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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-199914

OCTOBER 8, 1980

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Mr. Thomas M. Tracy
Assistant Secretary for Administration
Department of State

Dear Mr. Tracy:

Subject: Internal Controls at State Department Accounting Stations in Latin America and the Caribbean (FGMSD-81-6)

This report contains the results of our survey of accounting controls over revenue and expenditure transactions at 12 embassies and two consulates in Latin America and the Caribbean. The survey identified weaknesses in internal controls over cash collections, accounts receivable, imprest funds, and disbursements. We are informing you of these weaknesses to help you discharge your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over and accountability for all funds for which they are responsible.

Questionnaires designed to identify potential internal control problems were the basis of our interviews and discussions with accounting station officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed. But we only verified the existence of the weaknesses and did not attempt to establish their extent or the precise corrective actions needed. The weaknesses are discussed in enclosure I and their locations are shown in enclosure II.

We discussed our survey results with responsible accounting station officials and, in most instances, they initiated or promised corrective action. For this reason, we are not making any formal recommendations in this report. However, we suggest that you follow up on the adequacy of the corrections, and also that you consider the deficiencies noted in this report during any future accounting system design efforts. We would also appreciate being informed, in writing, of the actions taken or planned to correct the weaknesses discussed in this report and its enclosures.

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We are sending a copy of this report to the Inspector General, Department of State.

We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

D. L. Scantlebury
Director

Enclosures - 2

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT

FOURTEEN DEPARTMENT OF STATE ACCOUNTING STATIONS

IN LATIN AMERICA AND THE CARIBBEAN

Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain a system of accounting and internal control over, and accountability for, all of the agency's assets. Our survey evaluated internal controls at accounting stations at twelve embassies and two consulates in Latin America and the Caribbean. It disclosed that:

--Collections were not adequately controlled at many accounting stations; prenumbered receipts were not controlled properly, collections were not deposited promptly, collections were not adequately protected against unauthorized access, and the duties of personnel were not separated adequately.

--Accounts receivable were not collected aggressively and promptly. Receivables for outstanding travel advances, unused transportation tickets, amounts due for employees' personal telephone calls, and medical insurance reimbursements remained outstanding for long periods.

--Imprest funds were not always properly handled and safeguarded; unannounced cash verifications were not performed, temporary advances were not liquidated promptly, funds were not always safeguarded, and cashier and subcashier fund requirements were not reviewed.

--Both imprest fund cash disbursement and emergency funding procedures were not followed at some locations. Individual cash disbursements exceeded limits and emergency funding procedures were used to make daily, routine payments.

These internal control weaknesses, most of which existed at more than one accounting station, are discussed below. The locations of the weaknesses are identified in enclosure II.

NEED TO IMPROVE CONTROL OVER COLLECTIONS

The GAO Manual (7 GAO 11.1 and 12.2) states that agencies shall place cash collections under appropriate accounting and physical control upon receipt and shall deposit these collections daily. The fourteen stations visited had aggregate average monthly collections of about $466,500 from such items as reimbursable personal long distance phone calls, consular fees, surplus property sales, Government property rentals, medical insurance reimbursements, and unused airline ticket refunds. While controls over collections were generally adequate, we identified weaknesses in the control of receipt documents, deposit of collections, controls over access to collections, and the separation of duties.

Prenumbered receipts not used or adequately controlled

State Department regulations (4 FAM 396.3-2) require that most categories of collections be recorded on prenumbered receipts to ensure that collections are promptly placed under accounting control. For this control to be effective, these receipts must be properly accounted for and safeguarded. The regulations also require daily recording of all official collections on an accountability record to ensure consolidated control. We found the following weaknesses at the locations visited:

--Two locations did not use prenumbered receipts to record all collections. At one of these accounting stations, prenumbered receipts were not issued for property sales, transient apartment rentals, and phone call collections. In addition, the transient apartment collections were not deposited with a cashier as required. Instead, the collections on hand of $300 to $1,200 were received and stored by the general services secretary and used to defray apartment expenses. There were no supervisory or independent verifications of moneys received or spent.

--Three other locations used prenumbered receipts but did not adequately account for them. The receipts were not totaled daily nor accounted for numerically. Further, unauthorized employees had access to unused receipts.

--The cashier at the Embassy in Barbados was not recording daily collections on the accountability record. In fact, the last entry on this record was over 90 days old.

Embassy officials agreed that prenumbered receipts should be used and that unused receipts should be tightly controlled. They promised to ensure that such controls are implemented.

Deposits not made promptly

The GAO Manual (7 GAO 12.2) provides that collections should be deposited daily if possible. Prompt deposits reduce the risk of loss or misuse of Government funds. The Department of the Treasury's Fiscal Requirements Manual for Guidance of Departments and Agencies (1 TFRM 6-8000) provides additional guidelines on the frequency of deposits. The manual states that collections of $1,000 or more should be deposited daily and smaller collections may be accumulated and deposited when they total $1,000. However, all deposits must be made at least weekly regardless of the amount accumulated. State Department regulations allow less frequent deposits if approved by the U.S. Disbursing Officer but require that all collections be forwarded to the embassy cashier as soon as possible. As shown below, timely deposits were not made at all locations:

--In Brazil, the Rio de Janeiro cashier held collections nearly a month before submitting them to the Brasilia disbursing officer. Monthly deposits normally ranged from $2,500 to $8,500, but in some instances, exceeded $27,000.

--In Bolivia, the cashier made biweekly deposits averaging over $3,000. Deposits should have been made weekly.

--The cashier in Argentina was making average weekly deposits of $4,500, and the cashier in Haiti was making average biweekly deposits of $8,500. Both locations should have been depositing receipts three to four times per week.

These matters were brought to embassy officials' attention and they stated that action would be taken to ensure prompt deposits.

Collections not adequately safeguarded

State Department regulations (4 FAM 321 and 396) stipulate that authorized cashiers are to receive all collections, and that the number of employees with this function should be minimal. The regulations also specify that the cashiers are responsible for the custody and safekeeping of the collections until deposited. To ensure individual responsibility, the regulations further provide that funds held by the cashier should be accessible only to that cashier. However, the following examples illustrate that at some locations the controls over access to collections were not adequate.

--The consulate section at Rio de Janeiro had only one subcashier authorized to receive fees. In her absence, any of the four other employees could collect the fees and have access to the collections storage facility.

--At one location, the two alternate class B cashiers knew the safe combination and therefore had access to the collections. In addition, the consular fees were kept overnight in a location accessible to anyone in the consulate.

--At another location, the class B cashier, the alternate cashier, and a subcashier all had access to each other's safe combinations, funds, and collections.

Officials at these locations agreed to make changes that would permit only authorized employees to have access to collections.

Better separation of duties needed

A basic principle of internal control is dividing the critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely when its success depends upon collusion. The GAO Manual (7 GAO 11.2) states that employees handling cash receipts should not participate in accounting or operating functions which provide the opportunity to conceal the misuse of cash receipts in the accounting records.

The Department of State Foreign Affairs Manual (4 FAM 283.4) also provides that employees receiving money should not maintain accounts receivable records and that collections should be directed to a cashier or a cashier's authorized designee. As the following examples show, these regulations were not always followed:

--At the Consulate General in Rio de Janeiro, the three people who handled collections also participated in accounting and operating functions. The procurement officer handled all aspects of excess property sales--arranged the sale, received the bids, made bid selections, and received payments. The general services officer arranged the rental of transient apartments, received the rents, and maintained the receipt and expense records. The class B cashier both billed and collected charges for personal phone calls.

--At eight locations, the cashiers not only received and deposited collections for reimbursable phone calls, but also maintained the related accounts receivable records.

--At the Embassy in Peru, a receptionist received monthly collections of about $500 by messenger service. Instead, the messenger should have been directed to the cashier.

We believe these examples illustrate that separation of duties is needed to ensure that all collections are properly accounted for and to decrease the potential for misappropriation or mismanagement of funds. Embassy officials stated that corrective action would be taken to ensure duties are separated and that cashiers would receive all collections directly.

MORE AGGRESSIVE ACTIONS NEEDED TO COLLECT ACCOUNTS RECEIVABLE

The GAO Manual (4 GAO 69.1) requires timely, forceful, and persistent action to collect all claims of the United States. The Federal Claims Collections Standards require three written demands to be made at 30-day intervals, collection by offset where feasible, personal interviews with debtors, exploration of compromise, and other persistent actions until claims are paid, determined to be uncollectable, or referred to the General Accounting Office for settlement. As shown by the following examples, we found instances where these procedures were not followed.

--State Department regulations (4 FAM 333.2-5 and 4 FAM 461-462) require that, upon completion of travel, the traveler promptly submit a voucher and liquidate any outstanding travel advance. The Embassy in Bolivia had 6 advances totaling $10,895 outstanding for over a year, and the Embassy in Mexico had 36 advances totaling about $6,600 outstanding for 1 to 5 months. In addition, the Drug Enforcement Agency, attached to the Embassy in Bolivia, had 22 advances totaling more than $12,000 outstanding for 5 to 15 months. Appropriate followup had not been taken to require the travelers to promptly liquidate the outstanding advances.

--The Embassy in Brasilia had about $13,400 in receivables due from airline companies for unused transportation tickets and from employees for medical insurance reimbursements. These receivables had been outstanding from 1 to 5 years, but with the exception of initial requests, embassy personnel had not followed up to collect the receivables. In addition, receivables were outstanding several months (in 4 cases over a year) before even the initial requests for payment were made.

--Five accounting stations with over $2,600 in monthly personal phone calls did not have a system to ensure the prompt recording and reimbursement of these amounts. The embassy operator was responsible for recording all calls, but this control could be bypassed either by using the new international direct dial system, or by calling when the operator was off. Identifying the unrecorded calls required the time-consuming task of tracing each call on monthly telephone bills. Many times, callers could not be identified and the embassy absorbed the charges. But, even when the callers were identified, the informal collection system at these locations did not ensure prompt collection.

--At the Embassy in Mexico, the accounts receivable system did not fully disclose the status of accounts or provide for timely and persistent collection action, as evidenced by over $16,500 in living quarters allowances outstanding over 90 days. In addition, 12 living quarters allowance accounts totaling nearly $3,500 have been written off without explanation.

Embassy officials with whom we discussed these matters agreed with our observations and stated that corrective actions would be taken.

NEED TO IMPROVE CONTROL OF IMPREST FUNDS

Embassies and consulates are authorized cashier operations to collect funds, make limited cash disbursements, and provide currency exchange to authorized individuals. Unless well controlled, such imprest funds provide opportunities for misuse, loss, and theft of Federal funds. Accounting and physical controls to minimize these opportunities are set forth in the GAO Manual (7 GAO 27.6), the Treasury Manual of Procedures and Instructions for Cashiers, and in the Department of State regulations (4 FAM 300). At the 14 locations reviewed, cashiers had authorized advances totaling over $858,000. With proper authorization, these cashiers could make advances to subcashiers when it was necessary to have cashier-type operations elsewhere.

We found the imprest funds were inadequately controlled at several locations; unannounced cash verifications were not performed as required, temporary advances were not redeemed promptly, funds were not always safeguarded against unauthorized access or loss, cashier and subcashier cash requirements were not reviewed, and some cash disbursements exceeded established limits.

Unannounced cash audits
not performed

State Department regulations (4 FAM 397.1-2 and 397.2-2) require a cashier's immediate supervisor to verify, without announcement, cashier funds and subcashier funds of $1,000 or more monthly, and subcashier funds of less than $1,000 quarterly. These verifications are performed to ensure that the total of cash on hand and paid voucher receipts agrees with the authorized advance.

--At ten locations, fund verifications were not performed monthly. For example, none were done in Ecquador for 16 months, only three had been taken in Bolivia during a 30-month period, and the cashier's fund in Mexico City had not been properly verified since December 1977.

--At 8 locations, verifications of subcashier's funds had not been performed as required. For example, the Embassy in Argentina has four subcashiers with authorized funds of over $4,500 but had not verified these funds in over 2 years.

--At one other location, two cashier embezzlement cases totaling over $6,000 occurred during a 3-year period. During this period, unannounced cash counts either were not performed at the required frequency or were not reconciled with the cash advance. One case was discovered when the embassy initiated unannounced verifications, and the other, when the fund was correctly reconciled. We believe both cases illustrate the importance of unannounced fund verifications.

Embassy officials agreed to perform unannounced cash counts as required. We noted, however, that similar recommendations had been made before, but corrective action had not always been taken. For example, a State Department inspector general's evaluation of Argentina's embassy budget and fiscal operations in July 1979 concluded that "unannounced verifications of funds have not been made monthly as required." The inspector general report also said that this same operational weakness had been noted in a prior inspection report. Obviously, little or no corrective action was taken on the initial report. Subsequent to the July 1979 report, the embassy started performing the required cash counts of the cashier's funds, but not the subcashiers'. Therefore, we believe additional followup is needed to ensure that corrective action is taken.

Temporary advances not liquidated promptly

State Department cash management procedures require prompt liquidation of temporary advances from imprest funds; if possible, on the same day the money is advanced. Seven accounting stations were not liquidating temporary advances as required. For example:

--The Embassy in Bolivia had 51 advances totaling almost $6,800 outstanding an average of nearly 60 days. The cashier in Mexico City also had several advances outstanding over 60 days.

--Two other embassies, in Chile and Argentina, had advances totaling $3,000 and $9,300, respectively, outstanding 4 to 28 days. Only the Embassy in Chile listed a time limit for repayment.

--We could not evaluate the use and control of temporary advances at two locations because permanent records of advance transactions were not maintained; only records for current outstanding advances were kept.

Embassy officials agreed to act to liquidate such advances promptly. One embassy official at a location where the use and control of advances was not documented said that a system to record temporary advances would be established.

Funds not always properly safeguarded

An important aspect of effective internal control is the physical safeguarding of funds. In this respect, State Department regulations (4 FAM 317.2) require safe combinations to be changed at least annually; 4 FAM 317.1 and 317.3-1 state that official funds must be accessible only to the fund custodian; and 4 FAM 317 says that employees designated to handle funds are responsible for the safekeeping of the funds. Several deficiencies were found in this area:

--At six locations, safe combinations had not been changed annually, and at two other locations, we could not verify when the combinations had been last changed.

--At six locations, unauthorized personnel had access to imprest funds. For example, the two alternate cashiers in Bolivia had access to the class B cashier's $30,000. Likewise, in Haiti, a number of employees had access to $3,000 to $4,000 in collections held overnight by the consulate cashier. In both cases, it would be difficult to establish accountability for losses or shortages.

--At three other locations, funds were left unsecured or unattended. In one case, a subcashier's cash box and fee collection drawer were left open, unattended and easily accessible to unauthorized employees and to the public.

When apprised of these deficiencies, embassy officials agreed to make the necessary changes to ensure that funds were safeguarded.

Cashier and subcashier cash requirements not reviewed

The GAO Manual (7 GAO 27.4) states that a cashier's advance should be limited to the smallest amount necessary to meet the fund's authorized purpose. Similarly, State Department regulations require that the budget and fiscal officer determine whether authorizations exceed cash requirements. In addition, the regulations state that imprest funds should be discontinued or adjusted to amounts commensurate with demonstrated needs whenever circumstances warrant. As shown below, cash advance evaluations were not always being performed.

--One location did not review the use and frequency of cashier fund replenishments to determine whether authorized amounts exceeded cash requirements. The budget and fiscal officer relied on the U.S. Treasury to perform this review function and to make any adjustments.

--At the Embassy in Guatemala, three employees were given cash advances and functioned as unauthorized subcashiers. If the funds were needed, authorization should have been issued.

--At another location, embassy officials had not evaluated the use of or need for their subcashiers. Based on an evaluation initiated at our request, they withdrew two of the three subcashier funds found to be inactive and unneeded.

Cash disbursements in excess of authorized limits

Department of State regulations (4 FAM 394.1) provide for the certifying officer to establish a maximum for single cash disbursements. However, the limit cannot exceed $250 except for emergencies and utilities payments in which case the limits are $1,500 and $3,000, respectively.

One location disbursed cash over the maximum of $150 established by the certifying officer. In addition, we found purchases that were split to stay under the ceiling. The administrative officer concurred with our finding and advised the cashier to stop both practices.

NEED TO COMPLY WITH EMERGENCY PAYMENT PROCEDURES

To provide for infrequent, nonrecurring emergencies, Treasury's emergency funding procedure allows for local checks to be drawn on the regional disbursing officer's account. However, this procedure was not established for routine use or to replace regular voucher submission and check issuance procedures.

Nonetheless, we found that five locations routinely used emergency funding procedures to pay local vendors. Embassy officials said that because of high inflation and frequent currency devaluations, vendors were unwilling to wait several weeks for checks from Washington, D.C.

We did not attempt to determine if continued use of this payment procedure is necessary. In the event that you decide that such use is warranted, we suggest that you give Treasury the data to support the need to routinely use the emergency funding procedure. Then Treasury can decide whether to allow greater use of the procedure.

WEAKNESSES NOTED AT STATE DEPARTMENT ACCOUNTING STATIONS IN LATIN AMERICA AND THE CARIBBEAN

WEAKNESSES	ARGENTINA	BARBADOS	BOLIVIA	BRAZIL – BRASILIA	BRAZIL – RIO DE JANEIRO	CHILE	DOMINICAN REPUBLIC	ECUADOR	GUATEMALA	HAITI	JAMAICA	MEXICO – GUADALAJARA	MEXICO – MEXICO CITY	PERU
Prenumbered receipts not used/ adequately controlled	●	●		●	●								●	
No adequate procedures to promptly record and/or expedite collections	●	●	●	●	●	●		●						
Deposits not made promptly	●	●	●	●	●	●				●		●		
Controls over access to collections not adequate	●		●		●				●			●	●	
No separation of duties	●	●	●	●	●	●						●		●
More aggressive actions needed to collect accounts receivable	●	●	●	●	●	●		●					●	
Unannounced cash counts not being performed	●	●	●	●	●	●		●	●			●	●	
Temporary advances not liquidated promptly	●		●	●	●	●			●			●	●	
Funds not always properly safeguarded	●	●	●		●	●	●			●	●		●	
Cashier and subcashier cash requirements not reviewed			●											●
Controls over access to imprest funds inadequate	●		●		●							●	●	
Payments split to stay under imprest fund ceiling														●
Vendors paid by emergency funding procedures	●	●	●					●						●

ENCLOSURE II