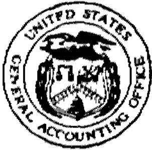


UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

124306

B-214995

June 1, 1984

The Honorable Ray Kline
Acting Administrator
General Services Administration

Dear Mr. Kline:

Subject: Internal Control Weaknesses at the General Services Administration (GAO/AFMD-84-27)

This report presents the results of our survey of internal controls over financial and accounting operations at four of the eight General Services Administration (GSA) regional accounting stations that had finance divisions. The survey was done during the period of December 1982 to April 1983 and identified weaknesses in internal controls over collections, accounts receivable, disbursements, imprest funds, and obligations. The weaknesses included controls over the

--deposit and safeguarding of collections, including appropriate separation of employees' duties,

--recording accounts receivables and their collection,

--review of employee travel advances,

--procedures and physical security for imprest funds,

--protection of government transportation requests,

--documentation of disbursement vouchers, including appropriate separation of duties and the reconciliation of disbursement records with Department of the Treasury, and

--recording and reconciliation of obligations.

Your Office of Inspector General (OIG) also provided limited audit coverage of some functions noted above. However, the stations did not correct some weaknesses identified by regional OIGs and the central office.

We are informing you of these weaknesses to help you fulfill your legal responsibilities to operate effective internal control systems within GSA, required by the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. The 1982 law requires agencies to continually evaluate the adequacy

(905073)

of their internal control systems and each agency head must annually certify to the President and the Congress that the agency's internal controls are effective and include, if necessary, a schedule for strengthening any weaknesses identified in these controls. The 1982 act also requires the agency head to annually certify to the President and the Congress whether or not their organization's accounting systems comply with the Comptroller General's principles and standards for accounting systems. We understand that areas discussed in this report were considered in GSA's evaluations which you discussed in your January 20, 1984 statements to the President and the Congress.

Our work was performed in accordance with generally accepted government auditing standards. Our survey was based on audit guidelines designed to identify potential internal control problems and on discussions with accounting station officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish the extent, or the precise reasons for these weaknesses and the corrective action needed. The weaknesses are discussed in enclosure I and their locations are shown in enclosure II.

We believe the weaknesses are not unique to the stations reviewed and the stations we did not visit probably share some of them. Although any individual weakness at a single location may not have significant effect on GSA's financial condition, we believe that, in the aggregate, these weaknesses may be detrimental to GSA's overall financial operations if allowed to remain unchecked.

We discussed our survey results with responsible accounting station personnel. In most instances, they either started or promised corrective action. Because of the weaknesses identified, we recommend you:

--ensure that adequate follow-up actions are taken to correct the weaknesses we identified and that all established control procedures are followed,

--instruct GSA's OIG to increase audit coverage of financial operations, with particular emphasis on internal controls, and

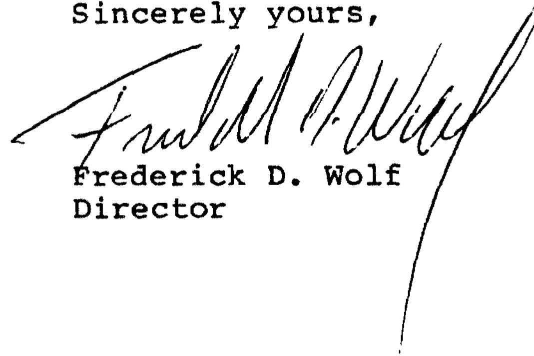
--consider the internal control requirements discussed in this report in your future reviews to comply with the Federal Managers' Financial Integrity Act. Discuss in the annual statements required by the act whether any identified weaknesses have been corrected.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations. You should send the statement to the Senate Committee

on Governmental Affairs and to the House Committee on Government Operations within 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 over 60 days after the date of the report.

We are sending a copy of this report to your Inspector General. We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,



Frederick D. Wolf
Director

INTERNAL CONTROL WEAKNESSES

AT SELECTED GSA ACCOUNTING STATIONS

The Accounting and Auditing Act of 1950 (31 U.S.C. 3512) requires the head of each executive agency to establish and maintain a system of accounting and internal controls to provide effective control over, and accountability for, all of the agency's assets. We evaluated internal controls at four of eight GSA accounting stations with finance divisions located in New York City (region 2), Kansas City, Missouri (region 6), Fort Worth, Texas (region 7), and Washington D.C. (National Capital region). Our survey disclosed the following weaknesses in internal controls, most of which existed at several stations. See enclosure II for the locations of specific weaknesses.

--Collections were not adequately controlled at several facilities. Collections were not properly logged in, or safeguarded, or promptly deposited. Duties in the collection activity and other functions were not adequately separated and reconciliations of daily cash deposits and bank statements were not made. In addition, inadequate controls at other locations did not ensure collections would be sent promptly to the accounting station. Poor controls also resulted in the acceptance of numerous personal checks which were subsequently dishonored.

--Accounts receivable were improperly handled at several stations. They were not entered promptly in accounting records, collection of delinquent accounts was not vigorously pursued, interest was not charged on some delinquent accounts, and management reports did not correctly reflect amounts of delinquent accounts and ratios. Moreover, prompt reviews were not made of outstanding employee travel advances and some advances were not liquidated promptly.

--Weaknesses in disbursement controls existed at several stations. Vouchers were not adequately reviewed before payment, separation of duties was not adequate, payments were not adequately supported by documentation, payment of invoices was not scheduled to coincide with payment due dates, and discounts were taken without regard to U.S. Treasury interest rates. In addition, controls were not established to ensure receipt of goods and services paid for under the Simplified Intragovernmental Billing and Collection System. Moreover, prompt reconciliations of regional and Department of Treasury disbursement records were not made, and Government Travel Requests were not adequately protected.

--Imprest funds at all facilities visited were not properly managed. Funds were inadequately safeguarded, verifications and annual audits of funds were not made, fund sizes exceeded needs, and fund shortages were not properly reported.

The controls also did not ensure adequate justification for some fund expenditures. Furthermore, the extensive use of some funds for travel advances compounded control problems, increased workloads, and did not conform with sound cash management principles.

--Obligations at some locations were not promptly recorded in accounts, transaction control numbers were not monitored properly, and deferred accounts were not cleared promptly. Control records also were not reconciled with obligation documents, and obligations were not reviewed at year-end to determine their validity.

Internal audits of controls in some areas we surveyed was insufficient, and some stations did not correct deficiencies disclosed in internal audits.

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

The four accounting stations collected about $1.1 billion in checks and cash during fiscal year 1982 and total monthly collections by the stations ranged from $3.5 million to $53.3 million. The GAO Policies and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1 and 12.2) and Treasury regulations specify that agencies place cash collections under appropriate accounting and physical control upon receipt and deposit them promptly.

To varying degrees, the reviewed stations were not complying with these requirements. Some stations did not properly record or adequately safeguard collections, or properly segregate collection duties. In addition, inadequate controls by the sales offices resulted in receipt of a significant number of personal checks that were subsequently dishonored.

Collections not recorded promptly or handled properly

Checks and cash received by mail and over the counter are inherently susceptible to loss, misuse, or theft. Therefore, the GAO manual specifies that collections should be placed under appropriate accounting control as soon as they are received. These controls should provide for collections to be logged in upon receipt and properly accounted for until deposited.

GSA had no procedures manual for processing cash collections. Instead stations used portions of various GSA manuals and directives, and GAO and Treasury guidance, but these procedures were not always followed at the four stations. We were told the central office was drafting an agencywide procedures handbook for collections and receivables.

In all the accounting stations, mailroom employees did not immediately record or otherwise account for most collections. Such

receipts were not recorded until a cashier or other collection officer received them. Two stations' officials told us collections were not logged upon receipt because they received a large volume of checks. One location received an average of 2,099 checks and money orders during each work day in fiscal year 1982 and the first quarter of fiscal year 1983.

Three of the four stations did not use prenumbered receipts to document cash transfers into and out of the collection area. We also found gaps in the numerical sequence of prenumbered bank deposit tickets used by the four stations. The lack of prenumbered cash receipts and the numerical gaps in deposit tickets increase the risks of loss, misuse, or theft of collections.

Collections not adequately safeguarded

Collections of currency and checks are highly susceptible to loss, misuse, or theft. The GAO manual (7 GAO 11.1) requires that such funds be placed under adequate physical control. Two of the stations we visited did not maintain adequate physical security over collections.

--At one of the stations, large amounts of cash receipts were transferred to the collection activity by unarmed personnel located in the same building. As much as $80,000 in cash was transported in this manner. This location also lacked an alarm system and all collection personnel used the same safe drawer to store receipts overnight.

--At the other station at least 60 people in the finance and adjacent area had access to the area where collections were sorted.

Collection duties not properly segregated

A basic principle of internal control is the division of critical functions between two or more persons. This technique is often referred to as separation of duties. Error detection is more likely with this separation, and fraud is less likely to occur when its success depends on collusion. The GAO manual (7 GAO 11.2) states that persons responsible for handling receipts should not participate in accounting or operating functions that would permit them to conceal the misuse of these receipts.

Two stations did not adequately separate the duties of employees handling collections and other functions to ensure effective control over receipts. At both stations, the same persons received and recorded collections, prepared deposit tickets, and deposited collections in the bank. Furthermore, one location's billings section chief, who usually participated in processing collections, was also alternate cashier for a $15,000 imprest fund located in the collection cage. The same location's accounts receivable branch chief helped process collections and also was responsible for

authorizing and approving write-offs of accounts receivable. The other station had a processer of collections who was also alternate cashier for a $40,000 imprest fund located in the collection cage.

Collections not deposited promptly

When collections are not deposited promptly, Treasury's access to the funds is delayed, and the potential for loss, theft, or misuse of funds is increased. Undue delays in depositing funds collected mean the Treasury is denied use of the funds for that time and, as a result, may need to borrow, thereby increasing the government's interest cost.

The GAO manual (7 GAO 12.2) specifies that collections should be deposited daily, if possible. The Treasury Fiscal Requirements Manual (1 TFRM 6-8030) specifies that collections of $1,000 or more should be deposited daily and that deposits must be made at least weekly regardless of the amount accumulated.

Three of the four stations did not deposit collections promptly. Two stations had delays in some collection deposits because GSA services did not promptly submit receipts to the collection activity. For example, at one location where daily collections averaged about $168,000 during fiscal year 1982, no deposits were made for 3 consecutive weekdays in March 1983.

One station's currency and coin receipts were deposited a few days to a few weeks after they were received. For example, $2,000 received two days before our visit had not been deposited. In April 1981, the GSA central office reported that slow deposits of receipts at this station added between $9,000 and $27,000 in annual interest cost to the federal government. The central office attributed the problem to manual check recording and recommended purchase of a microfilm machine to expedite this process. The station, however, had not yet bought the microfilm machine. At another station, managers allowed 2 days to make deposits because of the large volume of receipts.

Three stations did not deposit large nonfederal checks the day they were received. A central office report in May 1980 on one station's operations identified this condition and stated that depositing such checks one day earlier would save the federal government about $12,000 in annual interest costs. During our visit, that station issued instructions for cashiers to start depositing these checks on the day received.

At two stations, employee refund checks for unused travel advances were held by GSA units for extended periods of time before sending them to the collection activity. For example, when we visited one unit on December 7, 1982, the travel clerk had travel vouchers for as far back as September 1982 with refund checks ranging from $10 to $60. These travel vouchers were held for review and the clerk said they had not been processed because of a

large backlog. This practice results in delayed deposits and increases the potential for loss or misuse of receipts.

Reconciliations of collections not made or delayed

To ensure that all receipts are subsequently processed and deposited, collection records should be periodically reconciled to deposit records. Three of the stations we reviewed either did not perform such reconciliations or did not make them promptly. Details on these offices follow:

--At one station cash deposits were not reconciled to monthly bank statements or Treasury records. We were told the last reconciliation with Treasury records was made about one year before our visit. We noted that the station's Daily Accounting Cycle (DAC) report on cash deposits for January 1983 contained about $65,000 in deposits not shown on a corresponding Treasury report. Also about $71,000 in debit vouchers and $194,000 in deposits shown on the Treasury report were not included on the station report. An official said that the station's top priority was to decrease the delinquency in accounts receivable and that they did not have sufficient staff to do the reconciliations.

--Two stations did not make prompt reconciliations of their cash records and the Treasury's Statement of Differences. One station had not reconciled the Treasury's statement with its DAC records since August 1982 and with its National Electronic Accounting and Reporting (NEAR) system records since December 1981. Thus, NEAR showed about a $14 million difference between Treasury and station cash records. The other station was just reconciling the September 1982 differences, which means it had a backlog of six months. Through December 31, 1982, this station's records also showed $2.7 million more than the Treasury reports. Station officials said the greatest problem in reconciling NEAR accounts was lack of coordination between GSA and Treasury on which voucher identification numbers to use when entering data into the system.

--At two stations, daily cash (currency and coins) receipts were not reconciled with daily deposit tickets to ensure that all cash received was deposited. One station averaged $24,232 in such receipts monthly during fiscal year 1982. At the other station the person who usually accepted the cash did not use prenumbered cash receipts and was also cashier for an imprest fund. Under such circumstances, reconciliations are essential to prevent misuse or theft of cash receipts.

Inadequate collection controls over surplus sales

Sales branches at two of the stations did not maintain adequate controls over sales of surplus government property. As a result, a significant amount of personal checks received by GSA in payment for these sales were subsequently dishonored by banks.

For example, one station received about $138,000 in dishonored checks in fiscal year 1982 and $68,000 from October through December 1982. Some buyers gave false addresses and nonexistent telephone numbers and omitted required joint signatures on checks. In addition, some companies were allowed to write a series of dishonored checks.

At the other station, dishonored checks totaling about $159,000 were received during fiscal year 1982 and $60,962 from October 1, 1982 through March 31, 1983. Officials at this station resolved the problem by accepting certified checks to pay for surplus property.

NEED TO IMPROVE CONTROLS OVER ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from an agency's operations and, therefore, are government assets to be controlled, safeguarded and, most importantly, collected. The GAO manual (2 GAO 12.4) emphasizes the importance of promptly and accurately recording receivables so that action can be taken to collect them. Two stations did not always promptly record the amounts due GSA as receivables and did not impose interest charges on delinquent accounts, or make sufficient collection efforts to collect them. In addition, prompt action was not taken to have outstanding employee travel advances returned.

Dishonored checks not recorded promptly

Personal checks accepted by two stations as payments for sales of surplus property were later dishonored by banks. One of the stations did not promptly establish accounts receivable for the dishonored checks. For example, $67,490 in checks dishonored by the bank from January 3, 1983 through February 23, 1983 were not established as accounts receivable until March 22, 1983--a delay of up to 2 1/2 months. This precluded the station from initiating prompt collection action. Such delays make collection more difficult and increase the probability that accounts will be written off as uncollectible. Station personnel acknowledged that in many instances large amounts of dishonored checks are eventually written off.

Late charges not assessed on overdue accounts

To encourage prompt payment of debts due the government, the Treasury Fiscal Requirements Manual (TFRM 6-8020.20) requires assessment of late charges on overdue accounts and specifies how such charges are calculated. GSA regulations also require these charges, but two stations we visited did not comply fully with this requirement.

One station assessed late charges only on delinquent National Defense Stockpile accounts which represented only 36 percent of the total delinquent nonfederal accounts receivable from December 1981 through December 1982. Thus, no charges were assessed against 64 percent of the delinquent accounts. We calculated the station failed to assess late charges of about $158,445 on delinquent non-federal accounts during that 1981-1982 period. The other station, according to one official, has never charged interest on delinquent nonfederal accounts receivable.

Station officials said that the computer system had not been programmed to compute late interest charges on the nonfederal accounts so manual computations would be needed. Manual computations were not done because the number of accounts make it a very time-consuming process.

Inadequate collection efforts on delinquent accounts

The Joint Standards of the Federal Claims Collection Act of 1966 (4 CFR 101-105) specify that heads of federal agencies, or their designees, should take prompt and aggressive action to collect accounts receivable due the government. The standards require the agencies to (1) make three written demands at 30-day intervals, (2) collect, by offsetting, the debt against amounts due from the federal government, (3) interview debtors personally, (4) explore the possibility of compromise, and (5) take other persistent actions to collect the debt. Various GSA instructions, both agencywide and regional, contained similar required actions to collect delinquent accounts. Three of the stations, however, were not taking all required actions to collect delinquent accounts.

The four stations had large amounts of delinquent federal and nonfederal accounts receivable. Three stations had about $257 million in federal receivables on December 31, 1982, of which $89.6 million, or 35 percent, were delinquent. Of these accounts, $79 million were over 75 days old. The four stations had $14.6 million in nonfederal receivables, with $6.5 million of this, or 44.1 percent, delinquent. Three of the stations had a total of $2 million in accounts that were delinquent over 360 days.

Two stations followed up only on customers who had the larger delinquent federal receivables. At one station, efforts were concentrated on the 10 agencies with highest amounts in delinquencies. agencies' accounting systems include procedures for periodic review

Consequently, little or no follow-up was done on smaller delinquent accounts. For example, we noted one account for $1,709.19, outstanding since May 1982, for which no collection attempts were made.

Although agencywide procedures were available, accounts receivable personnel at both stations said they had no current written procedures for collecting delinquent accounts. At one station, unwritten procedures allowed personnel to use their best judgment on follow-up of accounts. Consequently, some technicians relied primarily on the telephone and never sent customers follow-up letters, or even delinquency statements.

On December 31, 1982, one station had delinquency ratios (delinquent accounts receivables compared to total accounts receivable) of 28.2 percent for federal receivables and 50.8 percent for nonfederal accounts. These delinquencies included $37.9 million in federal accounts over 75 days old and $938,000 in nonfederal accounts over 360 days delinquent. The other station had a delinquency ratio of 53.9 percent for nonfederal accounts and this included $199,100 that was over 360 days delinquent. An official at one station attributed the limited collection efforts to insufficient staffing. Officials at the other station said limited follow-up was due to the large number of high dollar delinquent accounts and insufficient staffing.

We examined the 10 largest delinquent federal accounts at one station in March 1983 and found that for one account there was no evidence of follow-up and, for another account, the last evidence of follow-up was in September 1982. In both cases the last delinquency notice was dated October 1982.

The third station did not have a follow-up program for NEAR system delinquent accounts and follow-up on other accounts did not meet Code of Federal Regulations (CFR) requirements. The procedures that were generally followed consisted merely of sending copies of debtors' bills after 46 to 75 days. After 75 days accounts were reviewed and another copy of the bill was sent to customers. Some debtors were contacted by phone.

Our examination tests showed that letters to debtors did not meet CFR requirements because (1) none said delinquencies would be reported to credit bureaus, (2) two did not specify a policy for charging interest and (3) follow-up letters were not done promptly. At December 31, 1982, this station had $1.4 million in federal receivables that were over 75 days old and $1.6 million in delinquent nonfederal accounts. We noted that delinquency ratios for both types of accounts increased sharply over the four months ending in February 1983.

Reviews and recovery of travel advances not adequate

The GAO manual (7 GAO 25.6) and GSA regulations require that agencies' accounting systems include procedures for periodic review

and analyses of outstanding employee travel advances. All advances that are found to exceed a traveler's needs should be promptly recovered. However, two of the four stations did not exercise such control over travel advances.

One station did not promptly review outstanding advances that were issued either for one-time or continuous travel. Station officials attributed this problem to staffing shortages. As of December 31, 1982, this station had almost $200,000 in outstanding travel advances, including $162,998 in one-time advances and $27,767 in continuous advances outstanding. The latest review of advances was made in September 1981. As a result, action was not taken on advances that were excessive and outstanding for long periods. Examples that we found in February 1983 included the following:

--Travelers had not submitted any travel vouchers for three outstanding advances of $300, $800, and $500 authorized in November 1979, December 1979, and March 1982, respectively.

--An outstanding advance of $800 was authorized in February 1979 with the last travel voucher submitted in June 1979, almost 4 years before our survey. For two other $800 advances authorized in September 1977 and January 1978, the last vouchers were submitted in October 1978 and September 1978, respectively.

--One advance of $800 was authorized in May 1981 and only two vouchers for a total of $157.70 were submitted through September 1981.

The other station (1) had some outstanding advances dating back to 1979, (2) did not take prompt action to recover or adjust continuing advances that were excessive, and (3) did not properly document follow-up action on such advances. A station official attributed this problem to lack of documentation and staff shortages. Regarding point (1), three advances were issued in March, August and November 1979 for a total of $2,325 and only one voucher for $719.19 was submitted in May 1980, leaving an unliquidated balance of $1,605.81.

Regarding point (2) above, in February 1983 the station analyzed 12 advances for a total of $22,750 that had been outstanding since at least October 1982. The activity for these advances from October through December 1982 indicated all of these exceeded the traveler's needs. GSA regulations specify that advances should not exceed the estimated travel cost of one month without prior written authority from the regional administrator. In some cases no travel vouchers were submitted and in no case did the monthly expenditures come near the amount of the advance. To illustrate:

--No travel voucher was submitted for one $500 advance and only one $201.31 voucher was submitted in December 1982 for the other $500 advance. For six $2,000 advances, 16 vouchers were submitted ranging from $79 to $760 with only three being for more than $300. Two had no vouchers for December 1982.

--For three $3,000 advances, eight vouchers were submitted ranging from $237.15 to $596.85 with only four being for more than $500. One did not have a voucher as of December 1982.

GSA regulations require regional accounting stations to submit written inquiries to employees for explanations when advances are overdue or their need is questionable. If no response is received after 30 days, letters are to be sent to the regional administrator. Although the examples above indicate that some advances were excessive for a period of time, the station had no documentation to show that action was taken to recover or adjust the advances. A station official told us that in the past this had been done by informally contacting employees and requesting justifications. He said that in the cases noted above, formal letters will be sent to employees requesting repayment of advances. However, he indicated some doubt that all advances would be repaid.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

The GAO, Treasury and GSA provide guidance to help ensure the propriety, accuracy, and legality of disbursements. None of the stations we visited complied fully with the guidance. Consequently, federal funds were unnecessarily exposed to risk of loss, theft, or misuse.

Weaknesses included inadequate preaudit of vouchers, inadequate separation of duties, payment of invoices before due dates, discounts taken without regard to Treasury interest rates, and lack of controls to ensure receipt of goods and services paid for under SIBAC. Also, Government Transportation Requests (GTRs) lacked adequate protection and controls did not ensure that periodic verifications of outstanding GTRs were accurate.

Inadequate preaudit of vouchers

The GAO manual (7 GAO 24.2) requires a preaudit of vouchers before they are certified for payment. The preaudit should, among other things, (1) verify the accuracy of the data on vouchers, (2) determine whether proper documentation is used, (3) ascertain that vouchers and supporting documents are properly authorized, (4) determine that required special certifications are furnished, and (5) determine that transactions are legal and that goods and services are received. We noted the following weaknesses in preaudits performed by GSA personnel at the four stations.

Documentation not adequate

Four payments at one station were not supported by a purchase order and 13 payments were not consistent with either the purchase order, invoice, or receiving report. Another station's final contract payment was not supported by a copy of the contract. Three stations made some payments based on invoice copies and invoices were not annotated to show research was done to prevent duplicate payments. At one station, a recent audit disclosed that duplicate payments were made because personnel processed transactions from duplicate invoices in lieu of originals.

Payments not properly approved

At one station responsible GSA service personnel did not provide required justification for 9 of 16 manual payments totaling $193,000. Furthermore, documentation for 15 of the 16 payments did not include the name and title of persons requesting the payment or the required written request. One receiving report at another station was signed by a person not authorized to do so, and some signatures on purchase orders, invoices, and receiving reports were illegible, making it impossible to determine if documents were properly authorized. The same station had signature cards in disarray and accounts payable personnel were unable to find cards for selected employees. At another station we were not able to find signature cards for 30 of 47 officials authorized to approve documents.

Required certifications not made

Two stations paid some certified invoices that the GSA service did not properly certify. For example, at one station the invoices were not properly certified for 23 of 30 NEAR payments.

Required annotation not made on documents

One station did not mark cancelled on 16 invoices to prevent duplicate payments. One station's voucher examiners did not stamp or initial vouchers to show their examination and at another station some vouchers were not annotated to show they had been examined or to identify the examiner. Two stations did not show the required payment due dates on some invoices, and at one station they did not stamp the date on some purchase orders, invoices, or receiving reports to show when they were received by the accounts payable section. These dates are needed to compute and verify the accuracy of payment due dates. Another station had a certifying officer who did not annotate documents to show he had made the required sample checks of payments processed by his section.

Invoices not submitted directly to station

GSA regulations require vendors to submit all invoices, except for certified invoices, directly to accounting stations.

One station's vendors, as requested by the GSA service, submitted three invoices to the GSA service rather than to the accounting station. Consequently, the station received the purchase order, invoice, and receiving report on the same date. This process impairs independent verifications of payments and may also result in late payments because of delay in receipt of documentation.

Officials at one station acknowledged that problems in pre-audit of vouchers was due to inadequate supervisory review. We believe this was also true at the other stations.

Separation of duties not adequate

The GAO manual (7 GAO 24.5) provides that the duties related to purchasing, receiving, and paying for goods and services should be separated to the extent permitted by the organization's size. One station allowed the same official in a GSA service activity to sign purchase orders, receiving reports and required certifications. For example, in our test of 48 vouchers we found 17 payments where the same person had signed the purchase order and certification.

Payments not scheduled to coincide with due dates

The Treasury requires agencies to pay bills when they are due to avoid unnecessary borrowing costs. Early payments unnecessarily accelerate the flow of cash from the Treasury and can cost the government substantial amounts in unnecessary interest costs. Furthermore, the Prompt Payment Act of 1982 requires agencies to pay an interest penalty to its vendors when payments are not made by the required payment date. The four stations did not pay all their bills on time. Consequently, significant numbers of payments were made either before or after the required due date.

Untimely payments, which were previously identified by the GSA central office at three of the four stations, is a continuing problem. Reviews made by the GSA central office from March 1980 through July 1981 showed that of 1,024 payments they tested, 494 (48 percent) were too early, 279 (27 percent) were late, and 251 (25 percent) were on time. The central office attributed late payments of invoices to deficiencies in processing by both the GSA services and the accounting stations.

Our test of recent payments showed that the stations were still processing significant volumes of payments on an untimely basis. For example, at one station 70 percent of the payments were paid earlier than the required due date and 30 percent were paid late. At another station 45 percent of DAC invoices tested were paid late and 12 percent were paid too early. For example, one invoice for $29,500 was paid 16 days before the required due date.

The primary reason for the untimely payments was accounting technicians lack of knowledge about computing payment due dates, as specified in Treasury's Manual (TFRM 8040.20) and OMB Circular A-125. These regulations require that if no date is specified, the due date is considered to be on the 30th day from receipt of the invoice. We noted there was some confusion at the stations as to what date to use in establishing the payment due date. For example, for 44 certified invoices that were paid late, the technician used the date when accounts payable received the invoice instead of the date when the GSA services certified the documents. Technicians were not aware of the policy for paying invoices.

At another station a technician used the dates goods and services were received by the GSA service instead of the date accounts payable received the noncertified invoice. Consequently, some of those payments were too early. That station had not distributed information on the Prompt Payment Act to the technicians. At another station some technicians interpreted the act to mean that payments should be made as quickly as possible. They established the due date by simply adding 7 or 9 days to the date when they processed invoices. Consequently, some of these payments were made too early.

Early payments unnecessarily accelerate the flow of cash from the Treasury. For example, in 1978 we estimated that at least $118 million might have been saved governmentwide over a 6-month period if all early payments had been made exactly on the due date.[1] Late payments are not good business practices and preclude the government from taking advantage of cash discounts offered by vendors for prompt payment. Furthermore, agencies must pay an interest penalty when payments are made late. For example, one station paid interest penalties of $542 to its vendors in March and part of April 1983.

Discounts taken without regard to Treasury interest rates

The Treasury's manual (TFRM, 8040.30) specifies that discounts offered by vendors are to be taken only when discount terms yield an effective annual interest rate equal to or greater than the current Treasury borrowing rate. Two of the stations took discounts without regard to the Treasury requirement. At one station, technicians in two sections of the accounts payable branch simply took all the discounts they could. For example, discounts of "1/4 percent 20 days" on three invoices were taken even though this discount rate did not equal or exceed the Treasury's borrowing rate of 11.98 percent per annum. One station official said that present staffing made it impractical to make the required comparisons in the DAC system. At the other station, technicians had been

[1]Federal Government's Bill Payment Practices Are Good But Could Be Better (FGMSD-78-16, Feb. 24, 1978).

instructed to take every discount available over $5, and explain why any others over $5 were not taken.

Controls not established to ensure that goods paid for under SIBAC are received

The Treasury's Simplified Intergovernmental Billing and Collection System (SIBAC) system processes immediate payments for goods and services by shifting funds from one agency to another. Treasury's manual (TFRM 5025.15) specifies that when charges are paid before the supplies or services are received, the customer agency should establish controls to ensure that the benefits are ultimately realized. Two of the accounting stations we visited did not have such controls.

Officials at the two stations said the GSA ordering office had primary responsibility for ensuring that goods and services are received, and that the SIBAC system provides a chargeback process for correcting discrepancies that occur in receipts or billings. At one station we were told that in some cases SIBAC receiving reports are submitted to the accounting station upon receipt of goods and services, but that because of the nature of SIBAC these are not checked. The accounting stations rely on GSA ordering activities to initiate SIBAC chargebacks to correct discrepancies that occur. We noted that during fiscal year 1982 one of the stations processed chargebacks totaling about $186,000. Most of that amount was due to errors in coding of payments.

Inadequate safeguarding of GTRs

Government Transportation Requests (GTRs), when presented to a carrier, authorize the carrier to issue tickets to government travelers. In addition, GTRs authorize the carrier to bill the government agency for services provided. Because the GTR can be readily converted to improper use, it needs adequate safeguards and controls. GSA's handbook places the primary responsibility for safekeeping of GTRs on persons designated as GTR accountability officers.

The accountability officer at one station did not comply with GSA safekeeping guidelines which requires all GTRs to be stored in a safe or bar-locked file cabinet. Furthermore, if more than one person has access to the safe or file cabinet, GTRs must be stored in a locked box accessible only to the accountability officer. The custodian at that station kept the GTRs in a file cabinet with a bar-lock. Only the custodian and his secretary had keys to the cabinet, but it was kept open during the day when as many as six persons had access to it. The corrective action taken by the custodian was contrary to the handbook. He agreed to secure a lock box and limit access to himself and his secretary instead of limiting access only to the designated GTR accountability officer.

Inadequate safeguarding of GTRs by employees in the regions has resulted in GTR loss and theft. For example, certified inventories reported to the central office in December 1982 and February 1983 showed that:

--one region had lost or misplaced 80 GTRs and 10 had been stolen,

--another region lost an unstated number of GTRs in a group out of 120, and

--a third region lost or could not account for 640 GTRs.

Inadequate controls over GTRs was previously reported by GSA's OIG in several regions. The most significiant loss was 49,000 GTRs in one region because of poor controls. These GTRs, which were mistakenly sent to the region, have never been accounted for.

NEED TO IMPROVE CONTROL OVER IMPREST FUNDS

Imprest funds are "cash on hand" funds comprising currency, coin, and government checks advanced by Treasury disbursing offices to agency imprest fund cashiers. Because these funds are susceptible to misuse, loss, or theft, extensive guidance for their control and management has been provided by Treasury, GAO and GSA. The GSA stations we visited had imprest funds totaling about $337,000. Despite the widely recognized need for stringent controls over imprest funds, we noted some control weaknesses at each of the stations. These included inadequate verifications and audits of funds, inadequate physical security over funds, improperly documented expenditures, incorrect reporting of fund shortages, poor separation of duties, excessive fund sizes, and extensive use of funds for employee travel advances.

Funds not audited/verified with required frequency

Treasury and GSA regulations require an imprest fund audit at least annually to determine if the funds are not in excess of cash requirements. Also, unannounced verifications of cash balances in each fund are required at least once in each quarter. None of the four stations complied with this requirement and as a result some funds were larger than required.

One station with 31 funds, counted only three during the quarter ended June 30, 1982 and five during the quarter ended December 31, 1982. Funds for $500 and $600 were not counted during the five quarters ended December 31, 1982, and a $1,000 fund was not counted during the two quarters ended September 30, 1982.

The second station with 61 imprest funds, ranging from $50 to $25,000, did not verify 23 of them in fiscal year 1982. Twenty-five of the remaining 38 funds were verified only once.

The third station had 56 funds. Of those, there were 37 for which the audit or at least one quarterly verification was not made in fiscal year 1982. The 37 included 17 funds for which the annual audit was not made, including one for $5,000 and one for $3,500.

At the fourth station we noted six funds for a total of $1,350 that had not been verified since November 1977.

The stations also did not comply with Treasury guidelines that specify fund levels should not exceed 1-month's needs or GSA guidelines of 2-month's cash needs. For example, at one station, 40 of 69 funds exceeded the 2-month requirement by $100 to more than $1,000. Another station had 27 of its 30 funds exceed the 2-month requirement during calendar year 1982. The average monthly and bimonthly payments from a $7,500 fund at that station were $1,367 and $2,733, respectively. Consequently, the fund level exceeded the monthly needs by $6,133 and the bimonthly requirement by $4,767. An official at one station acknowledged that fund needs were not reviewed and adjusted promptly.

Station officials attributed the infrequent audits and cash verifications to inadequate staffing, lack of travel funds, and the remote locations of some funds. Nonetheless, infrequent verification of funds, particularly over extended periods, increases the risk of loss, misuse, or theft of this highly vulnerable asset. Also, when audits are not made, funds that exceed needs are not identified.

Other basic fund control procedures not followed

Each of the four stations did not adhere to one or more of other basic accounting procedures prescribed by the Treasury and GSA to control, safeguard, and manage imprest funds. Examples of weaknesses follow:

--Designations of 10 imprest fund cashiers and alternates were not supported by required Treasury approval documents.

--Physical control weaknesses included unescorted cashiers transporting cash, an open safe without a cashier present, and more than one cashier using the same cash box.

--One cashier commingled other monies with those of the imprest fund.

--Fund vouchers were not numbered when used, cancelled to prevent reuse, or secured the same as cash. Vouchers were kept in a file drawer or in a file on a desk top.

--Some expenditures were not properly supported or authorized. Two stations had some emergency travel advances of $251 to

$500 that were not properly justified. At one station, the cashier made disbursements of $290.41 to herself and two other employees for personal use (in effect employees borrowed money from the fund).

--An alternate cashier, who was also the travel clerk, approved travel advances drawn from the fund.

--A fund cashier did not report a shortage involving loss of a reimbursement check to law enforcement authorities as required.

--Signed and sealed envelopes with safe combinations and duplicate keys were not maintained for some funds. Cashiers in one case were required to memorize combinations and in another case the combination and extra keys were kept in the imprest fund safe. Combinations for two safes had not been changed annually as required.

Officials at one station said existence of some of these problems was due to untimely, infrequent audits and verifications of funds. We believe this was true at the other stations.

Funds used extensively for employee travel advances

Treasury regulations specify that imprest funds are to be used for small purchases, and in addition may be used for repair of equipment, postage and postal services, travel advances, and reimbursements for travel expenses. The Treasury also requires use of checks in lieu of cash from funds when there is sufficient time to issue a Treasury check. At two stations, the largest imprest funds were used almost exclusively for travel advances. Our limited survey disclosed cases where there was sufficient time to issue travel checks. Use of funds in this manner magnified control problems, increased workload, contributed to increased fund size, and resulted in large cash balances.

During fiscal year 1982, one station expended $283,434 out of a $40,000 fund and of that amount $263,576, or 93 percent, was for travel advances. For fiscal year 1983 through January 1983, $157,686 had been paid out and $148,733, or 94.3 percent, was for travel advances. At the other station we were told that from 80 to 90 percent of the payments from a $15,000 fund were for travel advances.

We tested emergency travel advances at one station and found a significant number of the justifications were questionable. GSA guidance requires written justification for emergency cash advances of $251 to $500 by the activity requesting the advance. The fund cashier, however, accepts such requests without question and relies on the requesting activities to ensure proper approval and justification. Our examination showed that the justification for 10 of 39

advances (25.6 percent) was questionable. The justifications were based on insufficient time to process travel checks, but our analysis of the 10 cases showed sufficient time was available to issue checks. The accounts payable branch chief acknowledged that, in most cases, travel was known well in advance, providing ample time to issue travel checks.

A central office report issued in April 1981 on a review made at one station cited the adverse effects of extensively using imprest funds for travel advances. It stated that advances were typically channeled through the fund because GSA services did not provide advance notice and documentation on pending travel, placing additional burden on the accounts receivable unit. The report also stated that because the volume of advances quickly depleted the fund, manual payment schedules were usually processed by the accounts payable unit to expedite reimbursement of the fund. Manual payments, however, require tight control to ensure every payment is promptly entered in the accounting system to avoid errors and irregularities.

The fund at one of the stations grew significantly over the years. It increased from the initial $1,000 in September 1962 to its present size of $40,000. The fund had 10 increases, ranging from $1,000 in July 1963 to $10,000 in February 1980. The increases were justified by the higher fund expenditures, which were attributed primarily to travel advance payments. The funds at both stations also had large cash balances on hand. For example, during fiscal year 1982 the average cash on hand (currency, coins, checks) for the $40,000 fund was $24,861. On the day we observed a cash count, this fund had $15,620 in currency alone, of which $13,280 was in $20 bills. When the cash for a $15,000 fund was counted in December 1982, it had $9,104 in currency of which $7,430 was in $10 and $20 bills.

The use of funds almost exclusively for travel advances does not comply with the intent of Treasury guidance. Indications are that in some cases use of emergency advances is not justified. In addition, large cash balances increase the potential for loss, theft, or misuse of funds and is not a good cash management practice.

NEED TO IMPROVE CONTROLS OVER OBLIGATIONS

Obligations represent the amounts of orders placed, contracts awarded, services rendered, or other financial commitments made by agencies that will require cash outlay during the current or some future period. The GAO manual (7 GAO 17) specifies the controls necessary to help ensure that agencies use amounts appropriated as the Congress intended and that agency commitments do not exceed appropriations. Three of the four stations we reviewed did not employ some of the basic control procedures necessary to ensure that obligations were handled properly.

Obligations not recorded promptly

The GAO manual (7 GAO 17) requires agencies to record all obligations as charges against applicable appropriations. Some technicians at one station did not do this. Instead, they held documents and entered transactions into the accounting system either monthly or twice monthly.

Obligations not reviewed as required

The GAO manual (7 GAO 17) requires that totals of obligation documents be reconciled with control accounts periodically and a year-end review of obligations to determine if they are valid.

Two stations did not comply with the reconciliation requirement, because according to station officials they did not have enough staff.

One station only partially checked the validity of obligations. Under current procedures, the accounts payable branch sends reports on questionable items to fund managers to determine the obligation validity. However, fund managers do not always respond, and because of continuing demands on staff, the accounts payable branch does not follow up when managers do not respond.

Deferred accounts not cleared promptly

GSA guidance specifies that deferred charges and prepaid expense accounts be reviewed monthly to ensure that items are properly allocated in future years. An April 1981 central office report on one station noted that one deferred account had 42 items over 6 months old.

This station and another which we reviewed did not promptly clear deferred account items. At one station the account on December 31, 1982 had 16 items over 6 months old (the oldest dated March 1982), and 65 other items over 30 days old. The February 1983 deferred item list reflected similar conditions. The other station had a sizable number of old items, some dating to 1977, in the deferred accounts. As of February 24, 1983, this station's deferred accounts had 24 items dating from 1977 through 1981 for a total of $59,793.

Transaction control numbers not monitored properly

Under the NEAR system, accounting control transaction (ACT) numbers are required for processing payments on all obligation and payment documents. The accounting stations issue these numbers in blocks of 100 to fund managers who have the authority to obligate funds. As part of the control over the numbers, the stations issue "Skipped ACT Number" reports for managers to reconcile and identify

all numbers processed out of sequence. In April 1981 GSA's OIG reported that at one station we reviewed 11 units had not reconciled the "Skipped" reports and that the control problem was compounded because the station did not follow up to see whether units used the reports. That station's procedures required the return of reconciled reports to the accounting station within 30 days.

The control weaknesses identified by the OIG were still present when we reviewed that station. In addition, the accounting station did not always distribute reports to the units. In early March 1983, we noted that the station had not distributed the reports for December 1982 through February 1983. Also, there were no indications that the station followed up on seven units that had not returned the August 1982 reports. Furthermore, none of the report control logs we observed were annotated to show whether units had reconciled the reports.

NEED FOR MORE INTERNAL AUDIT COVERAGE OF FINANCIAL OPERATIONS

Internal audits are recognized as a part of an agency's system of financial controls. Additional internal audit coverage of financial operations, with special emphasis on internal controls, helps GSA to identify control weaknesses, to ensure that control procedures are followed, and to fulfill requirements of the Federal Managers' Financial Integrity Act. Section 113 of the Accounting and Auditing Act of 1950 requires agency heads to establish accounting and internal controls, including internal audit. Since that law was passed, we have issued guidance to agencies on their internal audit activities. Our guidance stresses the need for agencies to examine their financial transactions to determine if they are effectively controlling assets, liabilities, revenues, and expenditures. The Federal Managers' Financial Integrity Act requires agencies to conduct ongoing evaluations of the adequacy of their internal control systems. Except for obligations, the areas which we surveyed had received only limited coverage from the regional OIGs.

The regional OIGs made annual reviews of year-end obligations to determine if the accounting stations review and certify the validity of their obligations. These reviews of obligations were the only periodic OIG audits in the internal control areas covered by our survey. In the other four areas, which are collections, accounts receivables, disbursements, and imprest funds, the OIGs provided only limited coverage during the prior 3 years. During that period, the four regional OIGs issued a total of 15 reports but only one was related to the collections and accounts receivable areas. The OIG at one station said OIG headquarters programs most of the regional audit effort and the little time that is left for discretionary work is directed toward activities with the largest expenditures.

CONCLUSIONS AND RECOMMENDATIONS

As discussed in the preceding pages, some internal control weaknesses existed at each location we visited. On an individual basis, any one weakness may not significantly affect GSA's financial condition. However, we believe that in the aggregate, if these weaknesses remain unchecked, they may be detrimental to GSA's overall financial operations.

Accounting station officials generally agreed to take action to correct the identified weaknesses. These actions, however, will yield significant benefits only if they are directed by GSA headquarters and followed by all accounting stations. Experience has shown that constant vigilance by top management is necessary to ensure continued effective operation of any internal control. Accordingly, we recommend that the GSA Administrator:

--Ensure that adequate follow-up actions are taken to correct the weaknesses we identified.

--Instruct the OIG's office to increase its audit coverage of GSA's financial operations, with particular emphasis on internal controls.

--Consider the internal control requirements discussed in this report in your future reviews to comply with the Financial Integrity Act. Discuss in the annual statements required by the act whether any identified weaknesses have been corrected.

INTERNAL CONTROL WEAKNESSES
IDENTIFIED AT SELECTED GSA REGIONS

Weaknesses	GSA region number 7	6	2	NCR
COLLECTIONS				
Collections not recorded at earliest point of receipt	X	X	X	X
Prenumbered cash receipts not used	X	X	X	
Prenumbered deposit tickets have gaps in number sequence	X	X	X	X
Collections not adequately safeguarded			X	X
Duties not adequately segregated	X		X	
Collections not deposited in bank promptly	X		X	X
Reconciliations of collections and deposits not made or untimely	X		X	X
Inadequate controls over collections from surplus sales	X		X	
ACCOUNTS RECEIVABLE				
Dishonored checks not recorded promptly			X	
Late interest charges not charged on delinquent accounts			X	X
Collection efforts on delinquent accounts not adequate		X	X	X
Review and recovery of travel advances not adequate		X		X

Weaknesses	GSA region number			
	7	6	2	NCR
DISBURSEMENTS				
Inadequate preaudit of vouchers	X	X	X	X
Inadequate separation of duties			X	
Payments not scheduled to coincide with due dates	X	X	X	X
Discounts taken without regard to Treasury interest rates		X		X
No controls to ensure that goods/ services paid for under SIBAC are actually received	X			X
Inadequate safeguarding of GTRs		X		
IMPREST FUNDS				
Funds not audited/verified with required frequency	X	X	X	X
Fund sizes exceeded needs	X	X	X	X
Other basic control procedures were not followed:				
Designation of fund cashier not documented			X	
Inadequate physical safeguarding of funds	X	X		X
Commingling of other monies with fund cash				X
Fund vouchers improperly controlled				X
Expenditures improperly supported or authorized	X	X		X

Weaknesses	GSA region number 7	6	2	NCR
Inadequate segregation of duties				X
Fund shortage reported improperly			X	
Safe combinations and extra keys not controlled properly				X
Funds used almost exclusively for employee travel advances	X		X	
OBLIGATIONS				
Obligations not recorded promptly				X
General ledger control totals not reconciled periodically with obligation documents		X		X
Obligations not reviewed at year-end to determine their validity				X
Deferred accounts not cleared promptly		X	X	
Transaction control numbers monitored improperly			X	