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**UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
809 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046**

OCT 23 1970

Dear Mrs. Baldwin:

We have made a review for the settlement of accounts of accountable officers of the Office of Management and Budget and the Council of Economic Advisors, Executive Office of the President, through June 30, 1969, and a review of payroll and leave records through the leave year ended January 10, 1970.

Our settlement review consisted of an evaluation of the administrative procedures and internal controls relative to receipts and disbursements of funds and included such tests of financial transactions and records as we considered appropriate. Our payroll and leave review included an examination of payroll, leave, and personnel records for selected periods, a limited amount of additional testing in other periods for specific types of transactions, and an evaluation of payroll and leave procedures and administration.

We found the administrative procedures and internal controls to be generally effective and the selected transactions which we reviewed were processed in a satisfactory manner. However, we noted one area in which we believe the administrative controls should be strengthened. This matter is being brought to your attention so that you can take appropriate action.

NEED TO IMPROVE CONTROLS
OVER PROPERTY

Each executive agency is required by law (40 U.S.C. 483) to maintain adequate inventory controls and accountability systems for the property under its control.

Regulations of the Office of Management and Budget which implement this law provide that the general ledger control account shall be reconciled to the subsidiary property card file at least annually. These regulations also provide that physical inventories of expendable and nonexpendable property shall be taken at least annually and that the accounting records be adjusted accordingly.

During our review of nonexpendable property we noted substantial differences between the general ledger control account balances at December 31, 1969, and the supporting property card file. This information is shown below:

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Class of property	General ledger account balance	Property record card balance	Variance	
			Amount	Percentage
Furniture	\$440,972	\$534,199	\$ 93,227	21.1
Machines and equipment	631,517	505,102	126,415	20.0
Furnishings	127,571	56,715	70,856	55.5

We discussed this situation with a member of your staff who told us that the property card file, which should support the general ledger account balances, had not been kept current because personnel were not available to perform this function. Moreover, the general ledger control account, which is used for accounting purposes, is not accurate because records of disposals are not always received and recorded. The staff member stated that, as a result, neither the general ledger control account balances nor the property card file could be relied upon as an accurate record of the nonexpendable property which should be on hand. The staff member stated further that a complete physical inventory of nonexpendable property had not been taken since December 1966 and that, to his knowledge, an inventory of expendable supplies had never been taken.

Conclusions

We believe that the inaccuracies in accounting records, coupled with the lack of periodic physical inventories, indicate a need to improve controls over the property of the Office of Management and Budget. In our opinion, the regulations of the Office of Management and Budget would provide these controls if adequately implemented.

Corrective action promised

We discussed this matter with a member of your staff who agreed with our conclusions and stated that physical inventories of both expendable and nonexpendable property would be taken about September 1970. He stated also that the accounting records would be adjusted and an analysis of the causes for any errors found would be made in accordance with regulations. Moreover, he stated that in the future the general ledger and the property card file would be compared periodically and reconciled with annual physical inventories.

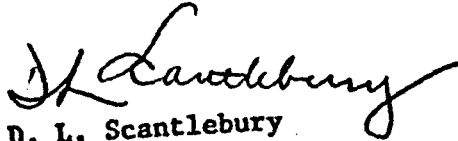
We believe that these actions, if effectively carried out, should result in improved control over the property of the Office of Management and Budget.

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We wish to acknowledge the courtesies and cooperation extended to our representatives during the review. We will appreciate your comments concerning any further action taken or planned on the matters discussed in this report.

A copy of this letter is being sent to the Special Assistant to the
Chairman, Council of Economic Advisors.

Sincerely yours,



D. L. Scantlebury
Regional Manager

Mrs. Velma N. Baldwin
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