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Report to Joel W. Solomon, Administrator, General Services Administration; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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Contact: Financial and General Management Studies Div.
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A review of the General Services Administration's (GSA's) system of accounting for accounts receivable from the public showed that the system was, for the most part, operated effectively and in accordance with the accounting system approved by the Comptroller General in 1965. However, the accounting for and reporting of these receivables need improvement. Findings/Conclusions: One GSA fund was overstated by $69.9 million, and two others were understated by $4.1 million. About $9.3 million of long-term installments receivable was improperly classified as current assets. Delinquent accounts were not promptly identified for followup action. This material inaccuracy in recording and reporting receivables indicates a need for improvement in the system of internal controls. GSA's exclusion of delinquent accounts 30 to 60 days old from its aging schedule precludes the prompt identification and subsequent collection of delinquent accounts. Inclusion of these delinquent accounts on the aging schedule would contribute to prompt collection action. Recommendations: The Office of Finance should improve GSA's internal control system by providing: effective supervisory review of significant adjusting entries to assure that they are valid and properly documented, documentary evidence linking individual transactions and adjustments to their summation in the ledger accounts, and classification of receivables which are not due within a year or less as noncurrent assets in the statement of financial condition. To assist in the prompt identification and followup of delinquent accounts, the Office of Finance should list all of GSA's accounts receivable over 30 days old on the monthly aging schedule and initiate prompt and adequate collection action. (Author/DJM)

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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

028CS

B-159687

JUL 27 1977

The Honorable Joel W. Solomon
Administrator of General Services

Dear Mr. Solomon:

We have reviewed the General Services Administration's (GSA's) system of accounting for accounts receivable from the public, including related billing and collection procedures. This work was part of a multiagency review whose results we plan to issue to the Congress.

Our review showed that the billing and collection system for accounts receivable from the public was, for the most part, operated effectively and in accordance with the accounting system approved by the Comptroller General in June 1965. However, the accounting for and reporting of these receivables needs improvement. Specifically we found that:

--One GSA fund was overstated by $69.6 million, and two others were understated by $4.1 million. These errors resulted in a $65.5 million overstatement of accounts receivable as reported to Treasury and a corresponding overstatement of liabilities in the same amount.

--About $9.3 million of long-term installments receivable was improperly classified as current assets.

--Delinquent accounts were not promptly identified for followup action.

This report describes the need for (1) more accurate recording and reporting of accounts receivable and (2) better identification and followup of delinquent accounts. Officials of GSA's Office of Finance agreed with our findings and said that procedures and controls would be revised to improve the recording and reporting of accounts receivable.

FGMSD-77-29

SCOPE OF REVIEW

We reviewed GSA's accounting for and reporting of accounts receivable from the public and installments receivable from the public. Our review was made at GSA Headquarters and region 3 in Washington, D.C.

As of September 30, 1976, GSA reported receivables of about $108 million to the Secretary of the Treasury, of which $96.2 million, or 89 percent, was reported by GSA Headquarters and region 3. Since the general funds of these activities included $93.2 million of the $96.2 million, we limited our efforts to these funds. Our review included $9.9 million in installments receivable from the public and $83.3 million in accounts receivable from the public.

We tested the accuracy of the $93.2 million in reported receivables by examining (1) the data supporting account balances, (2) the reconciliation of control accounts with subsidiary accounts, and (3) the accounting procedures used by GSA. We did not obtain written confirmations of the accounts receivable balances from the GSA customers, but we were able to satisfy ourselves that the receivables were valid by tracing receivables to the payments subsequently received. We also reviewed the practices and procedures used by GSA to collect delinquent accounts receivable from the public and to write off uncollectible accounts.

ACCOUNTS RECEIVABLE NOT ACCURATELY REPORTED

The balance of accounts receivable reported to the Treasury Department was inaccurate due to accounting and reporting errors. The $83.3 million in accounts receivable from the public, which was included in our review, was overstated by $65.5 million. The $65.5 million overstatement was the net result of a $69.6 million overstatement in one GSA fund and an estimated $4.1 million understatement in other funds. We could not identify the exact amount of the errors because of deficiencies in the documentation linking individual transactions to their summation in the accounts.

One of the basic requirements in the establishment and maintenance of effective financial control is that all accounts, including receivables, be properly segregated and accurately recorded. Accurate accounting is necessary to control Government assets and to present fairly the financial position of the Government.

Accounts receivable overstated

GSA accounts receivable were overstated by $69.6 million because charges for deliveries of copper to the Bureau of the Mint were erroneously established as accounts receivable.

The Bureau of the Mint paid in advance for the purchase of copper from GSA. As shipments were made by GSA, the advance account should have been decreased. The advance payment was properly recorded when it was received. However, beginning in 1975 the charges for the deliveries of copper to the Mint were erroneously accumulated in another account. This amount was incorrectly reported as accounts receivable, instead of being applied as a reduction to the advance account.

GSA accounting personnel did not make the necessary entries to reduce the advance account as deliveries were made to the Mint. Also, no one was reviewing the entries and adjustments made by the billing clerks.

Accounts receivable understated

Accounts receivable were understated by $4.1 million because GSA recorded both assets and liabilities in the same account.

Generally accepted accounting principles require assets and liabilities to be recorded in separate accounts. However, GSA recorded customer advances, bid deposits, and other liabilities with accounts receivable in one subaccount. The assets and liabilities were then netted to obtain the account balance. Because the liabilities exceeded the receivables in this subaccount at September 30, 1976, the account balance was reported as a payable. As a result, an estimated $4.1 million in receivables was not included in the reported accounts receivable from the public, and GSA's reported accounts payable were also understated by $4.1 million. GSA agreed to remove the liabilities from this subaccount and record them separately.

In a related accounting entry GSA accounting personnel made an upward adjustment of $3.4 million in the same subaccount to eliminate negative amounts which they believed were errors. However, GSA did not first determine the reasons for these negative amounts, and did not prepare supporting documentation for the entry. Without supporting documentation, we could not determine whether the adjustment was proper or whether it caused an overstatement of accounts receivable.

GSA plans to determine the reasons for these negative balances and make any necessary adjustments.

INSTALLMENTS RECEIVABLE WERE IMPROPERLY CLASSIFIED

GSA's current assets were overstated by $9.3 million because long-term installments receivable were improperly classified as current receivables in the report to Treasury.

The overstatement resulted from the way GSA accounted for money provided to the District of Columbia for hospital construction which was to be repaid in 33 annual installments. The unpaid installments of $9,858.244 at September 30, 1976, were improperly included in the total current receivables and reported as a current asset.

To fairly present the financial position of any entity, financial statements must accurately classify assets, including receivables, as current and noncurrent. Assets which are normally transformed into cash within a period of a year or less are generally classified as current, while those which require a longer period are classified as noncurrent.

Correct financial reporting would have called for including as a current asset only the amount of $546,764 payable during the next year, and to report the balance of $9,311,480 as a long-term receivable.

CONCLUSIONS

The material inaccuracy of GSA's reported receivables precluded a fair presentation of its financial position. Further, this inaccuracy in recording and reporting receivables indicates a need for improvement in the system of internal controls. In the future, adjustments to account balances should not be processed without proper supporting documentation and authorization.

RECOMMENDATIONS

To insure more accurate recording and reporting of receivables, we recommend that you direct that the Office of Finance improve GSA's internal control system by providing

- --effective supervisory review of significant adjusting entries to assure that they are valid and properly documented,

--documentary evidence which links individual transactions and adjustments to their summation in the ledger accounts, and

--classification of receivables which are not due within a year or less as noncurrent assets in the statement of financial condition.

COLLECTION ACTIONS WERE NOT TIMELY

Our review of GSA's collection practices and procedures showed that improved followup procedures were needed for delinquent accounts.

GSA collection procedures require the first followup collection action on receivables from the public to be made 30 days after the invoice date. However, these procedures do not require receivables to be placed on the monthly aging schedule until they are at least 60 days old. At June 30, 1976, there were 165 delinquent bills totaling $1,652,111. Our review of collection efforts on 77 of these delinquent bills totaling $683,863 showed that the average time until initiation of the first collection letter was 55 days. This was 25 days over GSA requirements.

We primarily attributed this need for improved followup action to the delay in placing accounts on the monthly aging schedule. The aging schedule usually lists each account according to the period it has been outstanding and is a basic tool for identifying delinquent and uncollectible accounts. Thus, aging schedules are a valuable tool for use by management to assure that prompt and adequate collection action is taken.

Although GSA did not have a significant problem with uncollectible accounts, the prompt collection of accounts receivable is a basic tenet of good business practice for any enterprise. It increases an entity's cash flow, which in turn reduces interest charges incurred from borrowing to finance operations.

CONCLUSIONS

GSA's exclusion of delinquent accounts 30 to 60 days old from its aging schedule precludes the prompt identification and subsequent collection of delinquent accounts. We believe the inclusion of these delinquent accounts on the aging schedule would contribute to prompt collection action.

RECOMMENDATION

To assist in the prompt identification and followup of delinquent accounts, we recommend that you require the Office of Finance to list all of GSA's accounts receivable over 30 days old on the monthly aging schedule and initiate prompt and adequate collection action.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the Chairmen, House Committees on Government Operations and Appropriations and Senate Committee on Governmental Affairs. Because of their expressed interest we are also sending copies to Senator Robert Packwood and Congressman Newton I. Steers. Copies are also being sent to the Director, Office of Management and Budget, and the Secretary of the Treasury.

We appreciate the courtesies and cooperation shown to us by your representatives during this review.

Sincerely yours,

D. L. Scantlebury
Director