



United States  
General Accounting Office  
Washington, D.C. 20548

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Accounting and Information  
Management Division

B-282514

May 17, 1999

Mr. Richard L. Gregg  
Commissioner  
Financial Management Service  
Department of the Treasury

Subject: Internal Controls: Matters Regarding Certain Transactions Processed by FMS

Dear Mr. Gregg:

We recently reported on the U.S. government's financial statements for fiscal year 1998.<sup>1</sup> In connection with fulfilling our requirement to audit these financial statements, we performed audit procedures on cash balances maintained and internal controls over cash receipts and disbursements processed by the Department of the Treasury's Financial Management Service (FMS) on behalf of the federal government.<sup>2</sup> This audit included testing FMS' manual internal controls over processes for

- recording Adjusting Journal Entries (Adjustments) needed to accurately reflect FMS' records of agencies' cash receipts and disbursements;
- opening, amending, or closing Agency Location Codes (ALC), which identify agencies and individual reporting locations within agencies on monthly reports of cash receipts and disbursements; and
- assigning or discontinuing Account Symbols, which are used to identify individual appropriations or spending authorizations.<sup>3</sup> Agencies use Account Symbols to classify monthly receipts and disbursements by appropriations and spending authorizations.

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<sup>1</sup>Financial Audit: 1998 Financial Report of the United States Government (GAO/AIMD-99-130, March 31, 1999).

<sup>2</sup>31 U.S.C. 331 (e) (1994).

<sup>3</sup>Spending authorization is authority provided by laws other than appropriation acts to obligate the government to make payments. It includes contract authority, authority to borrow, and entitlement authority.

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These processes are linked to FMS' overall responsibility to assist agencies in reporting their receipts and disbursement transactions and in reconciling agencies' Fund Balances with Treasury accounts. The proper reconciliation of these accounts is important for ensuring that agencies accurately report cash receipts and disbursements. Therefore, the purpose of this letter is to advise you of internal control matters identified during our testing of these processes and to suggest improvements.

### **Results in Brief**

Last year, we reported on and suggested internal control improvements over Adjustments, ALC, and Account Symbol transactions.<sup>4</sup> FMS' corrective actions resolved all of our concerns regarding Account Symbol transactions. FMS has also acted to resolve our concerns about the supervisory review and approval of Adjustments and the Check Reconciliation Branch's internal controls over its ALC actions. However, this year our suggested improvements include matters we reported on last year for which FMS' corrective actions were incomplete. Specifically, we are reaffirming our prior year suggestions for improvements to (1) the Financial Analysis Branch's documentation and reconciliation of Adjustments, and (2) the Budget Reports Branch's supervisory review and approval, documentation, and reconciliation of its ALC actions.

Although the internal control matters discussed in this letter are not material in relation to the federal government's fiscal year 1998 financial statements, we believe they warrant your attention. Also, some federal agencies continue to have problems reconciling their Fund Balances with Treasury accounts. Sound controls at FMS over the processes we tested will help improve all agencies' ability to reconcile these accounts.

### **Scope and Methodology**

We performed audit procedures to reconfirm the existence and functioning of manual controls over the Adjustments, ALC, and Account Symbols processes administered by FMS. To determine if controls were in place, we tested selected transactions that occurred after the dates that FMS officials informed us that they had implemented our prior suggestions for improving controls. We performed our work in accordance with generally accepted government auditing standards as part of our audit efforts on the U.S. government's fiscal year 1998 financial statements for which an audit report was issued on March 31, 1999.

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<sup>4</sup>Internal Controls: Issues Regarding Certain Transactions Processed by FMS (GAO/AIMD-98-188R, June 17, 1998).

### **Internal Control Weaknesses Still Exist Over Certain Transactions Processed by FMS**

As in last year's audit, we identified internal control weaknesses in three key areas—supervisory review and approval, documentation, and reconciliation of transactions. The following discussion provides the status of FMS' actions to address these weaknesses in its manual processing of Adjustments and ALC actions and suggests certain corrective measures that still need to be implemented.

#### **Adjustments**

FMS' Financial Analysis Branch (FAB) staff make Adjustments to assist agencies in clearing differences identified between agency records of receipts and disbursements and those reported by independent sources, such as the Federal Reserve, commercial banks, and FMS regional financial centers. FAB tracks these differences in various "differences" accounts, including Statement of Differences accounts and Budget Clearing Accounts (BCAs).<sup>5</sup> FAB staff use journal voucher forms and control logs to document and track the Adjustments they make to these accounts. It is important that FAB staff make Adjustments promptly and accurately to assist agencies in reconciling their Fund Balances with Treasury accounts and to ensure that Treasury records of federal receipts and disbursements are accurate.

Last year we suggested that FMS establish certain controls over Adjustments to Statement of Differences accounts that include procedures to ensure supervisory review and approval, complete documentation, and reconciliation of transactions to source documents. We also suggested that FMS enforce its existing procedures over Adjustments to BCAs, until all accounts are closed, by requiring supervisors to review and approve Adjustments and to ensure that all Adjustments are adequately documented and that control logs are completed by staff and reconciled to source documents as necessary.

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<sup>5</sup>We use the term Statement of Differences accounts to include all of the differences FAB records in accounts 20A1840 and 20A1875, and the differences FAB identifies in its checks issued audit system. FAB identifies and reports these differences to agencies as a result of the monthly reconciliation of Fund Balances with Treasury account activities. Through April 1998, FAB used BCAs (account numbers F3878 and F3879) to track differences that agencies had not reconciled within 6 months from the initial month the differences were reported to them by FAB. After April, FAB stopped transferring differences over 6 months old from the Statement of Differences accounts to BCAs and started tracking differences in the Statement of Differences accounts until they are cleared, regardless of age. FAB also established a requirement for agencies to clear all differences remaining in BCAs by September 30, 1998. However, at that date, some agencies still had unresolved differences in their BCAs.

Our follow-up testing found that FAB has implemented controls for supervisory review and approval of Adjustments to Statement of Differences accounts and BCAs. We also found that FAB has implemented controls to maintain adequate supporting documents for the Adjustments it makes to these accounts. However, FAB has not implemented controls to ensure that its staff consistently logs the Adjustments they make to Statement of Differences accounts and BCAs. In addition, we found that FAB has not implemented controls to ensure that its staff reconcile the Adjustments they record in the accounting system to source documents to ensure that the data recorded in the system are accurate and complete for Statement of Differences accounts and BCAs.

Without complete documentation and periodic reconciliation of transactions, FMS management has no assurance that staff are properly adjusting agency accounts. Accordingly, the risk of errors occurring and not being detected in a timely manner is increased. We reaffirm our prior year suggestion that you direct the Assistant Commissioner for Financial Information to ensure that FAB implements controls to ensure complete documentation and reconciliation of all Adjustment transactions. We also suggest that you direct the Assistant Commissioner for Financial Information to monitor FAB's efforts in this area and take steps necessary to ensure compliance.

#### Agency Location Codes

The Treasury Financial Manual requires agencies to establish ALCs and use these to identify and report their cash receipts and disbursement transactions. Agencies submit request letters for establishing, closing, or changing ALCs to either the Checks Reconciliation Branch (CRB) or the Budget Reports Branch (BRB), depending on whether an agency disburses its own funds or uses Treasury as its disbursing agent. FMS staff at these branches are required to log all incoming agency ALC requests and complete request forms for each ALC transaction processed.

Last year we suggested that FMS ensure effective supervisory review and approval of all ALC request forms and logs, ensure that its staff completely document all ALC transactions, and require reconciliation of all ALC transactions. Our follow-up testing found that CRB had corrected the internal control weaknesses identified in its ALC processes. However, we found that BRB had not effectively implemented procedures to correct the control weaknesses associated with supervisory review and approval, documentation, and reconciliation of the ALC transactions it processes. Although BRB officials stated that procedures had been established to correct the weaknesses we identified last year, our follow-up testing found that these procedures were not being followed.

Without effective review and approval, complete documentation, and proper reconciliation of all transactions, FMS has no assurance that errors are detected in a timely manner and that ALC actions are processed accurately. To ensure that BRB effectively implements corrective actions, we suggest that you direct the Assistant

Commissioner for Financial Information to monitor BRB's efforts in this area and take necessary steps to ensure compliance.

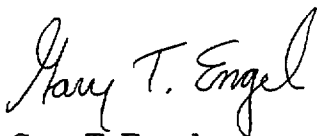
**Agency Comments**

In commenting on this letter, the Commissioner of FMS generally concurred with all of our findings and suggestions for improvements. He stated that FMS is committed to getting these issues resolved as quickly as possible. We plan to follow up on these matters during our audit of the federal government's fiscal year 1999 financial statements.

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This letter is intended for use by Treasury's management and Office of Inspector General, and the Congress. We are sending copies of this letter to Senator Fred Thompson, Chairman, and Senator Joseph Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry Waxman, Ranking Minority Member, House Committee on Government Reform; the Honorable David C. Williams, Inspector General, Department of the Treasury; and Donald Hammond, Fiscal Assistant Secretary, Department of the Treasury. This letter is a matter of public record and its distribution is not limited. Consequently, copies will be made available to others upon request. We appreciate the cooperation and assistance of FMS management and staff during our fiscal year 1998 audit. If you have any questions, please call me at (202) 512-3406 or Suzanne Murphy, Audit Manager, at (404) 679-1940.

Sincerely yours,



Gary T. Engel  
Associate Director  
Governmentwide Accounting and  
Financial Management Issues

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