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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION



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DEC 30 1970

Dear Dr. McElroy:

We have made a review of financial records and procedures for the purpose of settlement of the accounts of the certifying officers at the National Science Foundation (NSF) through June 30, 1970. Our review was directed primarily toward an evaluation of the effectiveness of the financial management system under which NSF's accountable officers are carrying out their responsibilities.

We made such tests of financial transactions as we considered appropriate under the circumstances, including examination of disbursement vouchers; verification of imprest fund cash balances; review of travel procedures, mailroom operations, and property management; and reconciliation of statements of transactions and balances shown on U.S. Treasury books. Our work did not include a detailed examination of payrolls and related transactions nor a test of the current payroll procedures pending the conversion of NSF's payroll to its data processing system, which is currently in process.

Our review disclosed certain weaknesses in procedural matters which we believe merit your attention. These matters were discussed with appropriate NSF officials and consideration has been given to their comments in this report. Our findings and recommendations are presented below for your information and appropriate corrective action.

NEED FOR IMPROVED ACCOUNTABILITY OVER PROPERTY

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Our review showed that NSF's procedures and practices for controlling property did not provide readily for accurate, timely, and current accountability for serially-numbered equipment such as typewriters, adding machines, and calculators.

NSF's property system was designed to provide a perpetual inventory of its property. NSF's instructions for maintaining accountability and control of property require that a record be maintained for each item of serially-numbered equipment showing, among other things, the assigned location of the item. However, the instruction did not provide for prompt reporting of the relocation of such equipment so that the property records can reflect the new location.

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NSF's inventory records for serially-numbered equipment showed that, on the basis of its latest annual physical inventory taken in April 1970, NSF had on hand 679 typewriters, including electric and manual types, and 280 adding machines and calculators. In July 1970 we made a test of the property records for 111 typewriters and 40 adding machines and calculators and found that 56 typewriters and 25 adding machines were not located in the offices indicated on the property records.

We brought this matter to the attention of the Supply and Maintenance Officer. He advised us that NSF personnel were not required to notify his office when equipment was relocated from its assigned location and that a physical search involving considerable effort would be required to determine the location of all the equipment which we were not able to locate. He agreed, however, to try to locate 10 of the unlocated items. After a physical search, nine of the items were located. One adding machine which had cost about \$200 could not be found and was subsequently declared lost or stolen.

The Supply and Maintenance Officer advised us that several NSF offices had moved their physical location at about the time of our test, which probably was the reason that a large number of property control records were not current. He said that NSF was developing a computerized property control system which was expected to further strengthen its control over property by providing an accurate and current record of the property location.

#### Recommendation

We recommend that, until such time as the computerized property control system becomes operational, NSF implement procedures to assure that its property control records show the current location of NSF-owned property.

#### IMPREST FUND SHORTAGE NOT SETTLED

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An unannounced cash count of NSF's imprest fund by the NSF Audit Office on June 30, 1969, disclosed a shortage of \$529.15. Our review showed that this loss had not been settled as of December 18, 1970, and that NSF had not vigorously pursued its settlement. At the time of the disclosure of the shortage, the total amount authorized for the imprest fund was \$1,000 but was subsequently increased to \$3,000.

As a result of this shortage, the Audit Office reviewed the procedures and practices regarding the operations of the imprest fund. The resultant report noted that, in accordance with pertinent Treasury Department regulations, the matter was reported to the Chief Disbursing Officer, U.S. Treasury, and the Secret Service. The report also pointed up

the need for strengthening controls in several areas in the operations of the imprest fund. Pursuant to recommendations in the audit report, NSF has taken certain measures to reduce the possibility of similar irregularities and to strengthen control over the administration of the fund.

An Audit Office diary note dated September 9, 1969, on its follow-up of actions taken regarding the fund shortage, states that NSF had demanded that the cashier, who was relieved of all cashier duties and subsequently resigned, make restitution of the cash shortage. At the advice of an attorney the cashier has not complied with the demand and, consequently, NSF decided to seek recovery of the shortage through the surety bond which covered the cashier.

NSF, however, did not request reimbursement of the loss under the bond until December 5, 1969, about 5 months after the loss was discovered. On December 11, 1969, the bonding company requested NSF to furnish certain additional information relating to this matter, but NSF did not comply with the request until April 6, 1970, about 4 months later. NSF records which we examined showed that, since April 1970, NSF's only follow-up of its claim with the bonding company was on September 23, 1970.

#### Recommendation

To assure that the financial interests of the Government are adequately protected, we recommend that NSF take more aggressive and effective action for the settlement of the shortage in its imprest fund.

#### CONTROLS OVER COLLECTIONS NEED STRENGTHENING

An important element of effective internal management control over cash collections is the prompt recording of all collections at the point of receipt. Such a record could be reconciled with the accounting records to assure that all collections are properly recorded in the accounts and promptly deposited in the Treasury. We noted that NSF does not follow such a practice for collections received through the mail, which in fiscal year 1970 totaled about \$3 million.

NSF's "Standard Administrative Procedure No. 7" dated October 9, 1970, sets forth the procedure for handling monies received through the mail. This procedure provides that the mailroom open and examine all incoming mail not addressed to a specific person or office and forward all monies contained therein to the NSF Cashier, except for monies received for the purchase of publications. Monies for publications, together with accompanying correspondence, are forwarded to the Government Printing Office for fulfillment of the purchase request.

The procedure provides also that all specifically addressed incoming mail is to be delivered to the addressee unopened. For the convenience of the addressee, however, mailroom personnel may "machine slit" the envelope but not examine its contents. Mailroom personnel advised us that, except in cases where addressees have made a specific request that their mail be forwarded unopened, all specifically addressed mail is machine opened. Monies contained in specifically addressed mail are forwarded to the NSF Cashier by the addressees.

As a rule, no record is made of collections at the time the mail is opened by either the mailroom or the recipient office. The NSF Audit Office in its "Report on Funds Remitted to the National Science Foundation, September 1967," recommended that, in view of NSF's mailroom procedures, each NSF division or office receiving mail having remittances of any description designate an employee to be responsible for maintaining a daily record of funds received at the time the mail is opened.

This recommendation had not been implemented and we discussed the matter with the Financial Management Officer. He advised us that he had no evidence that remittances had been misappropriated. He stated, however, that he would further consider the need for improvement of NSF's procedures and practices for control over collections.

We believe that effective internal management controls should be based on procedures that are designed to minimize the occurrence of irregularities by providing a complete and accurate record of receipts and deposits.

#### Recommendation

We recommend that NSF require that all receipts received through the mail be recorded at the time the mail is opened either in the mailroom or program office.

#### LOST OR STOLEN DISBURSEMENT CHECKS

We found that during the period January 1, 1967 to June 30, 1970, 96 NSF disbursement checks totaling about \$36,000 were lost or stolen. These checks were primarily for salaries, consultant fees, and fellowship stipends. NSF Financial Management Office officials advised us that some of these checks had been cashed by unauthorized persons.

Most NSF checks for salaries, consultant fees, and fellowship stipends are mailed by Treasury. However, the NSF Cashier advised us that certain of the lost or stolen checks were mailed by NSF. For example, eight lost or stolen checks for payment of consultant services dated May 27, 1970, totaling \$5,359.20 were identified by the cashier as checks mailed by NSF.

The usual procedure followed by NSF for mailing checks is for the cashier to seal the checks in window-type envelopes and hand carry them to the mailroom. There the checks are sorted, bundled, and bagged with other mail and carried to the loading dock. We observed that on several occasions mail bags were left unattended on the loading dock until they were picked up by a mail truck. We believe that NSF should exercise greater care over the mailing of Government checks to minimize the possibility of their loss or theft.

The NSF Financial Management Officer advised us that many of the lost checks represent payments for consultant services and that NSF has revised its procedures so that all such checks will be mailed by Treasury. Also, we were advised by the NSF Cashier that most fellowship stipend checks are now being mailed by Treasury. However, NSF will continue to mail some checks for salaries and other purposes.

Recommendation

We recommend that NSF review its procedures and practices for mailing checks and make such improvements as warranted to provide maximum assurance against the loss or theft of Government checks disbursed through the mail.

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In accordance with General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (8 GAO 12), the records of the financial transactions of the National Science Foundation through June 30, 1970, may be transferred to the Federal Records Center for storage, consistent with the Foundation's approved fiscal records management program.

We acknowledge the cooperation and courtesies extended to our staff during the review. Your comments as to any actions taken or planned on the matters discussed in this report will be appreciated.

Sincerely yours,

Lloyd G. Smith

Lloyd G. Smith  
Associate Director

The Honorable William D. McElroy  
Director, National Science Foundation



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