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## UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

JAN 27 1971

CIVIL DIVISION



Dear Mr. Villarreal:

We have examined selected financial transactions of the Urban Mass Transportation Fund covering the period July 1, 1968, through December 31, 1969. Responsibility for the administration of the Fund was transferred to the Urban Mass Transportation Administration (UMTA) from the Department of Housing and Urban Development (HUD) effective July 1, 1968, pursuant to Reorganization Plan No. 2 of 1968. Through December 31, 1969, about \$815 million has been appropriated by the Congress to the Fund for grants and loans. Of this amount about \$336 million had been expended for such program activities. Our examination was made in accordance with generally accepted auditing standards and procedures and included such tests of the accounting records as we considered necessary in the circumstances.

Accounting support services for the Fund, including the operation and maintenance of the accounting system, have been provided by the Office of the Secretary (OST) on a reimbursable basis since October 1, 1969. Prior to this time accounting activities for the Fund were provided by the Department of Housing and Urban Development also on a reimbursable basis.

During our review, we noted several areas where improvements are needed in the accounting control and reporting on the Fund's activities. We believe that these weaknesses, summarized in the attachment, demonstrate the need to establish, in manual form, appropriate procedural instructions for the guidance of personnel responsible for accounting operations.

Cognizant UMTA and OST officials, with whom we discussed these matters generally agreed with our findings and proposals for corrective action. OST officials advised us that a project had been established which would include a review and evaluation of the Fund's existing accounting procedures, practices, and financial reporting requirements and that our findings would receive appropriate consideration during the review. They stated that June 30, 1971, had been established as a target date for completing the project and documenting in the form of handbooks, a revised and improved accounting system for the Fund.

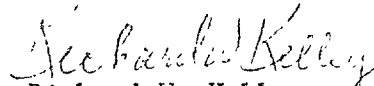
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We wish to acknowledge the courtesy and cooperation given to our representatives during the examination. We would appreciate your advice as to any further action taken or planned on the matters discussed in this letter.

A copy of this letter is being furnished to the Assistant Secretary for Administration, Department of Transportation.

Sincerely yours,

  
Richard W. Kelley  
Assistant Director

The Honorable Carlos C. Villarreal  
Administrator, Urban Mass Transportation  
Administration

Attachment

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DEFICIENCIES IN RECORDING AND  
REPORTING FINANCIAL ACTIVITIES  
URBAN MASS TRANSPORTATION FUND

INTERAGENCY AGREEMENTS

Interagency agreements entered into between UMTA and other Government agencies were not accounted for properly in UMTA's books of account. These agreements usually involved the joint funding of approved projects and provided that either UMTA or the other agency award a grant or contract to a project sponsor and administer the contract or perform the required project services in-house. The administering agency receives the other agency's share of the estimated project cost through a transfer of funds. At December 31, 1969, UMTA had entered into 27 interagency agreements that provided about \$13 million of Federal financial assistance for the approved projects.

Funds transferred by UMTA to administering agencies under interagency agreements had been recorded as an expense to UMTA when the funds were transferred even though no work had been performed in-house by the receiving agency or under the contract administered by the receiving agency. The GAO Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.6) provides that such transfers of funds constitute an advance to the participating agency and should be recorded as an asset rather than as an expense. The asset account should be reduced on the basis of reports from the administering agency showing UMTA's proportionate share of accrued expenditures incurred under the agreement.

In cases where UMTA had awarded and was administering a grant or contract under an interagency agreement and had received an advance payment from the participating agency, the accounting office had recorded the advance received as reimbursable earnings upon receipt of funds. Pursuant to 2 GAO 13, such advance payments should have been recorded initially as a liability to UMTA and progressively reduced on the basis of the project sponsor's accrued expenditures with UMTA concurrently notifying the participating agency of its proportionate share of the costs incurred.

In cases where UMTA had not received an advance payment from the participating agency but had made payments under its contract with the project sponsor, such payments had been recorded as an expense in UMTA's books of account. In these instances 2 GAO 12.4, provides that an account receivable should be established for the participating agency's share of the cost incurred. The receivable should be reduced when funds are received from the participating agency.

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It was the practice of the accounting office to consider that an obligation had occurred on the date that the Administrator signed an interagency agreement, and an obligation was recorded in the books of account as of that date. This practice is not in accord with section 1311(a) of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200). Under the provisions of 7 GAO 16.3, the date the agreement is executed by both parties should be the date of obligation in those cases where the services will be performed in-house by the participating agency or where the execution date of the third party contract precedes the execution date of the interagency agreement. If the date of the third party contract is after the date of execution of the interagency agreement then such later date should be considered the date of obligation.

In this connection, copies of all third party contracts awarded and administered by a participating agency were not kept on file by the accounting office for UMTA. We believe that copies of these contracts should be kept on file to facilitate the recording of transactions such as those discussed above.

#### LIABILITIES

The accounts payable balance of approximately \$47,197,000 shown on the June 30, 1969, financial statements included \$11,078,000 which we believe did not represent bona-fide liabilities. The principles and standards to be observed in accounting for liabilities is found in 2 GAO 13.2. We found that UMTA had accepted at face value and recorded as a liability, the amounts reported by project sponsors as the cost of unpaid work performed for 219 of 279 approved projects. Our review showed that, in several instances, UMTA had liquidated the liability or was not actually liable for part of the cost of unpaid work performed.

A total of about \$5,814,000 was reported as the cost of unpaid work performed and recorded as a liability to UMTA even though grant payments covering the cost of this work had been made prior to June 30, 1969.

An amount of \$1,409,000 represented the cost of unpaid work performed in excess of 50 percent of the net project cost for capital grants awarded under the emergency provisions of the Urban Mass Transportation Act of 1964, as amended. According to these provisions, a Federal grant may not exceed one-half of net project cost unless the planning requirements specified in section 4(a) of the act are fully met within a 3-year period after the execution of the grant agreement. Whenever these requirements are met, an additional grant may be made to the project sponsor equal to one-sixth of the net project cost. In accordance with 2 GAO 13.3, such amounts, which may or may not become an actual liability in consequence of a future event, represent a contingent liability that should be disclosed in a footnote to UMTA's financial statements.

An amount of \$1,236,000 represented the cost of unpaid work performed in excess of 66 2/3 percent of the net project cost for capital grants awarded under the regular provisions of the act, UMTA has neither an actual nor contingent liability to pay any amount in excess of this statutory maximum.

A total of \$2,619,000 included in the accounts payable balance represented clerical scheduling errors and adding machine mistakes.

In addition to the above, there was no recognition of any cost of unpaid work performed that may have been applicable to the 60 nonreporting projects at June 30, 1969. UMTA had not established any follow-up procedures for obtaining the missing grant status reports nor had it established any alternative method for estimating the liability applicable to the non-reporting project sponsors.

Except for an adjustment unrelated to the grant status reporting procedures, the June 30, 1969, and December 31, 1969, accounts payable figures reported on UMTA's financial statements were identical.

Our cursory review of UMTA's June 30, 1970, financial statements indicated that the June 30, 1970, accounts payable figure may not be any more reliable than the June 30, and December 31, 1969, figures because it was developed from financial statements submitted by sponsors without considering whether the sponsors' statements were prepared in accordance with the cost sharing arrangements of the grant contracts, and whether amounts reported as the cost of unpaid work performed by the project sponsors might actually have been paid prior to June 30, 1970. Also no alternative method had been established for estimating the liability for nonreporting project sponsors as of June 30, 1970.

#### BUDGETARY STATEMENTS

The Report of Selected Balances for Stating Budget Results on the Accrual Basis, Appropriation and Fund Accounts (Form BA-6727) as of December 31, 1969, was not prepared in accordance with the Treasury Fiscal Requirements Manual, Transmittal Letter No. 18, dated June 20, 1968, which requires that accrued liabilities be deducted from undisbursed contracts to arrive at undelivered orders. As a result, undelivered orders of about \$289.1 million as shown in the report were overstated by about \$47.2 million and the amount of funds shown as unobligated was understated by a like amount.

Further, in preparing the report only month-end accounts payable and accounts receivable balances were considered in determining expenditures and revenues, rather than the monthly changes in these accounts, as required by the Treasury Fiscal Requirements Manual. As a result, the net expenditures amount of over \$102 million was overstated by more than \$46.6 million.

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In addition, formal written procedures have not been established for reconciling the amounts shown in the report to the books of account prior to submitting the report to the Department of the Treasury.

HANDLING OF LOAN REPAYMENTS

Loan repayments amounting to \$100,000 for the period July 1, 1969, to December 31, 1969, were not shown in UMTA's internal statement of sources and application of funds for the period ended December 31, 1969, as funds derived from operations. The repayments were reflected in the statement as a part of the change in working capital. For purposes of this statement, loan repayments represent a source of funds and should be so treated in accordance with the instructions in Treasury Circular 966 relating to the submission of business-type financial statements.

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