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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

6 AO 00375

SEP 20 1974

Mr. Lloyd Hayes
Treasurer, National Gallery of Art
Constitution Avenue at Sixth Street, NW.
Washington, D.C. 20565

AGC 01464



Dear Mr. Hayes:

We have completed a review of payroll and leave operations of the National Gallery of Art. Our review work, which was performed during the period May to July 1974, consisted of an evaluation of administrative procedures and internal controls for pay and leave of employees paid from Federal funds. We did not make a detailed examination of individual payroll and leave transactions. Except as discussed below, we found the payroll and leave procedures and controls to be generally satisfactory.

We also determined the current status of recommendations contained in our report dated November 3, 1970, to the President, National Gallery of Art, on the results of a review of certifying officers' accounts. We found these recommendations have been or are in process of being implemented. We are recommending, however, that you take action to insure that fiscal records of capitalized equipment are reconciled with physical inventories in a more timely manner. (See pp. 4-6 of this letter.)

We invite your attention also to our suggestion on the need to reappraise internal audit activities. (See pp. 6 and 7.)

NEED FOR IMPROVEMENT OF
TIMEKEEPING PROCEDURES

Through a discussion with the Assistant Treasurer, we learned that an employee had been found to be taking time off from work without charging leave. During an investigation of this matter, the employee resigned. In our review of timekeeping procedures, we directed attention to identifying weaknesses in controls that permitted this situation to occur and to determining whether the timekeeping system had been strengthened to prevent a recurrence.

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Timekeeping for the labor force

Timekeeping functions at the National Gallery of Art are performed by 24 timekeepers, each of whom has other duties as well. Each timekeeper is responsible for recording daily time and attendance of a group of employees and for submitting biweekly time and attendance reports to the Treasurer's Office for further processing. Each timekeeper generally has timekeeping responsibility for not more than 20 employees.

We noted, however, that the timekeeper for the labor force has timekeeping responsibility for 96 employees. We discussed this matter with the Assistant Treasurer who agreed that this is an excessive number of employees for one timekeeper to monitor effectively, particularly since the duties of labor force employees require them to be scattered throughout the building. It is to be noted that the former employee, mentioned above, who was found to be taking time off from work without charging leave was a member of the labor force.

Following a discussion between the Treasurer's Office and the Building Superintendent, the Assistant Treasurer informed us that four or five additional timekeepers will be designated for the labor force. We believe increasing the number of timekeepers as thus proposed should help to minimize errors in reporting labor force employees' time and attendance.

Timekeepers' reliance on "in-and-out" records

Through discussion with members of the guard force and from responses to questionnaires distributed to timekeepers, we learned that some timekeepers and supervisors, as a means of monitoring employee attendance, rely on "in-and-out" records maintained by the guard force for building security purposes. These records, however, are not fully reliable for monitoring daily attendance because in-and-out times are not always recorded for all employees. Members of the guard force informed us that, because some employees often arrive and leave in groups, employees' arrival and departure times are not always entered in the records.

We brought this matter to the attention of the Assistant Treasurer who stated that he will reemphasize to timekeepers and supervisors their responsibility for daily monitoring employee attendance and stress that they should not rely on in-and-out records for this purpose. We believe the importance of this matter could be appropriately emphasized by distributing circulars to timekeepers and supervisors and through training programs.

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The Assistant Treasurer said he would also reemphasize to employees the requirement, for security reasons, for them to notify members of the guard force when entering and leaving the building. We believe this emphasis might be achieved by issuing circulars to employees and by having supervisors remind employees of this requirement from time to time.

Timekeeping manuals

Although most timekeepers have been provided with a timekeeping manual, 9 of the 24 timekeepers do not have such a manual. The Assistant Treasurer assured us that all timekeepers will be supplied with a manual.

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We believe the actions proposed by the Assistant Treasurer, if effectively carried out, will strengthen timekeeping operations.

NEED FOR SEPARATION OF DUTIES

Timekeepers for employees of the labor and guard forces also participate in the distribution of paychecks and savings bonds to these employees.

As brought out in title 6 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual) (6 GAO 9), we believe that, to the extent that the size of an organization will permit, functions such as timekeeping and internal distribution of paychecks and savings bonds should be performed by different individuals to minimize opportunities for carrying out unauthorized, fraudulent, or otherwise irregular acts.

We discussed this matter with the Assistant Treasurer who agreed that timekeeping and paycheck and bond distribution functions should be separated. He said that duties of labor force and guard force personnel will be reassigned to insure that employees who keep time and attendance records do not also participate in distributing paychecks and bonds.

We believe this planned realignment of functions, if effectively implemented, will strengthen internal controls over the distribution of paychecks and bonds.

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STATUS OF RECOMMENDATIONS MADE
IN OUR NOVEMBER 3, 1970, REPORT

Need for more timely inventory
reconciliations

The approved accounting system for the National Gallery of Art requires that a physical inventory of capitalized equipment be taken annually. In our November 3, 1970, report we noted that physical inventories of this equipment had not been taken for some years. We recommended that physical inventories be taken as required and that fiscal records be reconciled with these inventories.

In accordance with our recommendation, a physical inventory of capitalized equipment was completed in May 1973. We were informed by an accountant in your office that a reconciliation of fiscal records with the inventory is in process and is expected to be completed in the near future. A shortage of available staff was cited as the reason for the delay in completing the reconciliation.

We believe fiscal records should be reconciled with physical inventories promptly after the inventories are taken. If too much time elapses between a physical inventory and reconciliation, the benefits of the inventory procedure could be eroded because the inventory may change significantly between the time it was taken and the time the reconciliation is performed. The GAO Manual (2 GAO 12.5) provides the following guidance on this subject.

"Physical inventories of both expendable materials and supplies and fixed assets shall be taken at regular intervals. This procedure is necessary as a check on the effectiveness of the accounting procedures to provide adequate and accurate information on all significant changes in the investment in property assets.

* * * * *

"Differences between quantities determined by physical inspection and those shown in the accounting records shall be investigated to determine the causes of difference and identify necessary improvements in procedures to prevent errors, losses, or irregularities. Accounting records shall be brought into agreement with the results of physical inventories."

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Recommendation

We recommend that you take steps to (1) have the reconciliation of fiscal records with the capitalized equipment inventory completed as expeditiously as possible and (2) insure that, in the future, fiscal records are reconciled with physical inventories promptly after each inventory is taken.

Proposed change in inventory procedures

A comparison of the May 1973 physical inventory of capitalized equipment with property record cards indicated that there has been a minimum loss of this equipment from pilferage. In view of the indicated low rate of pilferage, the Acting Deputy Administrator recommended that a physical inventory of the equipment be taken only once in every 3 years rather than annually. We understand this recommendation is under consideration by the Administrator.

The GAO Manual (2 GAO 31) states that changes in an approved accounting system may be made without formal approval of the Comptroller General, provided the basic application of accounting principles and standards in the system design are not changed. The manual points out that changes in an accounting system should be discussed with representatives of GAO to determine whether or not they should be submitted for approval.

We suggest that, before any decision is made to extend the interval for taking physical inventories of capitalized equipment, you discuss this matter with representatives of the Financial Management Group of GAO's Division of Financial and General Management Studies to determine whether such a change would constitute a significant deviation from the approved accounting system which would require approval by the Comptroller General. We have informed Mr. Richard W. Maycock of the Financial Management Group of your interest in resolving this question.

Other matters

Our November 1970 report brought out that (1) several errors had been made in posting information to employees' individual retirement records and (2) records of leave data transferred had not been prepared for some employees. The errors in retirement records were attributed to the inexperience of posting clerks in the Personnel Office; responsibility for keeping these records was subsequently

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transferred to the Treasurer's Office where employees had more experience in payroll procedures. We were advised by the Assistant Treasurer that corrective action also had been taken, in accordance with our recommendation, to process records of leave data transferred for all employees separated with sick leave balances since our last previous payroll audit in 1963.

NEED TO REAPPRAISE INTERNAL
AUDIT ACTIVITIES

Internal reviews at the National Gallery of Art are carried out in various ways, including some reviews and analyses of operations by the organization's two management analysts, post-checking of payroll and leave data by a payroll clerk, and periodic checking of inventories of works of art by the Registrar's Office. There is no internal audit function as such, however, by which management can obtain independent, objective appraisals of operations as a result of systematic, periodically recurring internal audits.

According to the Assistant Treasurer, management has believed that the development of a more comprehensive internal audit capability was not warranted because of the relatively small size of the organization. We believe a reappraisal of this concept may be in order when it is considered that the National Gallery of Art

- is responsible for assembling and maintaining a national collection of paintings, sculpture, and graphic arts which, according to the Assistant Treasurer, was valued at more than \$225 million at June 30, 1974,
- receives significant amounts of funds each year, from both Federal and private sources, with which to carry out its responsibilities (for example, \$6.2 million in Federal funds and about \$1.5 million in private funds were received for fiscal year 1974 operations), and
- had a staff of 377 regular employees and 71 part-time and intermittent employees as of May 31, 1974, which, according to the Assistant Treasurer, is expected to expand by about 500 additional employees within the next few years.

We believe a more coordinated internal audit function could provide a valuable service to the National Gallery of Art in all areas of its operations, including those involving both Federal and private funds.

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GAO has consistently encouraged the development of strong internal audit systems throughout the Federal Government to improve management control by providing objective information to management on the effectiveness, efficiency, and economy of agency operations. We are enclosing a copy of a recently issued GAO pamphlet on "Internal Auditing in Federal Agencies" which we believe may be of interest to you. As noted on page 2 of the pamphlet, internal auditing can be of special benefit to both large and small organizations.

You may find it helpful to consult with management officials of the Smithsonian Institution on the approaches taken by the Smithsonian in strengthening its internal audit function.

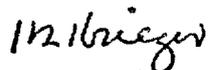
We shall be happy to meet with you to discuss this matter further should you so desire.

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We wish to acknowledge the courtesies and cooperation extended to our representatives during our review. We shall appreciate your comments relative to any action taken or planned by you on the matters discussed in this letter.

Copies of this letter are being sent to the Secretary, Smithsonian Institution, and to the President and the Administrator, National Gallery of Art.

Sincerely yours,



H. L. Krieger
Regional Manager

Enclosure

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UNITED STATES GENERAL ACCOUNTING OFFICE
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803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

SEP 20 1974

The Honorable S. Dillon Ripley
Secretary, Smithsonian Institution

Dear Mr. Ripley:

Enclosed for your information is a copy of our letter to the Treasurer, National Gallery of Art, on our review of payroll and leave operations.

Copies of the letter also are being sent to the President and the Administrator, National Gallery of Art.

Sincerely yours,

H. L. Krieger

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Regional Manager

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*Attachment
in enclosure*



UNITED STATES GENERAL ACCOUNTING OFFICE
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803 WEST BROAD STREET
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SEP 20 1974

Mr. Paul Mellon
President, National Gallery of Art
Constitution Avenue at Sixth Street, NW.
Washington, D.C. 20565

Dear Mr. Mellon:

Enclosed for your information is a copy of our letter to the Treasurer, National Gallery of Art, on our review of payroll and leave operations.

Copies of the letter also are being sent to the Secretary, Smithsonian Institution, and to the Administrator, National Gallery of Art.

Sincerely yours,

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Mr. Joseph P. English
Administrator, National Gallery of Art
Constitution Avenue at Sixth Street, NW.
Washington, D.C. 20565

Dear Mr. English:

Enclosed for your information is a copy of our letter to the Treasurer, National Gallery of Art, on our review of payroll and leave operations.

Copies of the letter also are being sent to the Secretary, Smithsonian Institution, and to the President, National Gallery of Art.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger
Regional Manager

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