109424

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

LM109424

DIVISION OF FINANCIAL AND GENERAL MANAGEMENT STUDIES

MAY 21, 1979

B-183363

The Honorable Ray Marshall
The Secretary of Labor

Dear Mr. Secretary:

This report contains the results of our survey of accounting controls over revenue and expenditure transactions of accounting stations in the 10 regions of both the Employment and Training Administration (ETA) and the Office of the Assistant Secretary for Administration and Management (OASAM). AGC 00492 DLG01633

We identified potential weaknesses in the accounting systems of both organizations. Essentially, the weaknesses were related to controls over collections, accounts receivable, government transportation requests, travel advances, imprest funds, disbursements, and obligations. In many instances, control procedures that were specified in our Policy and Procedures Manual for Guidance of Federal Agencies and which were included in your system design that the Comptroller General approved in October 1972 were not in use. The details of weaknesses identified at the accounting stations are discussed in enclosure I and listed by location in enclosure II.

Most weaknesses we noted related to control deficiencies within specific regional offices. However, we also noted three problems adversely affecting controls of regional offices' financial management activities that required actions by the headquarters office, as described below.

--ETA had not implemented procedures to systematically record receivables resulting from audit exceptions. Our Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO § 12.4) requires agency officials to accurately and promptly record accounts receivable as they are generated. The failure of ETA to do this was previously noted in our October 1978 report, "More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved" (FGMSD-79-3).

109424

Letter Report

~~005353~~

109424

FGMSD-79-29
(906310)

--Most ETA accounting stations had not been audited within the past 3 years, even though internal audits are a key element of internal controls. Labor regional audit officials indicated that they emphasized major programs and activities that account for the largest expenditure of funds, such as grantees and contractors. While recognizing the merit of this emphasis, we believe that the audit of ETA should provide adequate coverage of internal financial operations as required by the Budget and Accounting Procedures Act of 1950 (31 U.S.C. § 66a). This position was also taken in our June 1976 report, "Need for Greater Audit Coverage Of Internal Financial Areas" (FGMSD-76-67).

--The Department had not adequately updated its Financial Management Manual, particularly the section on internal controls (DLMS 6-900). For example, as of November 1978, Labor had not updated its manual to include guidelines the Department of the Treasury specified in March 1978 for use in establishing effective cash management practices. These revised guidelines should have been published by September 1978. Without the revised guidelines, commercial invoices were not always paid within the time frame specified by the Treasury.

The above problems have contributed to many deficiencies in accounting controls which we identified at the regional offices. Therefore, we believe that your office should take prompt action to have them corrected.

As to the potential weaknesses identified at the regional level, we discussed them with officials at the accounting stations we reviewed and they promised to take positive corrective action. Because of this, we are not making any formal recommendations at this time but are providing you with details of the weaknesses to help you in discharging your responsibilities under the Accounting and Auditing Act of 1950 (31 U.S.C. § 66a). As you know, that law requires agency heads to provide effective controls and accountability over all funds for which they are responsible.

For your information, we evaluated the accounting controls using questionnaires designed to identify potential problem areas. The questionnaires were the basis for our interviews and discussions with responsible officials. When responses to questions indicated potential weaknesses in financial controls, we tested selected transactions to determine whether the weaknesses actually existed. But we limited our work to identifying weaknesses in internal controls and did not attempt to establish either the extent of the weaknesses or the precise corrective actions needed.

We are sending copies of this report to your Office of Inspector General. Although we are not making any formal recommendations, we would appreciate being informed in writing of the corrective actions taken on the specific control weaknesses discussed in this report and its enclosures.

We appreciate the courtesies and cooperation extended to us by your staff.

Sincerely yours,

D. L. Scantlebury

D. L. Scantlebury
Director

Enclosures

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT ACCOUNTING STATIONS OF THE EMPLOYMENT AND TRAINING ADMINISTRATION AND THE OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION AND MANAGEMENT

As required by the Accounting and Auditing Act of 1950 (31 U.S.C. § 66a), the head of each executive agency should establish and maintain a system of accounting and internal control for all of the agency's assets. Our survey evaluated controls at accounting stations in 10 regional offices of both the Employment and Training Administration (ETA) and the Office of the Assistant Secretary for Administration and Management (OASAM). The survey disclosed that:

--Collections were inadequately controlled at many ETA and OASAM offices; they were not properly logged in, adequately safeguarded, or promptly deposited.

--Receivables from grants were improperly handled at several ETA offices; the grants were not promptly closed, properly recorded as accounts receivable, or collected in a timely manner.

--Government transportation requests were ineffectively controlled at some ETA and OASAM offices; they were not adequately safeguarded or periodically reconciled to accounting records.

--Disbursements were made in some ETA and OASAM offices without complying with established procedures; the supporting vouchers were not preaudited or adequately documented; and appropriate discounts were not always taken.

--Obligations were not properly controlled at several ETA and OASAM offices; they were not adequately supported, periodically reviewed, or promptly recorded.

--Imprest funds were not properly handled at several OASAM offices; they were not properly accounted for, adequately safeguarded, or periodically verified.

--Travel advances were not properly controlled at some OASAM offices; they were not periodically reviewed or analyzed to recover outstanding advances.

--Internal audit coverage was inadequate in most ETA offices.

--The Department of Labor's accounting procedures manual was not being used by some ETA offices.

The above weaknesses existed at one or more regional offices we visited. The schedules on pages 13 and 14 summarize specific weaknesses found at each office. The details of the weaknesses follow.

NEED TO IMPROVE CONTROL OVER COLLECTIONS

Our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO §§ 11, 12.2) provides standards to be followed by Federal agencies in controlling fund collections. As specified in the manual and emphasized in the Department of Labor's Financial Management Manual, agency collections should, upon receipt, be placed under appropriate accounting controls and deposited promptly in an authorized depository. As discussed below, some ETA and OASAM accounting stations did not properly control and promptly deposit collections.

Collections not logged in and adequately safeguarded

Appropriate accounting controls should, among other things, provide for collections through the mail to be logged in by the person opening the mail and properly safeguarded until deposited. These controls were not being exercised at many ETA and OASAM regional offices we reviewed.

For example, at six ETA and five OASAM offices, the employees opening the mail did not immediately record or otherwise account for collections upon receipt. At five of the offices in each agency, receipt documents did not accompany checks forwarded from one processing point to another. The logs for controlling transfers in the other ETA offices were, in some instances, incomplete and inaccurate.

Two other ETA offices had no systematic administrative procedures for establishing the legality, propriety, and correctness of collection transactions. When remittance controls are not established at a central point and when periodic reviews are not made, full accounting of all collections cannot be assured.

Collections were not adequately safeguarded at five ETA and two OASAM offices. For example, at one ETA office, collections remained on the desk of an employee while he was on leave. Three other ETA offices and one OASAM office stored collections overnight in locked desk drawers and files; only one of these offices had a safe, but it was not used to store collections. Another OASAM office stored collections in an open file cabinet that was accessible to eight employees during regular working hours. The fifth ETA office stored its collections in a safe but failed to change the combination annually. These conditions allow easy access to collections and increase the risk of loss.

Also, collection duties were not properly segregated at three ETA regional offices where the same individuals preparing deposit records recorded the deposited amounts in the subsidiary records. This practice is inconsistent with standards for separation of duties as specified in our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO § 11.2). Those persons handling cash collections or receipts should not be involved in accounting functions related to accounts receivable and subsidiary ledgers. By allowing one individual to perform both duties, the three regional offices weakened management's ability to routinely evaluate employees' performance. More importantly, however, the offices provided opportunities for misuse of cash receipts and for such acts to be concealed in the accounting records.

We advised ETA and OASAM regional office officials of the weaknesses discussed above. The officials acknowledged that the weaknesses existed in their organizations and said that they would take appropriate actions to improve their controls over collections.

Collections not promptly deposited

Because timely deposits are important, GAO, Labor, and the Treasury include guidance in their accounting procedures manuals on how frequently collections should be deposited.

Yet, many ETA and OASAM regional offices we reviewed were not depositing their collections as frequently as specified in the manuals.

We specify standards for Federal agencies to follow in depositing collections (Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO § 12.2)). According to those standards, collections should be deposited daily, whenever possible. The Department of Labor restated this requirement in its Financial Management Manual (DLMS 6-918). In its Fiscal Requirements Manual for Guidance of Departments and Agencies (I TFRM 6-8000), the Treasury states that collections of $1,000 or more should be deposited daily, and collections of a lesser amount may be accumulated and deposited when the total reaches $1,000. However, the manual points out that all deposits must be made at least weekly regardless of the amount accumulated.

Despite the above requirements, seven ETA and four OASAM regional offices we visited were not promptly depositing collections. For example, deposits were generally made every 3 or 4 weeks at two OASAM offices we visited. One ETA and two other OASAM offices only deposited their collections weekly regardless of amounts. Another ETA office also deposited its collections weekly except single remittances of $50,000 or more which it deposited daily. Some ETA offices made deposits only after the accounts to be applied had been identified rather than making timely deposits by recording the collections in a suspense account. Deposits at another OASAM office, although prepared promptly, were mailed rather than hand-carried to the Federal Reserve Bank, and confirmation was thereby delayed from 2 to 9 days for over 60 percent of their deposits.

In discussions with regional office officials, we pointed out that untimely deposits delay the Treasury's use of these funds and increases the potential for loss or misplacement of funds. The officials said that actions would be taken to deposit the collections promptly.

NEED TO IMPROVE CONTROL OVER ACCOUNTS RECEIVABLE FROM GRANTS

Accounting for receivables provides a systematic record of amounts of cash due. Our Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO § 12.4) states that accounts receivable should be recorded accurately and promptly upon completion of the acts which entitle an agency to collect the amounts involved. As discussed below, several ETA regional offices did not promptly close out Federal grants nor record receivables that resulted from internal auditors' exceptions to the costs claimed by grant recipients.

Delays in closing out grants

ETA regional offices are responsible for closing out grants when the work is completed. The close-out process establishes that all applicable administrative actions and required work under a specific grant have been completed by both the grantee and grantor. It also establishes the amount of unused funds, frequently referred to as unencumbered balances, upon completion of the grant. The Code of Federal Regulations (29 C.F.R. § 98.17) requires the immediate refund of any unencumbered balances.

ETA has a longstanding problem of not closing out grants promptly. The problem was noted in a 1974 internal audit report on cash management of the Manpower Administration (predecessor agency to ETA). We reported the problem on two different occasions--in October 1975 and September 1978. In our 1978 report, "Need for Increased Emphasis on Timely Contract and Grant Closeout Activities" (HRD-78-142), we specifically recommended that the Department of Labor (1) establish criteria to measure closeout timeliness, (2) establish goals and allocate resources necessary to eliminate the backlog of expired contracts and grants, and (3) improve the consistency and accuracy of quarterly closeout reports. Labor agreed to implement these recommendations.

We recognize that at the time of this survey, Labor had not had sufficient time to implement the recommendations. However, the specific conditions we noted at five ETA regional offices underscore the need for Labor's prompt action on our recommendations. For example, one office we visited had 11 grants which had been completed for periods ranging from 3 to 5 years. According to the office's August 1978 records, the grantees had not reported acceptable cost data nor refunded about $355,000 under the grants. Followup efforts to close out these grants and collect the money were sporadic; we noted delays of up to 4-1/2 years between contracts with one grantee. Another office had about 75 grants that had been completed from 3 months to 5 years but had not been closed yet.

Amounts from audit disallowances not recorded

Receivables related to grants also arise when, upon reviewing a grant, auditors take exception to costs claimed by the grantee. If management officials agree with the auditors' findings and disallow the questioned costs, the amounts become receivables that should be recorded on the agency's records. ETA, however, did not implement accounting procedures to systematically record these accounts receivable.

As of May 3, 1978, Labor's auditors reported 1,524 open audit reports with total questioned costs of about $218 million within ETA regions. The receivables derived from these audit exceptions should be recorded and collected promptly for effective accounting control over these resources.

At 7 of the 10 ETA regional offices we visited, however, receivables arising from audit exceptions were not properly recorded. At four offices no formal procedures existed to record receivables when they were generated. Three other offices maintained records which were sometimes incomplete, inaccurate, or not aged to highlight accounts outstanding for long periods of time. In one of these offices, ETA employees did not maintain records of these receivables, and outside consultants were engaged to research and record receivables related to audit exceptions. This caused a delay of up to 6 months in recording some accounts receivable. The lack of adequate records of receivables hampers prompt identification of overdue accounts.

Some regional offices' efforts to collect receivables arising from audit exceptions were also sporadic. One office had exceptions outstanding since 1969. Because of the low priority assigned to collecting these receivables, only limited followup action had been taken. At another office, lapses from 5 months to over 4 years occurred between attempts to collect amounts due. Infrequent followup contacts obscure problems that might be resolved, thereby delaying collection of amounts due.

We discussed the above weaknesses with ETA regional officials. This subject was also discussed in our October 1978 report, "More Effective Action Is Needed On Auditors' Findings --Millions Can Be Collected Or Saved" (FGMSD-79-3). While regional officials agreed with our positions, they said that accounting procedures were not being implemented to record or monitor sustained audit exceptions as receivables.

NEED TO IMPROVE CONTROL OVER GOVERNMENT TRANSPORTATION REQUESTS

In our Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 6), we instruct each Federal agency to develop procedures that will prevent improper or unauthorized use of Government funds, property, and other resources. A few accounting stations we visited at both agencies were not following procedures designed to provide proper control and security over government transportation requests (GTRs).

The Department of Labor Manual Series (DLMS 7, ch. 132) also specifies procedures that the Department's agencies should follow to reduce the risk of transportation requests being misused or misplaced. The procedures provide for only one primary and one alternative custodian to be designated, that adequate physical safeguards be established, and that GTR stocks be periodically reconciled with accountable records.

The specified procedures were not being followed at three regional offices of each agency. For example, one ETA office designated 12 individuals as primary GTR custodians. Additionally, other selected employees were authorized to draw GTRs from these custodians for ultimate issuance to travelers. At another ETA regional office, at least seven people knew the combination to the safe containing the GTRs, but the combination was written on a desk note pad so it was readily accessible to anyone in the area. Furthermore, the combination had not been changed in over 5 years. The third ETA office and two OASAM offices did not periodically reconcile used, unused, and voided GTRs, thus limiting the effectiveness of accountability records. At another OASAM office, the GTRs were stored in an unlocked file which was easily accessible to eight employees.

We discussed the above deficiencies with ETA and OASAM regional office officials. They agreed to take the necessary actions to have the GTRs controlled consistent with established procedures.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

As stated in our Policy and Procedures Manual (7 GAO § 24.1), Federal agency procedures to control disbursements should insure that (1) all disbursements are legal, proper, and correct and (2) prompt action is taken to accurately record them. At some regional offices in both agencies, disbursements were not being handled consistent with the procedures prescribed for effective control.

In one ETA office we visited, some vouchers were neither preaudited nor adequately supported by an obligating document. For example, vouchers for technical assistance travel by State employees were not audited and contained erroneous payments. Travel expenses were also paid without proper authorization documents, such as a standard travel authorization or purchase order. Additionally, invoices for consulting contracts were paid when documentation or certification had not been reviewed by the project officer. These practices are inconsistent with our Policy and Procedures Manual (7 GAO 24.2) which states that, to effectively control disbursements, vouchers should be preaudited before they are certified for payment.

In another ETA regional office, necessary control procedures have not been established to prevent duplicate payment of vouchers. Our Policy and Procedures Manual (7 GAO 24.3) specifically instructs Federal agencies to establish procedures to prevent this condition. In the absence of procedures, the regional office had paid some vouchers more than once, although the amounts of duplicate payments had subsequently been returned.

Several OASAM regional offices we visited also paid some vouchers without first checking for available discounts. For example, we noted that one OASAM office lost 303 discounts amounting to about $1,532 during the past fiscal year. In another OASAM office we sampled 50 invoices and found that only 4 of 13 available discounts were taken. This practice is inconsistent with requirements of our Policy and Procedures Manual (7 GAO 24.8) which states that Federal agencies should have procedures to insure prompt processing of invoices offering cash discounts. The manual also requires that the reasons for not taking any discounts offered should be stated on documents supporting the disbursements. In four OASAM regional offices we reviewed, however, lost discounts were not explained.

We discussed the above weaknesses with regional officials. They agreed to take the necessary actions to prevent duplicate and erroneous payments and to explain lost discounts on disbursement documents.

NEED TO IMPROVE CONTROL OVER OBLIGATIONS

Our Policy and Procedures Manual (7 GAO § 17) provides guidance for Federal agencies to record obligations. Among other things, this section of the manual requires agencies to prescribe procedures for ensuring that obligations are promptly and accurately recorded and that the recorded obligations meet criteria for valid obligations as set forth in the Supplemental Appropriation Act of 1955. The manual also requires that obligation documents be reviewed at the end of each fiscal year to establish the validity of recorded obligations (7 GAO 17.3).

At one ETA regional office we visited, appropriate procedures were not being followed to control its obligations. For example:

--Obligations that did not meet the criteria for valid obligations were recorded in the accounting system.

--Obligation documents were not reviewed periodically as required.

--Valid obligations were not promptly recorded.

We also found similar situations at OASAM regional offices. For example, obligations were not promptly recorded in one OASAM regional office. We noted that employees in this office paid some invoices that had no supporting documents. In addition, at five OASAM offices the basis and computation of some estimates for obligations were not shown on the obligating documents as required (7 GAO 17.1).

We believe these weaknesses prevent accurate recording of the regional offices' obligations. Regional office officials of both agencies assured us that they would take action to ensure that their offices follow specified procedures for proper control of their obligations.

NEED TO IMPROVE CONTROL OVER IMPREST FUNDS

Both our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO § 27.6) and the Treasury Manual of Procedures and Instructions for Cashiers (Section 5) require agency officials to insure that imprest fund cashiers can account for the full amount of funds advanced to them. Accounting and physical controls over imprest funds minimize potential misuse, loss, and theft of the funds. According to the Treasury manual, adequate control over imprest funds includes exclusive accountability over each fund, a change of the safe combination at least annually, documentation of each disbursement, and quarterly unannounced verifications of cash balances.

These procedures were not being followed at some OASAM regional offices. For example, at three OASAM offices we visited, cashiers and alternate cashiers did not have separate imprest fund cash boxes or alternate means to transfer accountability and responsibility. Officials at three other offices did not change safe combinations annually, and two of these offices had no record of the last time that they were changed.

Additionally, disbursements from imprest funds were not adequately supported in some OASAM offices. For example, at one OASAM regional office, funds had been disbursed for invoices over $15 that were neither itemized nor signed by the vendor and for local mileage claims that were not supported by odometer readings. At another office, employees did not sign for travel advances they received. Additionally, this office did not adequately safeguard paid vouchers that were not yet reimbursed by the Treasury. This practice may have contributed to the $13.46 shortage we noted in that fund.

Officials at four OASAM offices also did not verify imprest funds quarterly as required by the Treasury manual. Quarterly unannounced verifications (1) disclose overages and shortages in cashiers' funds that would otherwise go unnoticed and (2) aid in insuring that cashiers comply with procedures and do not misuse the funds.

We advised appropriate OASAM officials of the above deficiencies and they agreed to take corrective action to insure that imprest funds are adequately accounted for and physically controlled.

NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES

According to our Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO § 25.6), agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep advances to a minimum.

We noted that four OASAM regional offices did not exercise proper control over travel advances. At two offices we visited, advances shown on travel vouchers were not periodically reconciled to the amounts listed on travel advance control cards. Also, one of these offices and two other offices failed to collect outstanding travel advances from employees before employment was terminated. Regional officials in one of these offices wrote off $922.45 during fiscal 1977 because some former employees could not be located.

We discussed the above weaknesses with OASAM regional office officials and they agreed to exercise tighter control over outstanding travel advances.

NEED TO PROVIDE ADEQUATE AUDIT COVERAGE OF FINANCIAL OPERATIONS

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. § 66a) requires the head of each agency to establish and maintain systems of internal control, including appropriate internal audit, in order to provide effective control over and accountability for all assets for which the agency is responsible. The act further states that the heads of each agency will assure themselves of the adequacy of staffing and the scope of internal audit in their own agency. In our statement of Standards for Audit of Governmental Organizations, Programs, Activities and Functions, and our issued statements of Basic Principles, Standards, and Concepts of Internal Auditing in Federal Agencies, we also emphasized the importance of effective internal auditing systems in Federal agencies. ETA, however, has not provided sufficient audit coverage of its financial operations at regional offices.

Most ETA accounting stations we visited had not been audited within the past 3 years. Since internal audits are a key element of internal controls, we believe ETA's current audit coverage is inadequate. In response to our inquiries, Labor regional audit officials indicated that the majority of their audit effort is directed toward programs and activities involving the largest expenditures of funds--grantees and contractors. While recognizing the merit of this emphasis, we believe that the audit of ETA should provide adequate coverage of internal financial operations--especially the important areas such as accounts receivable, the payroll system, the administrative control of funds, revenues, etc. This position was also taken in our June 1976 report, "Need for Greater Audit Coverage of Internal Financial Areas" (FGMSD-76-67).

NEED TO INCREASE USE OF POLICY AND PROCEDURES MANUALS

According to our Policy and Procedures Manual (2 GAO § 32), the head of each Federal agency should publish a comprehensive accounting manual containing sections that detail internal control procedures for employees' day-to-day use. Although Labor has a financial management manual (DLMS-6, ch. 900) complying with this requirement, six regional ETA offices we visited were not using it. Had the offices used the manual, some of the internal control problems previously discussed might have been avoided.

We discussed the above situation with ETA regional officials at the six offices and they agreed to make greater use of the manuals in the future.

SUMMARY OF WEAKNESSES NOTED AT 10 ETA REGIONAL OFFICES

Weaknesses noted	Atlanta	Boston	Chicago	Dallas	Denver	Kansas City	New York	Philadelphia	San Francisco	Seattle
Collections not deposited promptly		X	X	X			X	X	X	X
Collections not logged in		X	X	X		X	X	X	X	X
Collections not safeguarded		X	X					X	X	X
Duties of persons handling collections not adequately divided		X						X		X
Grants not closed out promptly		X		X	X			X		X
Audit report questioned costs not recorded	X	X	X		X	X		X		X
Audit report questioned costs not aggressively pursued	X	X	X				X			X
GTRs not safeguarded		X								
Reconciliations not made				X						
Distribution of GTRs not limited									X	
Vouchers and invoices not adequately supported or reviewed										X
Duplicate payments not prevented (note a)			X							
Lost discounts not documented (note a)			X							
Obligations not reviewed periodically (note a)			X							
Obligation amounts not recorded accurately or promptly (note a)			X							
Obligations not validated prior to release of funds (note a)			X							
Current manuals not used	X	X					X	X	X	X

a/These weaknesses relate to an in-house activity which is unique to this region. This activity is performed by outside contractors in the other regions.

SUMMARY OF WEAKNESSES NOTED AT 10 OASAM REGIONAL OFFICES

	Regions									
Weaknesses noted	Atlanta	Boston	Chicago	Dallas	Denver	Kansas City	New York	Philadelphia	San Francisco	Seattle
Collections not deposited promptly		X	X		X				X	X
Collections not logged in		X	X		X	X				X
Collections not safeguarded	X		X							
Separate cash funds not maintained	X		X		X					
Safe combinations not changed annually		X					X			X
Disbursements not adequately supported			X		X					
Unannounced verifications not made quarterly	X	X			X					X
Travel advances not reviewed		X		X	X					X
GTRs not reconciled nor adequately safeguarded	X		X	X						
Lost discounts not documented			X	X			X			X
Basis and computation of estimates not shown on obligation documents		X		X				X	X	X
Some obligations not recorded					X					