 1970, we transmitted a report to the Congress entitled "Improvements Needed in Financial Management System of Trust Territory of the Pacific Islands" (B-114888). Among other things, we reported that substantial unreconciled differences existed between the cash-in-bank balances shown in the Trust Territory's general ledger accounts and the balances shown on bank statements. Similarly, most of the cash-on-hand balances shown in the controlling accounts for district finance offices or other custodians differed substantially from such balances reported by the offices and custodians. We concluded that generally accepted cash control procedures, which require regular reconciliation of cash balances and timely deposit of cash collections, were not followed in the Trust Territory.

In a draft of the report submitted for departmental comments--and in a subsequent letter dated June 26, 1970, to Assistant Secretary Harrison Loesch--we recommended that the following steps be taken to obtain more effective control over cash assets:

1. The cash in commercial banks shown in the accounts of the Trust Territory should be reconciled with the statements received from the banks; the balances shown in the general ledger as cash-on-hand in the district offices should be reconciled with the related bank statements, or with the actual cash-on-hand in the district office as established by independent verification in those instances where the cash-on-hand is not on deposit in a local bank; and the petty cash funds shown in the accounts should be reconciled to the actual cash funds on hand, which should be established by independent verification.
2. The general ledger accounts and subsidiary records should be corrected for any errors disclosed in the reconciliations recommended above and any shortages or irregularities should be promptly investigated.

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3. Establish appropriate internal control procedures which should include the prompt recording of all cash transactions, monthly reconciliations, and appropriate follow-up procedures to assure that the control procedures are operating properly.

We did not include in our report to the Congress the recommended steps for obtaining more effective control over cash assets, partly because of the departmental reply to our draft report which indicated that the Trust Territory had complied substantially with our recommendation. Such compliance was further affirmed to us in your letter dated July 15, 1970.

After the issuance of our report, a staff member of the Special Studies Subcommittee of the House Government Operations Committee advised us that he was concerned about the reported weaknesses in control over cash and requested that we obtain copies of the cash reconciliations prepared by the Trust Territory. Members of your staff obtained copies of the reconciliations for us and, as a result of reviews by our respective staffs, it was agreed that apparent weakness in the reconciliations justified requesting the Department's internal auditors to make an on-site examination.

The results of the internal auditors' examination were summarized in a report issued by your office in October 1970, which states that the cash reconciliations were incomplete or inadequate. Members of our office, who visited the Trust Territory to test the cash reconciliation work performed by the internal auditors and to make limited independent tests, also concluded that the cash reconciliations prepared by the Trust Territory were incomplete or inadequate.

Among other things, we found that the methods used to control payroll checks were of such a nature that we were unable to verify that checks were outstanding in the amounts listed on the reconciliations because the listings did not show the specific payroll periods or check numbers, but contained only a listing of figures. Particularly serious, in our opinion, was the lack of a system for assuring that timely and appropriate action is taken on reconciling items and that such items are valid. The principal purpose of making a cash reconciliation is not accomplished if the validity of reconciling items is not independently established.

We believe that the situation cited above further demonstrates the need--as pointed out in our report to the Congress (see p. 44)--for improved surveillance techniques at the departmental level to

ensure correction of the defects in an orderly and timely manner. We recommend that such departmental surveillance include periodic on-site reviews by members of your staff.

We would appreciate receiving your views on the matters discussed above and advice as to any plans you might have to make periodic on-site reviews of corrective actions taken to improve the financial management system of the Trust Territory.

Sincerely yours,



Allen R. Voss
Associate Director

Mr. James T. Hall, Jr.
Director, Office of Survey and Review
Department of the Interior

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<p>DATE ISSUED</p> <p>December 15, 1970</p>	
<p>NAME OF OFFICIAL FOR WHOSE SIGNATURE REPORT IS PREPARED</p> <p>Allen R. Voss</p>	<p>TITLE</p> <p>Associate Director</p>

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REMARKS

Report typed and distribution made at audit site (Report Manual 7-13).

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