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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C. 20548

CIVIL DIVISION

OCT 31 1969

Dear Dr. Sutton.

We have made a review for the settlement of accounts of accountable officers of the United States Tariff Commission, Washington, D. C., through June 30, 1968.

Our review, which was completed in October 1969, was directed primarily toward an evaluation of the administrative procedures and internal controls relative to the receipt and disbursement of funds and included such tests of financial transactions and records as we considered appropriate. Program operations were not included in our review.

We found most administrative procedures and internal controls to be generally effective, and the selected financial transactions which we reviewed were generally processed in a satisfactory manner. A few errors involving payroll retirement deductions and reimbursements for travel expenses were brought to the attention of responsible officials who said that appropriate corrective action would be taken.

We noted, however, one area in which we believe that the administrative procedures and internal controls require strengthening. This matter, which concerns the accounting for nonexpendable property, was discussed with the Director of Administration and members of her staff who promised to take appropriate corrective action. Our findings in this area are summarized below for your information and such further action as you consider necessary.

Section 202(b) of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483) requires each executive agency to maintain inventory controls and accountability systems for the property under its control. Also, section 2 of the Public Law 84-863, approved August 1, 1956 (31 U.S.C. 66a(c)), requires that the accounting system of each agency include adequate monetary property accounting records.

According to the Commission's accounting manual, nonexpendable property is to include furniture, fixtures and equipment of a durable nature, having an expected useful life of more than 1 year that does not lose its identity when put into use, and having a value of at least $50. The value of nonexpendable property of the Commission as recorded in the general ledger control account as of June 30, 1968, was $544,854.

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The importance of adequately accounting for property stems primarily from the fact that public funds are invested in such resources. This investment creates a management need to maintain adequate inventory controls and accountability systems for all property under its control. To assist in achieving this end, a physical inventory of property should be taken at regular intervals and the quantities and values reconciled to the accounting records. This procedure is necessary to check on the effectiveness of the accounting procedures to provide adequate and accurate information on all changes in the investment in property assets.

The Commission's accounting manual requires annual physical inventories and an annual reconciliation between the subsidiary property account cards and the general ledger control account We found, however, that a complete physical inventory of nonexpendable property had not been taken since September 30, 1952, and that a reconciliation, with appropriate adjustment, had not been made between the subsidiary property cards and the general ledger account since that date. However, even though complete physical inventories of nonexpendable property have not been taken for an extensive period, the Financial Management Section has periodically inventoried equipment items, such as, adding machines, calculators, and typewriters The last such inventory was taken as of June 30, 1968.

We found also, that a comparison by the Financial Management Section of the total of the amounts as shown on the subsidiary property cards and the balance in the general ledger control account as of May 31, 1969, disclosed a difference of $6,557.30. At the close of our review work, the Commission had not brought the control account and the subsidiary records into agreement

Our limited test of transactions involving the purchase or disposal of nonexpendable property disclosed several errors which affected the value of the property as shown on the individual property cards and/or the general ledger control account.

For example, two adding machines, which were purchased in April 1968 at a total cost of $441, were recorded on the individual property cards as having a unit cost of $441 rather than a unit cost of $220.50. This error caused the subsidiary property cards to be overstated by $441 Conversely, we found that the general ledger account had been overstated in four instances because of improper accounting for equipment traded in on the purchase of new equipment. In these instances no action had been taken to remove the value of the traded-in equipment from the control account. Thus, the general ledger control account was overstated by $2,719, the value of the traded-in equipment less the trade-in allowance We noted also that in three of the four instances the subsidiary property cards had not been properly annotated to show that the equipment had been traded in.

Our review showed also that many items having relatively insignificant value were being capitalized. We noted, for example, that bookcase bases ranging in cost from $5 15 to $13 67 per unit were included as property items on the subsidiary cards. More specifically, 30 bookcase bases, having a unit value of $6.50 each, purchased in fiscal year 1961 were capitalized as nonexpendable property In our opinion, no useful purpose is served by capitalizing items of such low value.

We discussed our findings with officials of the Financial Management Section and suggested that they:

1. Review the criteria for capitalizing items of nonexpendable property with a view towards eliminating the capitalization of items with relatively insignificant values.

2. Take a physical inventory of nonexpendable property to determine the quantities and values of items actually on hand.

3. Reconcile the results of the physical inventory with the subsidiary property control cards and make appropriate adjustments to the subsidiary account cards.

4. Adjust the balance in the general ledger control account to agree with the total of the subsidiary property account cards

These officials agreed with our findings and said that they were aware that the balance in the nonexpendable property account did not accurately reflect the value of property on hand We were advised that a review would be made concerning the capitalization of property items and that a physical inventory would be taken as soon as manpower becomes available.

In view of the significant value of property assets of the Commission, we believe that every effort should be made to determine the proper value of nonexpendable property on hand.

We were advised that effective in July 1968 the Commission's accounting services, including the administrative certification of disbursement vouchers, are being provided by the General Services Administration (GSA) on a reimbursable basis. Settlement reviews, therefore, for fiscal year 1969 and later will be on the basis of reviews of the administrative procedures and internal controls exercised by GSA.

In accordance with 8 GAO 13, the records of financial transactions through June 30, 1968, may be sent to the Federal Records Center for storage.

We wish to acknowledge the excellent cooperation given our representatives during the review. Your comments and advice as to the corrective action taken on the matters discussed in this report will be appreciated.

Sincerely yours,

Max A Neuwirth
Associate Director

The Honorable Glenn W. Sutton
Chairman
United States Tariff Commission