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United States General Accounting Office

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Report to the Administrator, General Services Administration

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INTERNAL CONTROLS

System Problems Affecting GSA's Financial Reporting

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Accounting and Financial
Management Division

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February 4, 1988

The Honorable Terence C. Golden
Administrator, General Services
Administration

Dear Mr. Golden:

We have transmitted our reports to the Congress (GAO/AFMD-87-49, September 30, 1987) and (GAO/AFMD-86-55, June 11, 1986) on our audits of the fiscal years 1986 and 1985 consolidated financial statements of the General Services Administration (GSA). In those reports we discussed internal accounting control weaknesses that were, in our judgment, material in relation to GSA's consolidated financial statements taken as a whole. This report describes other opportunities for improving internal accounting controls and procedures which, although not material to GSA's consolidated financial statements, nonetheless warrant your attention. The report also discusses opportunities for improving GSA's financial management practices.

Objective, Scope, and Methodology

The objective of our audits was to report on the fair presentation of GSA's fiscal years 1986 and 1985 consolidated financial statements. Each year in conducting those audits, we made a study and evaluation of GSA's system of internal accounting controls to determine the nature, timing, and extent of auditing procedures necessary for expressing an opinion on GSA's consolidated financial statements. The opportunities for improving GSA's internal accounting controls, procedures, and financial management practices were identified during the examination of internal controls and through other phases of the audit. Our examinations involved work at GSA's Washington, D.C., headquarters; regional offices in Washington, D.C., San Francisco, Fort Worth, Kansas City, Missouri, New York, and Philadelphia; Information Resources Management Service facility in Belleville, Illinois; and various stockpile and supply storage locations throughout the United States. The work at these locations encompassed all of GSA's major service and financial operations. The audit work was conducted from January 1985 to April 1987 and in accordance with generally accepted government auditing standards.

GSA management is responsible for establishing and maintaining a system of internal controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. The Financial Integrity Act requires managers to annually report any material internal control and accounting system weaknesses, along with planned corrective actions. While our evaluation was targeted at those internal controls related to the fairness of the financial statements, the Financial Integrity Act has broader application. The act covers all management controls, not just those typically dealing with accounting controls and financial reporting, but the entire network of policies, procedures, practices, and systems that managers use to do their jobs.

We found that during fiscal year 1986, GSA corrected three of the four material internal accounting control weaknesses that we reported to the Congress after our examination of GSA's 1985 consolidated financial statements. Our report to the Congress on our 1986 audit included the uncorrected cash reconciliation problem we found in 1985 and a new material weakness resulting from attempting to put a new accounting system in place in Fleet Management without assuring it was working properly. GSA agreed with our recommendations and has initiated corrective actions. Our 1986 audit also showed that GSA corrected other less significant internal control problems. We discussed these less significant problems in informal oral briefings with GSA officials at the conclusion of our 1985 audit. We commend GSA for its efforts in correcting these problems. The corrective actions taken virtually eliminated many of the problems we identified in fiscal year 1985. However, these efforts need to be continued and expanded to correct the remaining less significant problems from 1985, as well as those we found during our fiscal year 1986 audit, and to further improve GSA's internal control environment.

Opportunities for Improving Internal Accounting Controls and Procedures

The less significant problems in internal accounting controls and procedures continuing from 1985 and the additional ones we identified in 1986 need to be corrected to prevent errors or irregularities that may affect the integrity of amounts reported in GSA's consolidated financial statements or lead to misuse of its assets. Some examples follow.

- Inventories of certain assets under GSA control were either not being taken periodically or, if they were taken, the frequency of the counts required by GSA was not always followed. This involved GSA's silver bullion and general supply inventories.
- Internal accounting controls were not in place to ensure that all transactions which should be processed through GSA's National Electronic Accounting and Reporting (NEAR) system were processed. As a result, the NEAR system was unable to reconcile system inputs and outputs, identify missing documents, and calculate lease payments beyond 1999.

- GSA did not maintain adequate supporting documentation for some transactions, especially those concerning the Federal Buildings, Automatic Data Processing (ADP), and General funds. In one instance, regional staff used a space rental rate intended for subsequent years to bill customers in fiscal year 1986 because adequate documentation was not available.
- Some errors and omissions occurred during the consolidation of the financial statements. The most significant of these involved not eliminating $8.9 million of interfund accounts receivable and payable transactions.
- Financial transactions were not always recorded in the proper fiscal year. For example, over $21 million in Strategic Stockpile exchange sales, nearly $23 million in General Supply sales, and approximately $5.8 million in Fleet Management accruals had not been recorded in the accounting records at fiscal year-end.
- Accounting principles were not always properly or consistently applied. For example, the established policy for capitalizing repair and alteration projects was not consistently followed in the Federal Buildings Fund. Also, in the receipt funds, cash was not properly accounted for in the accounting records.
- During our audits, we found that internal accounting controls necessary to ensuring the proper use of GSA-issued credit cards needed to be strengthened to monitor credit card usage by driver and vehicle. Such controls have since been implemented, and we will check their operation during our audit of GSA's 1987 financial statements.
- GSA did not exercise adequate controls to ensure it promptly and accurately billed customer agencies for ADP services it provided through third-party subcontractors. Contract payments of $40 million and $8.9 million from fiscal years 1986 and 1985, respectively, were not compared to agency billings as of February 1987 to determine whether all payments had been billed.

See appendix I for a detailed discussion of these problems.

Certain Financial Management Practices Could Be Improved

We believe GSA can also improve financial management practices concerning its automated data processing function and valuing the Federal Supply Service inventory. For example:

- GSA's automated systems have many inefficiencies. Data redundancy exists both within the NEAR system and between NEAR and other systems. Furthermore, the complexity of NEAR has made file updating and systems maintenance increasingly difficult.

- GSA uses the moving-average cost method for valuing its general supply inventory. Using standard costs would enable GSA to more closely monitor and control inventory cost variances as they occur.

See appendix II for a detailed discussion of these problems.

Conclusion and Recommendation

GSA has made progress in correcting identified internal control weaknesses. The areas discussed in this report provide GSA with additional opportunities to improve its internal accounting controls and procedures and financial management practices. The problems could affect the integrity of GSA's accounting and financial data and lead to inappropriate and inefficient use of financial resources. Accordingly, we recommend that the Administrator of General Services direct the Comptroller to address the problems identified in appendixes I and II of this report by developing a plan that includes a timetable for resolving them. Also, to assist the Administrator in ensuring that actions to accomplish these improvements are progressing on schedule and to assist him in carrying out his responsibilities under the Financial Integrity Act, managers should include in reports to the Administrator under the act information on the status of efforts to correct the weaknesses we identified. To the extent weaknesses are not corrected by the end of the current fiscal year, they should be considered for inclusion in the Administrator's annual report required by the act.

Agency Comments and Our Evaluation

The Comptroller of GSA, in his official comments on a draft of this report (see appendix III), agreed with our findings and recommendations except for those concerning the silver inventory, recording transactions in the proper fiscal year, NEAR system controls, data processing operations improvements, and standard costs. GSA also commented that it had already implemented controls over the credit card system.

Silver Inventory

GSA believes that the physical security measures in place and the absence of any discrepancies when weight and melt numbers were compared to the records during a 1980s silver sales program make it unnecessary to periodically take an actual inventory count. We believe that, although physical security is important, it is not a substitute for periodic inventory verification to ensure that the physical security has not been breached. The tests of the silver involved in transactions only ensure that the records were accurate for that part of the silver that was sold and transferred, not for the silver remaining in GSA's inventory. GSA also stated that, currently, no empty vaults are available at the storage locations. We believe that GSA should periodically check with the Bureau of the Mint to locate a vault that could be used in taking an inventory of GSA's silver.

Recording Transactions in the Proper Fiscal Year

GSA pointed out that the 1986 financial transactions we identified that were recorded in 1987 did not materially affect the 1986 financial statements. Although we agree that the amount was not material in 1986, GSA's current year-end cut-off procedures are not adequate to determine whether the amount of transactions that occur after the cut-off date but before the year-end may be material in future years. Therefore, GSA needs to emphasize to fund managers the importance of identifying and reporting transactions that were not included in the trial balance produced after the early cut-off so that their materiality can be determined and adjustments made, if necessary. GSA should also test transactions subsequent to cut-off to ensure that all transactions have been recorded in the proper fiscal year.

NEAR System Controls

Regarding the controls over NEAR system operations, GSA identified other controls it believed achieved the intended control objectives.

For example, concerning transactions processed through the NEAR system that involve allocations to the various funds, GSA stated that it annually balances the open items and general ledger files by fund/appropriation identity to the corresponding service data base files to check that transactions were processed completely. We believe that such a balancing could be a more useful control to ensure all transactions are processed if it were performed on a more frequent basis, such as daily, since it is an automated procedure. Also, in conducting an annual balancing, it would be almost impossible to determine which transactions were not processed from among the over one million transactions processed annually.

Regarding our finding that the NEAR system lacks the capability to identify missing documents in the obligation-accrual-payment process, GSA mentioned three manual controls that serve this purpose. We believe that these manual controls are cumbersome and more subject to error than automated controls. Automated controls provide greater efficiency and better assurance that all appropriate transactions are processed. In addition, according to an internal GSA memorandum dated

November 25, 1987, one of the three manual controls mentioned, the Missing Accounting Control Transaction Number Report, has been discontinued.

Data Processing Operations

GSA commented that the features of the NEAR system we believed were inefficient in processing data actually were beneficial to its data processing operations. While we agree that modularity and concurrent processing are appropriate, data redundancy, cumbersome file updating and systems maintenance, and manual scheduling are inefficiencies that should be considered for improvement as system enhancements are planned. Entering two separate data files of similar information maintained by separate components of GSA is not an efficient method to assure accurate reporting of financial events. Also, automated scheduling would increase the efficiency of data processing and still permit concurrent processing of system modules.

General Supply Inventory Valuation

GSA stated that it plans to continue using its moving-average cost method in valuing its general supply inventories as it believes the benefits of standard cost are lost in a retail operation with no significant controllable costs. We believe GSA should give consideration to the following point in deciding on whether to try the standard cost method. GSA has chosen to use cost as a basis for determining the price it charges its federal agency customers. However, the moving-average cost method, which GSA uses, provides a weighted average of costs paid in the past for establishing selling prices which does not fully reflect current costs. Thus, in a period of rising prices, the moving-average cost method does not adequately reflect replacement cost for items which have been in inventory for a time. Under these circumstances, the revolving fund could experience a loss on the sale of those inventory items. Using standard costs allows managers to set more current and realistic prices on inventory items sold.

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 to the Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 look forward to working with you to continue the progress that GSA has made in improving its financial management operations.

Sincerely yours,

Frederick D. Wolf
Director

Contents

Letter		1
Appendix I Opportunities for Improving Internal Accounting Controls and Procedures		10
	Public Buildings Operations	10
	Strategic Stockpile Operations	13
	General Supply Operations	15
	Fleet Management Operations	18
	Automatic Data Processing Services Operations	20
	Financial Reporting	22
	Other Miscellaneous Areas	24
Appendix II Certain Financial Management Practices Need Improving		28
Appendix III Comments From the General Services Administration		31

Abbreviations

ADP	automated data processing
FPRS	Federal Property Resources Service
FSS	Federal Supply Service
GAO	General Accounting Office
GSA	General Services Administration
IRMS	Information Resources Management Service
NEAR	National Electronic Accounting and Reporting
NDS	National Defense Stockpile
OMB	Office of Management and Budget
PBS	Public Buildings Service
SIBAC	Simplified Intragovernmental Billing and Collection
SLUC	Standard Level User Charge

Opportunities for Improving Internal Accounting Controls and Procedures

To facilitate corrective action by GSA, we have classified the opportunities for improving internal accounting controls and procedures into the following areas of GSA's operations:

- Public Buildings Operations,
- Strategic Stockpile Operations,
- General Supply Operations,
- Fleet Management Operations,
- Automatic Data Processing Services Operations,
- Financial Reporting, and
- Other Miscellaneous Areas.

Public Buildings Operations

Standard Level User Charge Billings Should Be Adequately Documented

GSA's Public Building Service (PBS) does not maintain adequate documentation to support Standard Level User Charge (SLUC) bills produced by the PBS/Information System. Our audit work indicated that GSA could not always support the rental rates and space charges billed to customer agencies in fiscal year 1986. We requested supporting documentation for rental rates and space assignments for a nonstatistical sample of 90 SLUC-detailed bills in three regions. However, the PBS appraisal and assignment chiefs could not provide adequate documentation to support nearly 30 percent of the space assignments and more than 19 percent of the rental rates included in our sample. Many of the transactions in our sample could not be traced to supporting documentation in the files because these documents were often misfiled, misplaced, or simply not filed in a timely manner.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires that all transactions and other significant events be clearly documented and that such documentation be readily available for examination. Additionally, under 40 U.S.C. 490(j) and implementing regulations, the SLUC established by GSA for space leased to customer agencies generally must approximate commercial rates for comparable space. Adequate documentation is needed to ensure that proper rates are being charged.

Without adequate documentation, GSA's Finance Office may be unable to properly bill customers. For example, we found that regional staff had incorrectly used a SLUC rate that was intended for use in subsequent years to bill a customer in fiscal year 1986. The lack of adequate documentation showing the current rates in effect was the reason for using the subsequent-years' rate.

We believe that GSA should maintain adequate documentation to support SLUC transactions in order to ensure that it is charging proper rental rates. Maintaining adequate documentation is also necessary to ensure that entries made to the accounting records are proper and accurate.

We believe that GSA should reiterate to its regional offices the importance of maintaining appropriate documents to support billing rates and revenue transactions and to ensure that customers are properly billed. Also, the regional offices should maintain complete and up-to-date assignment and appraisal files as a control over the PBS/Information System data base as well as subsequent appraisals and assignments.

Repair and Alteration Projects Are Not Recorded Consistently

GSA does not consistently record the cost of repair and alteration projects in the accounting records. For example, we identified several projects that should have been capitalized but were not. Additionally, other projects were capitalized that should not have been. This problem existed in fiscal year 1985 as well.

Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires that additions, alterations, betterments, or replacements that extend the useful life or service capacity of an asset be capitalized whereas expenses incurred to maintain property in satisfactory operating condition (repairs and maintenance) be expensed. GSA has incorporated all of title 2 into its Comptroller Handbook.

The deviations from GSA's capitalization policy occurred primarily because it is unclear. Repair and alteration branch personnel assign repair and alteration projects code indicators, which determine whether they should be capitalized or expensed. Sometimes these personnel (nonaccountants) are not sure which code is appropriate and assign the wrong code indicator. In other cases, the codes themselves are inconsistent and ambiguous. For example, work category code 410 (a capitalized code) is for repairing, replacing, and improving the electrical equipment, power supply, and distribution system. To be consistent with title 2, work category code 410 would have to be broken into two categories: capitalized code for replacing or improving the electrical system and an expense code for repair work.

Because GSA's code indicators are inconsistent and ambiguous, several projects over the past 2 years were incorrectly capitalized or expensed. If repair and alteration projects are not capitalized or expensed according to GSA policy and prescribed accounting principles, fixed assets and expenses could be misstated on the agency's financial statements.

We believe that GSA should review the various code indicators and clarify its capitalization criteria by removing all inconsistent and ambiguous statements. Furthermore, the Office of Finance should closely monitor capitalization decisions made by the repair and alteration branches to ensure that projects are properly capitalized or expensed in accordance with title 2.

The National Electronic Accounting and Reporting System Should Account for All Future Lease Obligations

Accounting data produced by the National Electronic Accounting and Reporting (NEAR) system, GSA's accounting system, understated GSA's future operating lease obligations by $84 million at the end of fiscal year 1986. GSA negotiates leases for terms of up to 20 years. To satisfy reporting requirements, the NEAR system was programmed to annually generate a report of the future minimum rental payments associated with these leases. However, we found that the system does not compute payments beyond the year 1999. Therefore, numerous manual calculations, which are more susceptible to error, had to be performed in order to obtain a reasonable estimate of future minimum rental payments for the fiscal year 1986 financial statements.

Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to report future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate, and for each of the 5 succeeding fiscal years. In addition, the Treasury Financial Manual requires agencies to report the cost of the remaining portion of leases entered into on Schedule 6, Standard Form 220, Statement of Commitments and Contingencies.

Because NEAR is unable to compute lease payments beyond the year 1999, the system provides federal managers with incomplete data on long-term obligations and cash requirements of the agency as well as the government as a whole. As the year 2000 approaches and the number of leases with expiration dates in the twenty-first century increases, the understatement of aggregate future minimum rental payments will also increase. Correspondingly, the number of required manual calculations will increase, as will the likelihood and potential magnitude of errors.

We believe that GSA's Office of Finance should revise the NEAR program that calculates future minimum rental payments to enable it to process lease data out to the year 2000 and beyond. Implementation of such a program would enhance the reliability of the lease accounting data generated by NEAR as well as eliminate the numerous manual calculations that are currently required.

Strategic Stockpile Operations

Silver Should Be Periodically Verified

GSA has not verified the accuracy of its silver inventory records, through periodic physical counts and laboratory analyses of the silver in the strategic and critical materials inventory, since this material was transferred from the Department of the Treasury on July 1, 1968. Although GSA periodically verifies the physical existence of the silver and inspects the door seals and vault records, this does not provide adequate assurance that the quantity and quality are accurate as recorded. Since GSA assumed responsibility for it, the silver has remained in the vaults at the Bureau of the Mint (except for small portions of it which were sold and transferred to another agency in the early 1980s), and GSA has paid the space rental and security costs. Depot inventory records were established at GSA based on transfer documents provided by Treasury.

As part of its quality control program, GSA's Federal Property Resources Service (FPRS) quality control personnel inspect the storage facilities and observe the silver, but they do not perform counts or conduct other tests to verify the quantity and quality of the silver bullion in storage. As of September 30, 1986, the inventory records showed 134 million troy ounces of silver bullion, with a book value of more than $173 million and a market value in excess of $753 million.

GSA's Comptroller Handbook states that the depot inventory records should reflect the quality and quantity of commodities on hand. For other stockpile commodities, the FPRS quality control inspectors generally perform test counts twice yearly to verify quantities of materials on hand and periodically select samples of commodities for laboratory analysis to verify the quality.

In 1983, GSA's Inspector General recommended that FPRS conduct physical counts of its silver bullion and periodically test its purity and weight. We concur with that recommendation. FPRS officials cited the difficulty and high cost of physical counts and laboratory analyses of the silver (GSA has no vault to move the silver into as it is counted, and officials believe it would require eight personnel working for 6 months to do one of two locations), as well as their belief in the accuracy of Bureau of the Mint records and security of its facilities as reasons for not taking the recommended actions. In addition, GSA told us of test checks made as part of a sales program and two custodial transfers in the early 1980s which showed the records to be accurate for those items sold and transferred.

We disagree with this rationale. The value and nature of silver bullion make it susceptible to theft and the fact that it has not been inventoried since 1968 makes it critical that GSA exercise at least the basic inventory control procedures it does over its other commodities. It should coordinate with the Bureau of the Mint to locate a vault to use while counting the silver. Once the inventory verification is performed, further inventory-taking could be done on a test basis at a greatly reduced cost. Moreover, Bureau of the Mint procedures require the Bureau to annually test count and assay its gold; we believe GSA should do the same with its silver.

Better Controls Over the Accounting for National Defense Stockpile Sales Transactions Are Needed

During fiscal year 1986, GSA did not promptly record stockpile exchange and disposal sales transactions in its accounting records. As a result, National Defense Stockpile (NDS) exchange and disposal sales of more than $21 million and $212,000, respectively, were omitted from the accounting records at the end of fiscal year 1986. A similar problem existed in fiscal year 1985 when more than $64 million of exchange sales transactions had not been properly recorded in the accounting records at fiscal year-end. In both years, adjustments were made at year-end to recognize the stockpile sales in the proper fiscal year.

The prompt recording of financial transactions is required by title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. In addition, the Office of Management and Budget's (OMB) Financial Management and Accounting Objectives specify that financial data should be recorded as soon as practicable after the transaction has occurred. Also, a basic concept of generally accepted accounting principles is that of properly matching revenues with the associated expenses in the same accounting period.

GSA did not have a process for substantiating and reviewing the recording of transactions. GSA recorded the cost of goods sold in fiscal year 1986 but did not record the corresponding exchange and disposal sales until fiscal year 1987. Adjusting entries were required at fiscal year-end to recognize these transactions in the proper year. The improper accounting for these exchange and disposal sales transactions in fiscal years 1986 and 1985 could have been promptly detected had a sound review process been in place. In fiscal year 1985, the absence of clear responsibility and authority was a major cause of these problems. In fiscal year 1986, all accounting for NDS transactions was centralized in Kansas City, Missouri. However, the lack of proper oversight and adequate instructions on properly handling NDS accounting duties contributed significantly to the problems continuing through fiscal year 1986.

We believe that GSA should provide the guidance needed to ensure that personnel involved in the accounting for stockpile transactions have a clear understanding of the accounting for exchange and disposal sales transactions. In addition, the agency should establish an appropriate level of review to ensure that these transactions are properly and promptly accounted for and that errors, if they occur, are readily detected and corrected.

General Supply Operations

Perpetual Inventory Verifications Should Be Done More Frequently

During fiscal year 1986, GSA's inventory surveillance teams did not always perform the number of inventory test counts required by GSA's operating manual to verify the accuracy of general supply (for example, office supplies, paper towels, and paint) perpetual inventory records. As a result, GSA had less assurance than intended by the procedures that the inventory records were accurate. GSA's fiscal year 1986 consolidated financial statements reported $225 million as the actual inventories on hand. Our tests of the inventory disclosed no discrepancies that were material to the financial statements taken as a whole. Nevertheless, we believe that this situation represents a noncompliance with GSA's internal accounting controls that deserves management attention.

GSA's Inventory Surveillance Branch staffs, under the direction of the Federal Supply Service (FSS), are responsible for reviewing all aspects of the general supply inventory operations in the storage depots. These staffs, located in each GSA region that has a storage depot, conduct various periodic physical counts of the general supply inventory on an ongoing basis throughout the year and adjust the inventory records to reflect actual quantities on hand. At two of the three general supply storage depots we visited during our audit, we found that the required physical inventory counts were not always conducted in fiscal year 1986. As a result, some inventory items that should have been counted were not counted at all during the year. At one depot, only four inventory lot counts were conducted even though seven were required by GSA's procedures. At the second depot, a wall-to-wall locator screening, which was required because of the poor condition of GSA's inventory item locator records, was not performed.

The FSS Supply Operations Manual requires that the Inventory Surveillance Branch staffs conduct a 100 percent physical count of the items most sensitive to thefts each quarter. The most expensive items are to be counted every other quarter; and the 400 fastest moving inventory items are to be counted annually. The remaining lots of inventory items are required to be counted on a sample basis every 2 years. This manual also requires that the accuracy of the stock locator cards be tested each month and that a wall-to-wall locator screening be conducted within 30 days when the error rate of the locator cards exceeds 5 percent.

According to a GSA official, the required number of inventory counts was not conducted due, primarily, to the lack of available Inventory Surveillance Branch staff. The staff was often assigned to other work that was given a higher priority. This followed a trend GSA began earlier in fiscal year 1986 when it made across-the-board reductions in the frequency of inventory test counts.

Any reduction in the frequency of inventory counts should have a rational basis, such as a consistent demonstration of the reliability of the perpetual records through good inventory results, rather than staff shortages. These counts are instrumental in maintaining an accurate perpetual inventory record system. More accurate inventory records can result in many cost saving benefits (for example, less overstocking because of unlocated stock items, fewer delays in sales processing, fewer inventory research efforts due to warehouse refusals of orders because stock cannot be found, etc.) as well as more accurate financial reports.

Financial Transactions Should Be Recorded in the Proper Fiscal Year

GSA's controls and procedures failed to adequately ensure that all financial transactions were properly recorded in the general ledger accounts in the fiscal year they occurred. Transactions occurring near the end of fiscal year 1986, totaling nearly $23 million, were not recorded in fiscal year 1986 accounting records. At the end of fiscal year 1985, more than $36 million of such transactions had not been recorded in the accounting records. Although the amounts involved were not considered material to GSA's consolidated financial statements for either fiscal year 1985 or 1986, we believe they were significant enough to warrant management attention and corrective actions.

For example, we found that more than $9 million of inventory purchased near year-end was not recorded in the accounts until fiscal year 1987 when the receiving reports and invoices were received by the Office of Finance, even though the materials were delivered to GSA's supply depots in fiscal year 1986. This caused understatements by the same amounts in the accounts for inventory and accounts payable at year-end.

Similarly, we also found that direct delivery sales, where supply items are shipped directly from the supplier to the customer agency without going to the GSA warehouse, of more than $13 million were completed prior to fiscal year-end but were not recorded in the accounts until fiscal year 1987 because GSA had not received the vendor invoices by the cut-off date. This caused equal understatements in sales, accounts receivable, cost of sales, and accounts payable.

GSA's Comptroller Handbook specifies that accruals be recorded at the end of each month for transactions that have been completed, even when the vendor invoices are not on hand. In addition, title 2 of the Policy and Procedures Manual for Guidance of Federal Agencies requires that a liability be recognized and reported in annual financial statements for goods and services received. It further states that the liability shall reflect both invoices received and estimated amounts for invoices not yet received.

GSA is recording transactions improperly primarily because its year-end cut-off procedures are inadequate. Once the agency establishes a year-end cut-off date, only the transaction documents that are actually on hand as of that date are processed as the current year's business. All such documents arriving after the cut-off date are processed with the next fiscal year's business. This can result in improper matching and inaccurate reporting on the agency's operations for any given year.

We believe that GSA should adhere to its own and GAO-prescribed policies and take stronger measures to ensure that, at fiscal year-end, unrecorded financial transactions are accrued, as appropriate, and reported in the proper accounting period. The decision to give accounting recognition to a financial transaction should be based on whether the necessary event has occurred, not on the availability of required paper work.

Fleet Management Operations

Controls Over Credit Card Use Should Be Strengthened

At the time of our audits, GSA had little control over the use of credit cards it issues to users of its motor vehicles because it could not easily analyze credit card activity to detect improper usage. The credit cards are used to purchase fuels, lubricants, and supplies for the vehicles in GSA's rental fleet and to make minor repairs to those vehicles. Nearly all such purchases are made with credit cards and amounted to $73 million in fiscal year 1985 and $55 million in fiscal year 1986.

GSA's written procedures provide that its Fleet Management Centers and the Office of Finance are to review the reasonableness and propriety of purchases made. However, the system used to account for credit card use does not allow for a detailed analysis or review of credit card purchases. Specifically, the computerized credit card payment system could not break down the purchases by individual driver and vehicle, nor could it identify large or unusual charges in relation to a particular vehicle's usage, thus making it impractical to monitor credit card purchases on an individual card and car basis. As a result, the credit cards could be used to make unauthorized personal purchases with little likelihood of detection.

We believe GSA should develop monitoring procedures over charges incurred through credit cards and assign specific responsibility and accountability for investigating, resolving, and reporting on questionable credit card charges. These monitoring procedures should include an automated analysis of charges which would identify, on an exception reporting basis, abnormally high, questionable, or unusual items for further investigation and resolution. The automated analysis of credit card charges might include, among other things:

- an analysis of quantities of fuel purchased in relation to miles driven and fuel consumption data by vehicle type and
- a comparison of equipment purchases, such as for tires, with the vehicle's history of past purchases for like items.

For this control to be effective, GSA will also need to develop procedures and clearly affix responsibility for investigating and resolving any questionable purchases disclosed through the analysis of credit card charges. In commenting on a draft of this report, GSA noted that it had implemented procedures to analyze credit card usage by card and vehicle. GSA also said it would continue to attempt to obtain more detailed information on the magnetic tape invoices it receives from the oil companies. The controls identified by GSA were largely implemented after completion of our audits. We plan to test compliance with the procedures during our 1987 audit.

Accruals Should Be Estimated More Accurately

GSA had poor control over the process of estimating accrued expenses at the end of the fiscal year for fleet management operations. Actual invoice amounts paid after the fiscal year which related to expenses incurred during fiscal year 1986 exceeded the amount previously accrued by approximately $5.8 million.

In estimating the accrual, GSA uses a formula which consists of an average cost per mile times the actual mileage for 1 month. However, our testing revealed that it takes up to 3 months for contract service stations to forward invoices to GSA for goods and services provided, and an accrual for 1 month's mileage does not adequately reflect GSA's liability at year-end. We found that 100 percent of October, 94 percent of November, and 51 percent of December 1986 payments we tested were for goods and services provided in the prior fiscal year. Since GSA did not adequately estimate the year-end accrual for fleet management, several adjusting entries to the 1986 and 1985 statements were required to properly match revenues and expenses for the two fiscal years.

Title 2 of the Policy and Procedures Manual for Guidance of Federal Agencies requires accruals to account for goods or services actually received during a given period. Further, OMB recommends that agencies review estimated obligations to ensure that such obligations are not understated due to a delay in documentation.

We believe GSA should more accurately estimate the year-end accrual for fleet management. At a minimum, GSA should determine, based on past experiences, a standard percentage of first quarter payments which is applicable to the previous year. Once the percentage is determined, it should be applied to the October through December payments to determine the accrual for fleet management. It should also be updated from time to time to reflect the most recent information available.

In commenting on a draft of this report, GSA stated that in fiscal year 1988 a new accrual process was implemented which matches the accrual reduction amount to the value of the paid petroleum costs each month. GSA expects it will provide a more accurate measurement of petroleum costs.

Automatic Data Processing Services Operations

Agencies Not Promptly Billed for ADP Services Received

We found that controls in GSA's Automatic Data Processing (ADP) Fund were not adequate to ensure that customers were promptly billed for automatic data processing services provided through third-party subcontractors. In the absence of such controls, the risk exists that subsequent collections could become doubtful. We identified this problem as a material internal control weakness in fiscal year 1985. In fiscal year 1986, GSA made sufficient progress in correcting the problem that we no longer consider it to be a material weakness. However, additional corrective action is still needed.

This problem results from GSA not performing timely reconciliations of contract payments to customer billings. To date, efforts to reconcile previously unmatched contract payments to customer billings have resulted in special billings of over $2 million for payments made in fiscal year 1986 and over $11.7 million for payments made in fiscal year 1985. However, as of February 1987, contract payments of more than $40 million for fiscal year 1986 services and more than $8.9 million for fiscal year 1985 services remained unreconciled to customer billings.

Another cause of the problem has been GSA's inability to promptly reconcile the individual accounts comprising the unbilled accounts receivable to the amounts that are eventually billed to customer agencies. As a result of this condition, an adjustment of $4.1 million was required to reduce Teleprocessing Service Program receivables and related income as of September 30, 1986. This adjustment provided for a fair statement of unbilled accounts receivable and related income taken as a whole.

Current procedures and available documentation do not allow for timely reconciliation of the individual amounts comprising the unbilled accounts receivable to the amounts that are eventually billed. Furthermore, the analysis supporting the year-end adjustment (comparison of total expense accruals to total billings) is not an established analytical procedure utilized by management in reviewing the operations of the ADP Fund and, therefore, cannot be relied upon as an internal control.

GSA's Comptroller Handbook requires prompt billing of accounts receivable. Also, OMB's Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government require that accounts receivable be billed on a timely basis. We believe GSA should adhere to these requirements and bill all customers on a timely basis. Implementation of such a policy would reduce the potential that the funds will not be collected and reduce or eliminate large adjusting entries at year-end.

Adequate Documentation Needed To Support General Ledger Balances

Although the GSA Comptroller Handbook requires that written evidence be available for all transactions, GSA did not have adequate documentation to support all general ledger account balances. Clear and detailed documentation to support transactions is necessary to ensure that entries that comprise year-end balances are authentic. Moreover, proper documentation provides the evidence necessary to pursue collections of overdue accounts receivable. Adequate documentation also serves to explain the differences between account balances identified during reconciliations.

The following is one of several examples we found in the ADP Fund where account balances were not adequately supported with documentation.

- Chargebacks of Simplified Intragovernmental Billing and Collection (SIBAC) billings occur when a customer agency disputes the billing and advises Treasury of the perceived billing error for ADP services. When this takes place, the ADP Fund account with Treasury is "charged back" and GSA, in turn, records a receivable in its general ledger until the dispute is resolved. At the end of fiscal year 1985, the ADP Fund had $1.6 million in this account, apparently relating to prior fiscal years, which had not been reconciled with Treasury records and for which there was no supporting documentation. Furthermore, during 1985, another $1.4 million was charged back to the ADP account with Treasury but was not recorded in GSA's general ledger chargeback account. These chargebacks had not been rebilled or otherwise resolved as of year-end. During our review of GSA's 1986 financial statements, we identified additional chargebacks for $88,000 which had not been recorded in the general ledger account and $447,000 which had not been resolved.

We believe GSA's management should take appropriate actions to ensure compliance with its standard requiring that written evidence be available for all transactions.

Financial Reporting

Need To Reduce Errors When Consolidating Financial Statements

GSA made a number of errors in manually compiling its consolidated financial statements for fiscal year 1986. Additional adjusting entries were required at year-end to provide correct account balances for the financial statements. The more significant of these adjustments involved reducing accounts receivable and payable by $8.9 million to eliminate interfund transactions and balances that remained in the accounts. Also, several adjustments made to the fiscal year 1985 financial statements were not entered in the general ledger. As a result, these adjustments had to be made again to be properly reflected in the fiscal year 1986 financial statements. For example, a $6 million adjustment was made to the 1985 financial statements to record the contingent liability for expected losses resulting from potential settlement of legal claims and pending litigation against GSA. Since GSA did not record this entry in the general ledger, the 1986 financial statements had to be adjusted for these contingencies as well.

Title 2 of the Policy and Procedures Manual for Guidance of Federal Agencies requires that all intra-agency balances and transactions be eliminated during the consolidation process. This is necessary to remove the effects of the agency's self-dealings from the financial statements. Title 2 further states that in order for accounting information to be useful and reliable it must be reasonably free of error.

We believe one cause of the problems in consolidation was the lack of a well-organized, structured, and documented process with adequate guidance for personnel involved in consolidating GSA's financial statements. There were no written guidelines or instructions to aid those involved in the consolidation process. Nor was there adequate workpaper documentation of the process followed the prior year to aid in ensuring consistency in the application of accounting procedures.

In addition, we believe that the high degree of manual processing of financial data in the consolidation process was a primary cause of these problems. Although GSA's general ledgers are automated (NEAR system), it still uses manual processes to consolidate the financial statements. This involves compiling financial data for about 44 individual funds and accounts and identifying and eliminating the effects of intra-agency transactions.

With NEAR fully implemented, GSA now has the opportunity to automate the consolidation process. The NEAR system's documentation and GSA's Comptroller Handbook already require similar general ledger account codes and standard account definitions for all GSA funds, thereby making it feasible for the system to prepare consolidated data. Although the NEAR system is fully implemented, it still needs modifications to allow it to combine accounting information from the various funds' general ledgers through automated processes.

Until such system modifications are designed and implemented, however, the Office of Finance should consider using a microcomputer in its consolidation process. A number of microcomputer software applications are currently available which could be used. But, regardless of whether GSA uses automated or manual consolidation processes, it should take actions to strengthen its procedures for preparing the consolidated financial statements, including the following.

- Establishing a standard format requiring fund accountants to report trial balance and footnote amounts to the group consolidating the financial statements. This could include preparing a standard fiscal year-end reporting package which would include the desired format for the primary financial statements together with schedules to support the various amounts disclosed in the footnotes.
- Establishing a standardized form on which all consolidating journal entries would be recorded, described, and approved, with the source or supporting documentation clearly indicated.

Defining the information needs for the consolidation process would apply equally to either an automated or manual process. Although a manual consolidation process would accomplish GSA's consolidated reporting objectives, we believe that, ultimately, an automated process would be more accurate and efficient and provide a clearer trail for analysis of consolidated amounts by management and others.

Other Miscellaneous Areas

Accountability for Cash Balance in Receipt Funds Is Needed

GSA did not properly account for the balance of funds with the U.S. Treasury (cash) in its receipt funds. These funds (095X and 096X) account for proceeds from the sale of surplus real property. The general ledgers for those funds did not reflect the cash on hand at Treasury at the end of fiscal year 1986. Instead, they reflected current year cash activity. Cash activity in these funds from prior years had been deleted from the accounting records. Consequently, when consolidating the financial statements, GSA was unable to reconcile the cash and, therefore, reported the Treasury cash balances for the receipt funds.

Title 2 of the Policy and Procedures Manual for Guidance of Federal Agencies specifies that an agency's financial statements shall be the culmination of its systematic accounting process. Title 2 further identifies reliability as a major qualitative factor that enables accounting information to be useful. GSA cannot readily determine the accuracy and reliability of the cash it reports for these receipt funds if it does not keep track of the balance.

We also found that, in addition to the cash balance, the amounts GSA reported for equity of the U.S. government and income in its fiscal year 1986 consolidated financial statements for the receipt funds were not supported by the general ledgers. The cash and equity of the U.S. government accounts on the general ledgers exceeded the amounts reported in the consolidated financial statements for the receipt funds by $17 million. Income differed by more than $300,000. These differences were not reconciled or adequately explained.

According to a GSA official, the general ledger cash accounts for the receipt funds were closed out to equity of the U.S. government at the end of the fiscal year. Therefore, the general ledger cash accounts at year-end reflected only the current year's collections and adjustments. As a result, for the cash and other line items mentioned in the preceding paragraph, there was no meaningful relationship between the amounts reported in GSA's consolidated financial statements, which were derived from the Treasury cash amounts, and the account balances recorded in the general ledgers for the receipt funds.

The above treatment was adopted, according to the same GSA official, because the cash in receipt funds is normally transferred or closed out to Treasury at the end of each fiscal year without any action on the agency's part. We do not believe that this policy is applicable to the receipt funds in question because the Administrator of GSA controls the amount of the year-end transfers made from these funds to other funds. In addition, the entire cash balance is not always transferred, so a balance remains. At the end of fiscal year 1986, for example, Treasury reported a balance of $45.5 million for the receipt funds.

We believe that GSA should establish the necessary controls and procedures to properly account for the cash in the receipt funds and to safeguard it against loss or misappropriation. Further, we believe that the general ledger should provide the primary support for the financial information that is reported in GSA's financial statements as required by generally accepted accounting principles for federal agencies contained in title 2.

Ledger Balance Should Be Reconciled to Supporting Subsidiary Records

GSA's general ledger balances were not always fully supported by detailed subsidiary records. Specifically, the accounts receivable balances recorded in the general ledgers (and reported in the financial statements) for some of the general funds at the end of fiscal year 1986 were not adequately supported by the accounts receivable subsidiary records. We found significant differences between the two which had not been reconciled or otherwise resolved at year-end. The differences were material to the individual funds' financial statements although not to GSA's consolidated financial statements.

We identified this problem as a material internal control weakness in our audit report on GSA's fiscal year 1985 consolidated financial statements (GAO/AFMD-86-55, June 11, 1986). The problem was widespread in fiscal year 1985 and affected several major funds such as the Federal Buildings Fund, National Defense Stockpile Transaction Fund, Federal Telecommunications Fund, and Automatic Data Processing Fund. The problem was corrected in these major funds during fiscal year 1986; however, it still remains a problem in several of the general funds. In one fund, we found that the general ledger had a receivable debit balance of nearly $11 million, while the supporting subsidiary ledgers had a credit balance of nearly $10 million. GSA subsequently determined that the subsidiary records were in error because they had not been kept up to date.

OMB's Financial Management and Accounting Objectives state that a receivable subsidiary record should be established, when the act entitling the agency to collect amounts owed has occurred, and maintained on a current basis. GSA's own Comptroller Handbook requires that reconciliations between the general ledger and subsidiary records be performed periodically and that adjustments be made, if necessary, to bring these records into agreement.

We believe that GSA should strengthen controls over the processing of accounting information in the general funds. It should establish procedures to ensure that subsidiary records are accurately maintained and are periodically reconciled to the general ledger control accounts. The subsidiary records should be maintained in sufficient detail to allow for verification and any needed follow-up of accounts receivable.

NEAR System Controls Need To Be Improved

The NEAR system does not have sufficient controls to ensure that all transactions are processed through the system beyond the point in the system where the transactions are allocated to the various funds. At present, the system has no single management report or automated mechanism to fulfill this function. Neither does it have the capability to identify missing or delayed documents within the obligation-accrual-payment process. For example, when GSA has processed a purchase order and has received a vendor invoice but has not yet been furnished with a receiving report, there is no automated mechanism to notify agency officials of the missing document.

Without control totals for the fund data bases, it is not possible to perform an overall reconciliation of system inputs and outputs. Such a reconciliation is an important and effective means to detect errors in data entry as well as to determine whether all data were processed.

OMB's Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government require adequate edit checks to ensure accurate, proper, complete, and timely entry of information into an automated data processing system. One such edit check might include identifying missing or delayed documents. Such an edit check would facilitate identifying the reasons for delayed receipt of goods and services as well as for delayed payments and thus facilitate timely follow-up and resolution. In the absence of this type of control, there is a greater risk that payments will not be processed in a timely manner and that errors in the obligation, accrual, and expense accounts may go undetected.

We believe GSA should include in the NEAR system a summary management report that would clearly identify the total number of transactions entered into a financial cycle and the total number of transactions produced by a financial cycle. This control mechanism should extend through the fund splitter and to the allocation to the appropriate fund. In this manner, a reconciliation of system inputs and outputs could be performed and any data entry errors could then be corrected. An example of this type of reconciliation might include obtaining a summary transaction count for all input transaction reports for a particular financial cycle which could then be balanced against the total of the summary transactions from the comprehensive edit report plus the additions to the comprehensive edit error listing.

We also believe GSA should consider implementing a control within the NEAR system which would identify any missing obligation, accrual, or payment documents (that is, purchase orders, receiving reports, or vendor invoices). Individuals, either in the Office of Finance or in the services, should then perform follow-up procedures, determine why the document is missing, and resolve the problem.

Certain Financial Management Practices Need Improving

Financial management practices are those decisions, procedures, and actions which affect the overall financial management structure of a particular entity. Financial management practices that GSA needs to improve are those which lead to the efficient use and management of GSA's automated data processing resources and general supply inventory.

Data Processing Operations Need To Be Improved

Many inefficiencies exist in GSA's ADP operations which can add unnecessary costs to its operations. In particular, the NEAR system, GSA's automated accounting system, has been plagued by such problems as data redundancy, cumbersome file updating and systems maintenance, and manual scheduling of NEAR system module processing (a difficult and time-consuming requirement).

The NEAR system is an automated, agencywide accounting and financial reporting system which processes budget-oriented data as well as financial accounting data and produces summary financial reports for each of GSA's numerous funds. Although NEAR is commonly referred to as a single integrated system, it is in fact an amalgamation of several diverse subsystems or modules, many of which have their own data files, data input, and processing programs to update their respective data files and provide information for users. This diversity evolved as new modules were added to satisfy users in GSA units who had an increasing need for financial information.

Inefficiencies we found involving the NEAR and other ADP systems follow.

- Data redundancy: similar data are maintained in many different files both within the NEAR system and between NEAR and other systems. For example, similar data are both entered and maintained in two separate data files for motor vehicle transactions and usage by the Office of Finance in its Transportation Interface and Reporting System and by the Federal Supply Service in its Fleet Management System. Also, similar data are entered and maintained in two separate data files for real property transactions and inventory balance by the Office of Finance in its Real Property Accounting and Depreciation System and by the Public Buildings Service in its Information System.

- Cumbersome file updating and systems maintenance: when changes occur in a data item, every file containing those data must be individually updated to reflect the change. Further, systems enhancements necessary to meet additional management information needs may require that several modules be modified.
- Manual scheduling of module processing: the significant number of NEAR system modules has made it increasingly difficult and time-consuming to manually schedule the frequency and sequence to process each module.

GSA has clearly accomplished much in centralizing its data processing functions and in improving its ability to provide the information needed by its top management and operations personnel. However, as these functions have grown in size and complexity to meet increased information needs, the need to ensure that data processing operations are being managed efficiently and economically has also grown. Accordingly, as future systems enhancements and improvements are being contemplated, we believe GSA should consider developing a comprehensive top-down methodology, under which the overall information needs of top agency management and of service personnel are concurrently addressed. In many cases it may be possible for different activities and different levels of agency management to share the same data bases by combining data accessed by NEAR modules with those of other systems into single data bases, particularly where the data are similar. Currently available off-the-shelf data base programs should also be considered as alternatives to developing new systems.

GSA Should Consider Using Standard Costs

GSA should consider using standard costs in valuing its general supply inventories. Currently, GSA uses the moving-average method of inventory valuation. Under this method, the per unit price paid for an inventory item is updated each time a new acquisition is made. Sales are charged off at the average cost per unit at the time of sale. The unit cost of inventory items can fluctuate significantly during the year as purchase prices change. Thus, sales of any such items and the related cost of sales would be similarly affected. The fluctuating costs are generally hidden in inventory.

Under a standard cost system, items are included in inventory and sales charged off, at a standard cost, which could be determined by inventory managers as the price they expect to pay during the year. Cost differences from the standard are identified as variances so that they are readily apparent to managers attempting to control them.

Sound management principles dictate that inventory costs be closely monitored. Monitoring allows management to identify costs that are getting out of hand and to make the necessary adjustments to bring them into line.

We believe that GSA should consider using a standard cost system to provide management the opportunity to keep track of cost variances as they occur. Such a system would help management identify the steps needed to bring controllable costs into line and to develop a strategy for dealing with costs the agency cannot control.

Comments From the General Services Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

General Services Administration
Washington, DC 20405

NOV 13 1987

Dear ~~Mr.~~ Fred Wolf:

Thank you for the opportunity to comment on the subject review findings and recommendations. By mutual agreement several findings were removed from the draft report. We agree with all the remaining findings except for the following:

See comment 1.

Page 16

Now on page 13.

GAO Finding: Silver Should be Periodically Verified.

GSA Response: We disagree with this finding. Quality maintenance inspections (QM's) are conducted at least twice a year and computation by count where possible is made. These inspections do not involve sampling of the commodity. Sampling is performed on selected commodities included in the Commodity Quality Assessment Program which is separate from the semiannual QM"s.

As part of the quality maintenance inspections, GSA personnel check the seals on each on the vaults and check to determine that the seals have not been tampered with and that the silver has not been disturbed. The vaults, seals, and position of the silver are verified at least every six months by both a quality assurance specialist and a storage specialist working together.

In 1983 a verification and count representing almost three years of audit effort based on U.S. Mint criteria was performed on the silver stockpile at West Point, N.Y. No discrepancies were discovered. Moreover the purity and weight of the FPRS silver inventory has been continually attested to and certified by the U.S. Assay Office. Our records also indicate that silver does not decompose or shrink while in storage.

The draft report states that silver is by its value and nature susceptible to theft. We are in agreement with this generic statement which does not take into account the storage facility and precautions which have been taken over the years. Other agencies (Secret Service/Treasury-Mint) will attest to the physical protection afforded all commodities at their Depositories. In addition, the established checks and balances with joint GSA/U.S. Mint control and the factual results of check weighing and assays result in assuring that the inventory is correct.

GSA sold silver in 1981 and executed loan transfers in 1985 each time verifying the weights and melt numbers with the records. During the silver sales in 1982 -83, 1,840,555 fine troy ounces of silver (1,784 bars) were delivered to purchasers without receipt of any complaints as to weight or purity deficiencies. In addition, since 1985 GSA has been selling silver to the U.S. Mint, Department of Treasury for the silver coinage program. The Mint has accepted the material by the assays and the weight of record. The melt numbers have been verified by our own staff. To date 22 percent of the silver inventory has been released for loan transfers, sold or transferred to the Mint for coinage programs.

At the present time the Mint indicates to us that there are no empty vaults available at either West Point or San Francisco into which the silver can be moved and inventoried. The silver is so stacked in the vaults that an accurate inventory by count and computation is impossible to perform without available vaults to relocate the silver. Rows and stacks do not have the same number of bars and in several places the bars are cross stacked to stabilize the stack. Since the security provided by the U.S. Mint at West Point and San Francisco Depositories is specifically designed to preclude the unauthorized removal of metals, resampling, testing and weighing of this material cannot be justified. Therefore, without the additional vault space, manpower, and funding an inventory is not feasible or practical at this time.

Now on page 15.

Page 21

GAO Finding: Perpetual Inventory Verification Should be Done More Frequently.

See comment 2.

GSA Response: We agree with the intent of this issue, however, it should be clarified that GSA employs an inventory by the statistical sampling program of lots, requiring that only three of ten lots receive a complete count every year and that the remaining seven lots are sampled every two years. In addition GSA has redirected its efforts to become more preventive in the protection of inventory as a result of confirmed thefts in the Franconia facility. Each facility is required to perform daily selector and shipping accuracy checks in lieu of monthly checks.

It is incorrect to state that a wall-to-wall inventory count is required when the locator file is in poor condition. If the monthly locator sample indicates that the locator is out of tolerance, a wall-to-wall locator screening is required.

Now on page 17.

Page 23

GAO Finding: Financial Transactions Should be Recorded in the Proper Fiscal Year.

GSA Response: We disagree with this finding. GAO has already agreed that the amounts identified were not material and, therefore, did not require an adjustment to the financial statements.

The annual year-end closing instructions issued by the Office of Finance allow fund managers to contact Finance by telephone when circumstances do not permit documentation to be submitted by the due dates. Every effort is made to ensure that all transactions are recorded in the proper fiscal year, however, considering the volume of transactions processed by GSA it is not reasonable to expect that every transaction will be submitted to Finance in time to be recorded. These items, if material, are worksheeted to the annual financial statement.

Now on page 19.

Page 28

GAO Finding: Accruals Should be Estimated More Accurately.

GSA Response: Commencing with FY 1988, a new accrual process was implemented. This process leaves a petroleum accrual of 2 1/2 months as an accounts payable at all times. It matches the accrual reduction amount to the value of the paid petroleum costs for each month, and will be a more accurate measurement of petroleum costs.

Now on page 26.

Page 41

GAO Finding: NEAR System Controls Need to be Improved.

GSA Response: GAO contends that controls do not exist from the fund splitter through each of the fund data bases. We disagree with this comment. As part of our preparation for yearend closing we execute a process to balance the open items and general ledger files by fund/appropriation identity to the corresponding service data base file. Any differences between the files are highlighted and transactions are entered into the accounting system to bring the files back into balance. In our opinion the weakness identified is not accurate considering the annual balancing of files.

We also disagree that a control within the NEAR system is required to identify any missing documents. There are three different controls to insure that documents are not missing. The first is the transmittal control. All obligating documents must be sent to Finance using a transmittal document. The transmittal is accomplished in two copies, describes each document being received, and contains a total count of documents sent. Once received in Finance the documents are checked against the transmittal and, if in agreement, a copy of the transmittal is signed and returned to the submitting office. The second control is the Accounting Control Transaction (ACT) number. Each original obligating document sent to Finance must contain this computer generated label which is identified to the originating office. During systems processing the ACT number on the transaction updates the ACT number master to indicate that the label has been used. Each month the fund manager receives a report which reflects ACT numbers that appear to be missing because numbers after this label have been processed through the system. The final control is the NEAR action codes. The action code defines the open items matching criteria. For example, a receiving report transaction is input with an action code "A1" (accrued previously obligated).

If the system finds that the undelivered order has not been processed the accrual transaction to record the receiving report is rejected. Additionally, the fund manager receives an open items report for their organization monthly which reflects for each ACT number active in the system the balances for commitments, undelivered orders, accruals and payments.

Now on page 28.

Page 44

GAO Finding: Data Processing Operations Need to Be Improved.

GSA Response: We disagree with this identified weakness. The NEAR system contains many diverse functions as dictated by the mission of the agency. We believe that a modular and/or interface subsystem is the best approach to develop and maintain such diverse functions. A module which contains a program and related files of a logical system process allows for orderly change and development of the system without interruption of unaffected modules.

We believe that some data redundancy is appropriate to insure that data passed to NEAR from other systems is subjected to tighter edits, thus preventing inaccurate reporting of financial events.

Manual scheduling of modules provides an efficient method for monitoring system processing and the flexibility to perform concurrent processing. Concurrent processing is used during peak hours to maximize system resources, particularly at month end.

Sincerely,

RAYMOND A. FONTAINE
COMPTROLLER

Mr. Frederick D. Wolf
Director, Accounting and
Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Additional GSA Response Provided November 25, 1987

Now on page 18.

Page 26

GAO Finding: Controls Over Credit Card Use Should be Strengthened.

GSA Response: When developing this recommendation GAO did not appear to fully consider internal control techniques used by GSA to preclude misuse of credit cards. The following are examples of these control techniques:

1. The automated system used to process credit card invoices identifies any charge against a credit card which is reported lost, stolen or expired. The system produces a listing of all such charges by credit card account number for distribution to the appropriate Fleet Management Center (FMC). The FMCs review the listing, report any unauthorized use of the credit card to the Finance Division in Kansas City, Missouri, and refer the matter to the Office of Inspector General. GSA also provides all contractors under contract with the Defense Fuel Supply Center with a list of credit cards that are reported lost or stolen.

2. The FMCs are provided with a microfiche report, sorted in credit card number sequence, listing all monthly charges against a credit card. The listing provides the FMC with a convenient method for reviewing and analyzing all charges against a particular credit card.

3. GSA requires that credit card users receive prior approval for all charges exceeding $50. At the time the purchase is being approved the vehicle record is reviewed by the approving official to determine the vehicle's maintenance and repair history. If the vehicle history reveals charges for the same type of maintenance or repair work, the approving official can deny approval or question the need for the work.

Although we agree that it would prove beneficial to display more detailed information on our reports, the oil companies with whom we do business are unwilling to cooperate in this area. They have consistently resisted making any changes to the magnetic tape invoices we receive from them. GSA will, however, continue to pursue expanding the level of reported information with the oil companies.

Now on page 22.

Page 33

GAO Finding: Need to Reduce Errors When Consolidating Financial Statements.

See comment 3.

GSA Response: We disagree with references made to one of the significant adjustments made to the financial statements. The adjustment reducing sales and cost of sales by $147.5 million was purposely withheld from the elimination figures provided to GAO because of our concern that the amount could be erroneous. A comparison with the previous year showed such a material change that we decided to omit the $147.5 million until we had an opportunity to verify the amount with the Region 6 Finance Division. GAO did identify that the $147.5 million had been omitted, however, we would have adjusted the total anyway once Region 6 verified the amount involved. This situation was explained to GAO upon submission of the initial amounts.

We agree with the remainder of the finding and recommendation as stated.

Now on page 24.

Page 37

GAO Finding: Accountability for Cash Balance in Receipt Funds is Needed.

See comment 4.

GSA Response: We would prefer that the following sentences be stricken from your report. "Strict controls over cash resources are required by sound financial management principles in order to properly safeguard such a vulnerable asset. Lack of accountability can lead to theft or misappropriation of funds." We feel that these statements are inappropriate. GSA's existing controls over cash for all funds, including receipt funds, sufficiently guards against theft or fund misappropriation. The Office of Finance employs a strict segregation of duties between employees who have custody of cash receipts and those who account for them. Persons handling cash receipts do not have access to, or have authority over, accounts receivable records, nor are they permitted to prepare cash reconciliations or key transactions into the accounting system (generating subsidiary and general ledger accounts records).

Now on page 29.

Page 47

GAO Finding: GSA Should Consider Using Standard Costs.

GSA Response: We disagree with the finding. GAO suggests that GSA's current use of the moving average method of inventory valuation conceals fluctuating costs and consideration should be given to using standard costs in valuing general supply inventories.

Under the moving average method a new unit cost is computed after each purchase and issues are priced at the latest average unit cost. It is assumed that costs should be charged against revenue according to the average unit costs of the goods sold. The same average unit costs are used in determining the value of the remaining inventory.

While it is acknowledged that standard cost is a management tool to measure variances in costs, the benefits derived are lost when applied to a retail operation with no significant controllable costs.

Generally accepted accounting principles state that in selecting an inventory cost method, the primary objective is the selection of the method that under the circumstances most clearly reflects periodic income. Costs may be determined by specific identification or by the association of the flow of cost factors. Average costs is one of the acceptable methods.

Therefore, it is our position that we retain the current method of inventory valuation.

The following are GAO's comments on the General Services Administration's letters dated November 13, 1987, and November 25, 1987.

GAO Comments

1. At our request, on November 25, 1987, GSA provided comments on those findings in our draft report that it did not discuss in its November 13 letter. Those findings and GSA's comments are included in this final report.

2. The final report has been clarified to reflect GSA's comments.

3. It was not clear to us that GSA was attending to the matter of the $147.5 million adjustment. Finance officials did not mention it to us during the period of several weeks from the time we initially became aware of the need for the adjustment until the meeting where we presented our final audit adjustments. Nevertheless, as discussed in the text of this report, there were other examples of errors made in consolidating the financial statements, and we believe the point is valid. We have, however, removed this example from the final report.

4. We have deleted the sentences, referred to in GSA's November 25, 1987, letter, from the final report as being irrelevant to the point of accounting for the balance of cash in the U.S. Treasury in the receipt funds. Cash in the U.S. Treasury is of low risk in terms of access, but the way GSA accounts for the balance raised the issue of lack of accountability.

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