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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON REGIONAL OFFICE GAO 00375

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FALLS CHURCH, VIRGINIA 22046

FEB 5 1973

Dear Mr. Chamberlin

Enclosed for your information is a copy of our letter with enclosure to the Acting Director, National Bureau of Standards, Department of Commerce, on the results of our recent review of selected aspects of the Bureau's financial management system.

In making our review, we evaluated the effectiveness of the Department's Office of Audits' internal audits of the Bureau's financial management procedures and practices, including the functions of accountable officers and payroll operations. We found that these areas have not been given sufficient internal audit attention to insure that the full potential benefits of internal auditing are obtained by the Bureau's management. We are bringing this matter to your attention so that you can take appropriate action.

AGC 01020

We were informed by Bureau officials that no recent internal audits have been made of the Bureau's payroll operations or the functions of its accountable officers except for one audit of imprest funds. According to officials of the Office of Audits, the records of that Office indicate that no internal audits have been made of the Bureau's payroll activities or accountable officer functions (other than those of imprest fund cashiers) within the past 10 years.

We noted that the Office of Audits recently has begun a financial survey of the Bureau's working capital fund. According to an Office of Audits official, the primary objectives of the survey are to evaluate the fund's accounting procedures and internal controls and to determine the accuracy and reliability of the fund's accounting records. We understand that the survey plans, as currently conceived, do not provide for a review of payroll operations. We were informed by Office of Audits officials, however, that consideration is being given to including the Bureau in a Department-wide survey of the automatic processing of payroll data which is planned by the Office of Audits for fiscal year 1973.

The need for systematic internal audits of accountable officer functions was reemphasized by the Comptroller General in a memorandum to the Heads of Departments and Agencies dated August 1, 1969 (B-161457). This memorandum pointed out that internal audits of accountable officer functions should emphasize evaluations of the effectiveness of accounting and internal controls and include examinations of disbursement and collection transactions to provide assurance that the functions are discharged correctly and in accordance with applicable laws and regulations.

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The need for internal audits of payroll operations is discussed in title 6 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. In section 12 of this title it is pointed out that

"The assumption that payroll auditing is a function to be performed primarily by the General Accounting Office is erroneous. It is essential that each agency head provide, as part of his management control system, adequate internal auditing which will help provide assurance that, as to pay, leave, and allowance matters, all payments are made in compliance with applicable laws, regulations, and decisions and that leave privileges are properly administered."

In our discussion of this matter, officials of the Office of Audits agreed that more internal audit attention should be given to the Bureau's financial management activities. They attributed the limited audit coverage of these activities in the past to the fact that audit priorities are established largely on the basis of management interest and potential for cost savings and increased effectiveness and efficiency. They said that, as a result of this approach, internal audits of payroll operations, accountable officer functions, and other financial management activities have tended to be placed in a low-priority category which, in many instances, has resulted in audits of these activities not being made.

We recognize that performing financial management reviews must be considered in the context of the Office of Audits' total audit requirements. We believe, however, that a balanced internal audit coverage must include systematic reviews of financial activities, controls, and procedures, including those relating to payroll operations and accountable officers' accounts, inasmuch as it is the individual departments and agencies which have the primary audit responsibility in these areas. Consequently, it is our view that increased internal audit attention should be given by the Office of Audits to evaluating the effectiveness of the Bureau's financial management activities.

#### Recommendation

We agree that the current survey of the working capital fund and the planned survey of automatic payroll data processing operations are steps toward fulfilling the Office of Audits' financial management audit responsibility to the Bureau. We recommend that you continue this increase in audit coverage of the Bureau's financial operations by developing plans

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for making systematic, periodically recurring internal reviews of the Bureau's financial management activities, including its payroll operations and its accountable officer functions

We shall appreciate your comments concerning this matter.

Sincerely yours,

*H. L. Krieger*

H. L. Krieger  
Regional Manager

Enclosure

The Honorable Guy W. Chamberlin, Jr.  
Acting Assistant Secretary for Administration  
Department of Commerce

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