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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

MAR 21 1975

Mr. Edward G. Jordan
President and Chief Operating
Officer
U.S. Railway Association

Dear Mr. Jordan:

In accordance with the Government Corporation Control Act, we have made an audit of financial statements of the United States Railway Association (USRA) for the period February 1, 1974, through June 30, 1974. Our examination was made in accordance with generally accepted auditing standards and procedures and included such tests of the accounting records as we considered necessary under the circumstances. As required by the act, our report on the audit was issued to the Congress.

Although we recognize that USRA is a new organization needing time to get fully staffed, several matters were observed during the examination that we wish to bring to your attention. These matters were discussed with the Vice President for Administration, the Comptroller, and the Assistant Comptroller and they indicated that corrective action would be taken.

USRA EXPENSES ASSETS
IN THE PERIOD PURCHASED

At the time of our audit, USRA had expensed rather than capitalized the purchase of furniture, equipment, and building improvements. This failure to capitalize these assets and charge their costs to operations over the period of their useful lives results in understatement of assets and could be misleading to readers of the financial statements. It could also hinder subsequent valuation and ultimate disposal of these assets at some future time.

We were pleased to note in Mr. Lewis' letter dated February 14, 1975, that the Association is in the process of recording furniture, equipment and building improvements as assets.

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USRA HAS NOT MAINTAINED
SUBSIDIARY LEDGER ACCOUNTS

The USRA accounting manual lists eight expense groupings, consisting of individual subsidiary accounts of similar nature. For example, the expense grouping, Facilities Acquisition, consists of the following subsidiary accounts:

<u>Subsidiary Account</u>	<u>Code</u>
Building Alteration	650
Office Furniture and Equipment Purchased	653
Office Furniture and Equipment Leased	656
Utilities Installation	659

At the time of our audit, expenses were not recorded in the prescribed subsidiary accounts. As a result, the amount spent for any particular goods or services in this and the other groupings is not readily available to management.

USRA officials agreed that such accounts are needed for management purposes. They said that subsidiary accounts would be brought up to date by the end of fiscal year 1975.

ACCOUNTABILITY AND CONTROL OVER FURNITURE
AND EQUIPMENT IS LACKING

At the time of our audit, there was no accurate inventory of furniture and equipment. USRA had no system for locating furniture and equipment. The property control cards for furniture had no provision for location and although the cards for equipment provided for recording location, the one case we tested was inaccurate. In addition some of the property control documents were incomplete and stored without appropriate safeguards. Although the USRA accounting manual requires that an asset control ledger be maintained, it was not currently complete.

USRA officials agreed that accountability and control in this area is lacking and stated that plans were being made to conduct a complete inventory and establish a system to account for and control furniture and equipment.

INTERNAL CONTROLS NOT ADHERED TO

Based on our audit, we believe that adequate controls have been built into the accounting system to insure completeness, timeliness, and accuracy. However, our tests of records revealed the following types of discrepancies which could have been avoided had these controls been strictly adhered to.

- No portion of a \$25,000 prepaid expense item had been expensed as of June 30, 1974, even though 3 months of services had been received.
- A \$425 deposit to an airline for credit cards was established without any provision as to how or when the deposit would be refunded.
- Failure to accrue an unpaid portion of a bill understated the accrued expense account at June 30, 1974, by \$16,685.
- Mathematical errors resulted in two incorrect reimbursements for travel expenses.
- Several instances were found where expenses were posted to the wrong accounts.

The Vice President for Administration told us he has directed the Office of Audits to prepare and perform management tests of the accounting records to insure that internal controls are adhered to.

THE PRESENT ACCOUNTING SYSTEM IS NOT STRUCTURED TO INCLUDE ACCOUNTING FOR PROGRAM FUNDS

USRA is engaged in efforts which should ultimately involve the use of guaranteed loan proceeds for up to \$1.5 billion under section 211 of the Regional Rail Reorganization Act of 1973 and \$150 million under section 215. The diversity and volume of significant dollar transactions will undoubtedly require extensive recordkeeping.

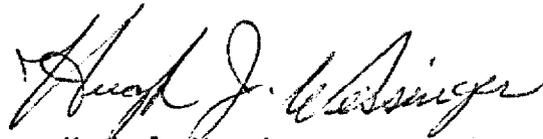
USRA officials informed us that USRA plans to have accounts incorporated in the present system to record the receipt and use of the funds before any significant portion of the \$1.5 billion is provided. We noted in Mr. Lewis' letter dated February 14, 1975, that all system design work had been completed by mid-January.

STATEMENTS OF FINANCIAL INFORMATION

Although your financial statements contain all required information, we believe the general presentation of the statements could be improved for the sake of clarity. As a guide for your consideration in preparation of future statements, we have enclosed GAO's financial statements from the Comptroller General's annual report for fiscal year 1974.

We wish to acknowledge the courtesy and cooperation given to our representatives during the examination.

Sincerely yours,



Hugh J. Messinger
Associate Director

Enclosures

FINANCIAL STATEMENTS OF THE GENERAL ACCOUNTING OFFICE, FISCAL YEAR 1974

Schedule 1

U.S. General Accounting Office Statement of Assets, Liabilities, and Investment June 30, 1974

ASSETS

Funds in U.S. Treasury:		
Appropriated funds	\$ 7,252,700	
Deposit funds	1,010,800	\$ 8,263,500
Employees' travel advances		610,500
Accounts receivable		256,500
Supplies		91,300
Furniture, fixtures, and equipment	4,068,800	
Less: Accumulated depreciation	1,847,500	2,221,300
Library books (estimated)		165,700
Total assets		\$11,608,800

LIABILITIES AND INVESTMENT

Accounts payable		\$ 852,700
Accrued liabilities		4,828,100
Funds held for others, principally employees' tax and other payroll deductions		1,010,800
Liability for accrued annual leave of employees	\$ 7,160,978	
Less: Amount to be financed from future appropriations	7,160,978	
Total liabilities		\$ 6,691,600
Investment of U.S. Government (schedule 2)		4,917,200
Total liabilities and investment		\$11,608,800

Schedule 2

U.S. General Accounting Office Summary of Changes in Investment of U.S. Government Fiscal Year Ended June 30, 1974

Balance, July 1, 1973, as revised		\$ 4,308,600
Add:		
Appropriation for salaries and expenses, 1974	\$109,395,400	
Reimbursements	298,000	
Additional prior year funds required for retroactive pay increase after adjustments for cost of prior year orders	538,500	110,231,900
Total		\$114,540,500
 Deduct:		
Operating expenses, 1974 (schedule 3)	\$106,439,600	
Less: Amount of annual leave earned by employees and included in operating expenses, which will be financed by future appropriations	-454,400	
Unobligated balance of 1974 appropriation lapsed	3,638,100	109,623,300
Balance, June 30, 1974		\$ 4,917,200
 Composition of balances:		
Investment in:	July 1, 1973	June 30, 1974
Inventories of supplies	\$ 121,700	\$ 91,300
Furniture, fixtures, and equipment	1,932,100	2,221,300
Library books	154,800	165,700
Funds reserved for payment of unfilled orders	2,100,000	2,438,900
Total	\$ 4,308,600	\$ 4,917,200

Schedule 3

U.S. General Accounting Office Summary of Operating Expenses for The Fiscal Year Ended June 30, 1974

	Total	Salaries	Employee Benefits	Travel	Other
Office of the Comptroller General	\$ 972,600	\$ 856,500	\$ 68,200	\$ 29,600	\$ 18,300
Office of the General Counsel	3,953,700	3,627,100	301,000	22,600	3,000
Office of Administrative Planning and Services ...	10,189,400	3,224,200	374,000	154,400	6,436,800
Office of Federal Elections	653,100	392,500	36,100	21,500	203,000
Office of Personnel Management	3,607,300	2,955,900	241,900	178,600	230,900
Office of Policy	255,400	231,600	19,300	1,100	3,400
Office of Program Planning	161,700	141,800	11,700	4,600	3,600
Office of Internal Review	253,300	226,700	18,700	4,800	3,100
Office of Energy and Special Projects	187,600	138,300	11,900	200	37,200
Financial and General Management Studies					
Division	5,282,500	4,468,000	365,200	168,600	280,700
Logistics and Communications Division	3,637,700	3,267,300	275,900	78,100	16,400
Procurement and Systems Acquisition Division ...	4,254,300	3,784,900	313,300	152,500	3,600
Federal Personnel and Compensation Division ...	1,702,800	1,500,800	127,200	43,000	31,800
General Government Division	4,167,700	3,678,800	317,400	96,200	75,300
Resources and Economic Development Division ..	5,051,200	4,483,000	382,600	146,300	39,300
Manpower and Welfare Division	4,973,600	4,339,400	374,900	144,300	115,000
International Division:					
Washington, D.C.	3,388,700	2,973,200	310,300	239,900	65,300
European Branch	1,525,100	882,900	109,900	246,900	285,400
Far East Branch	2,037,800	1,265,800	304,500	395,600	71,900
Field Operations Division	40,842,000	33,526,000	2,879,500	4,305,900	130,600
Transportation and Claims Division	9,142,100	8,385,400	699,600	14,200	42,900
Total	<u>\$106,439,600</u>	<u>\$84,350,100</u>	<u>\$7,543,100</u>	<u>\$6,448,900</u>	<u>\$8,097,500</u>
Reconciliation of accrued expenditures for					
year with total expenses:					
Accrued expenditures	\$106,254,900				
Add:					
Increase in accrued annual leave liability ..	454,400				
Depreciation of furniture, fixtures, and					
equipment	246,400				
Decrease in inventory of supplies	30,400				
Deduct:					
Purchases of furniture, fixtures, and					
equipment	-546,500				
Operating expense	<u>\$106,439,600</u>				

Schedule 4

U.S. General Accounting Office Summary of Sources and Application of Funds Fiscal Year Ended June 30, 1974

Sources of funds:		
Appropriation for salaries and expenses, 1974		\$109,395,400
Reimbursements		298,000
Funds carried over from preceding year to pay for orders placed in that year but filled in the current year		2,100,000
Additional prior year funds required for retroactive pay increase after adjustments for cost of prior year orders		538,500
Receipts for audit services		666,400
Other receipts		292,500
Total		<u><u>\$113,290,800</u></u>
 Application of funds:		
Accrued expenditures:		
Expenses	\$105,703,400	
Purchase of furniture, fixtures, and equipment	<u>546,500</u>	\$106,254,900
 Funds reserved at the yearend for payment of unfilled orders		2,438,900
Unobligated balance of 1974 appropriation lapsed		3,638,100
Receipts deposited in U.S. Treasury		958,900
Total		<u><u>\$113,290,800</u></u>