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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON REGIONAL OFFICE

GAC 00375

FIFTH FLOOR

803 WEST BROAD STREET

FALLS CHURCH, VIRGINIA 22046

FEB 5 1973



LM093910

Dear Dr. Kushner:

We have reviewed selected aspects of the financial management system of the National Bureau of Standards. Our review included an examination of the accounts of accountable officers through June 30, 1971; a review of the payroll and leave records for the leave year ended January 8, 1972; a limited amount of testing in subsequent periods for specific types of pay actions; and an evaluation of administrative procedures and internal controls, including internal audit, relating to the receipt and disbursement of funds and pay and leave operations.

On the basis of our review, we believe that some of the Bureau's procedures and internal controls should be strengthened. We found a need for improvement with regard to controls over cash receipts, debt collections, reporting of uncollectible receivables, receipt and acceptability of goods and services, certain subsistence payments, and internal audits. These matters, together with pertinent comments of Bureau officials, are discussed more fully in the enclosure to this letter and are being brought to your attention so that you can take appropriate action.

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

Copies of this letter and enclosure are being sent to the Acting Assistant Secretary for Administration, Department of Commerce, and to the Associate Director for Administration, National Bureau of Standards. AGC00074

Sincerely yours,

*H. L. Krieger*H. L. Krieger
Regional Manager

Enclosure

Dr. Lawrence M. Kushner
Acting Director, National Bureau
of Standards
Department of Commerce~~712879~~

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NEED TO IMPROVE CERTAIN

PROCEDURES AND INTERNAL CONTROLS

The Bureau needs to:

- establish control over cash collections,
- take aggressive collection action to recover amounts due the Government,
- estimate uncollectible receivables and disclose this information in related financial reports,
- establish a control to insure the receipt and acceptability of goods and services by authorized individuals,
- determine and recover any overpayments for subsistence expenses resulting from misinterpretation of a provision of Office of Management and Budget Circular A-56,
- audit its imprest fund more frequently, and
- provide assurance that internal audits include all Bureau activities.

NEED FOR IMPROVED INTERNAL
CONTROL OVER CASH RECEIPTS

The Bureau receives substantial amounts of cash (including currency, checks, and other negotiable instruments) from various sources. It is therefore important that effective internal management controls be maintained over these funds to minimize the possibilities of fraud or misuse.

Among the more important elements of internal control in the handling of cash receipts are (1) promptly placing the funds under appropriate accounting control and (2) the segregation of duties between persons responsible for handling cash and those participating in accounting and operating functions. We found that there is a need for improvement in the Bureau's internal controls in these areas.

The Bureau's cash collections are of three principal types: Accounting Division receipts, proceeds from sales of publications, and proceeds from sales of standard reference material. According to a Bureau official, the Bureau's cash collections normally are in excess of \$20,000 a day. We noted that during June 1971, the last month covered by our review of financial transactions, the Bureau's deposits of cash collections into the Treasury averaged about \$97,000 daily.

According to information provided by a Bureau official, the bulk of the cash collections consists of Accounting Division receipts and fees for standard reference material, with publications sales accounting for only a very small part of the total amounts collected. We were informed further that almost all the Bureau's cash collections are received through the mail.

Need to improve accounting
control over collections

The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual) (7 GAO 11) provides that all moneys received by Government officers and employees should be placed under appropriate accounting control promptly upon receipt. We found that the Bureau uses a different procedure for each of its three principal types of cash collections and that only one of these procedures results in the collections being placed under accounting control when they are received. The three procedures are discussed below.

All mail for the Office of Publications is opened when it is received in the mailroom. All cash receipts contained in this mail are listed by mailroom personnel. The moneys thus received, together with the listing, are then delivered to the Accounting Division. As a result, effective accounting control over these funds is promptly established.

Some of the mail for the Office of Standard Reference Material is opened in the mailroom, but most of it is forwarded unopened to that Office. In neither case is any listing of cash receipts made by anyone and sent to the Accounting Division for control purposes. The Accounting Division has no knowledge of these funds until they are turned over to the Division by the Office of Standard Reference Material at some later time. In the meantime, the funds are not under accounting control. Further, there is no assurance that all standard reference material collections are eventually turned over intact to the Accounting Division. As a result, opportunities are created for the diversion or misappropriation of these funds.

All mail for the Accounting Division is opened in the mailroom, but no listing is made of cash receipts at that time. After the mail has been opened, it is sent to the Accounting Division. Under this procedure, there is no accounting control over these funds between the time the mail is opened and the time it is delivered to the Accounting Division. Even after the mail is received by the Accounting Division, accounting control over the cash receipts is not established immediately but is done at some later time.

We discussed this matter with Bureau officials who expressed the opinion that listing all cash receipts when the mail is opened might unnecessarily duplicate the record made of these collections when they are eventually recorded by the Accounting Division. We believe that informal listings

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of all cash collections at the time they are received is essential for establishing effective control over these funds and that these listings would in no way be duplicative of the formal record of collections made later by the Accounting Division since the two records would be prepared at different points and times and would be designed to serve different purposes.

The Bureau officials also suggested that it might be impracticable to increase the involvement of mailroom personnel in the recordkeeping process in view of the mailroom's current limited capability. We believe this problem could easily be resolved by providing the mailroom with additional capability, if necessary, to insure that all cash receipts are placed under accounting control promptly upon receipt.

Recommendation

We recommend that the Bureau's procedures be revised to insure that positive accounting control is established over all cash collections by having a record made of all collections at the time the mail is opened.

Need to segregate cash-handling and accounting functions

The GAO Manual (7 GAO 11.2) provides that persons responsible for handling cash receipts should not participate in accounting functions relating to the billing for goods and services and the control of accounts receivable records.

We noted that individuals responsible for handling cash receipts in the Bureau's Accounting Division also had duties for billing and maintaining accounts receivable. As a result, opportunities were created for the misuse of funds and the concealment of such misuse in the accounting records.

We discussed this matter with a Bureau official who stated that action would be taken to insure adequate segregation of cash-handling and accounting functions. We believe this action, if effectively carried out, will result in more effective internal control over cash receipts.

NEED FOR IMPROVEMENT IN DEBT COLLECTION PRACTICES

The GAO Manual (4 GAO 55) provides that, consistent with the circumstances in different types of cases, agency programs for the collection of debts due the United States should provide for timely, forceful, and persistent action to collect from individual payees, recipients, or other persons legally liable for payment of the debts.

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The manual also provides criteria for debt collection procedures designed to lead to the earliest practicable conclusion of administrative effort to effect collection. In our opinion, the Bureau's debt collection procedures are in accordance with these criteria. We found, however, that in practice these procedures have not always been followed.

In our examination of miscellaneous accounts receivable, we noted that vigorous follow-up action generally had not been taken on old debts, many of which had been outstanding for 1 year or more. For example, we noted one account for \$3,416, representing a refund due for an overpayment of rent, on which no action had been taken since 1961, and two other accounts for \$286 and \$164 on which no action had been taken since 1966 and 1968, respectively.

Several other accounts, ranging from \$50 to \$1,400, had been outstanding since 1971. An Accounting Division official informed us that only two letters, one in April and the other in July 1972, had been used as follow-up measures in attempting to collect each account. According to the Bureau official, no replies to these letters were received.

We discussed this matter with Bureau officials who stated that more aggressive action will be taken to collect these old debts (or to write them off when appropriate). An Accounting Division official attributed the past weakness in this area to a lack of periodic reviews of outstanding debt files by personnel responsible for making collections and to a low priority given to this area by management officials.

Recommendation

We recommend that, to provide assurance that more vigorous collection action is taken on the Bureau's accounts receivable in the future, regular reviews be made of past-due accounts and steps be taken to insure that increased management attention is given to this area.

NEED TO SHOW ESTIMATED AMOUNTS OF UNCOLLECTIBLE RECEIVABLES IN ACCOUNTING RECORDS AND FINANCIAL REPORTS

We believe one of the underlying reasons why the Bureau has not taken more vigorous action to collect its old accounts receivable (or to write them off when they are determined to be uncollectible) is that estimated amounts of receivables that may not be collectible have not been shown in the Bureau's accounting records and financial reports. As a result, management officials have not been systematically kept informed of the amounts of these doubtful receivables and consequently have been without adequate means for effectively administering this area of the Bureau's operations.

Bureau officials agreed that increased management attention should be given to this area. They said that, in the future, periodic estimates of the amounts of uncollectible receivables will be prepared and furnished to the head of the Accounting Division. They were of the opinion that this proposed procedure would provide sufficient control over these receivables for management purposes and that, consequently, it would not be necessary to show the estimated amounts of uncollectible receivables in the Bureau's financial reports.

We do not agree that the proposed procedure will provide adequate internal management control over those receivables that may not be collectible. We believe the Bureau's management officials at all levels should be kept informed of the estimated amounts of uncollectible receivables. In our opinion, this can be accomplished most effectively by recording these amounts in the accounting records and showing them separately in financial reports. The necessity for accounting for doubtful receivables and disclosing information on them in financial reports is discussed in title 2 of the GAO Manual (2 GAO 12.4).

Recommendation

We recommend that, to keep the Bureau's top management officials informed of the estimated amounts of receivables that may not be collectible--thus permitting more effective management control by providing a basis for management inquiries regarding the nature, extent, causes, and status of these receivables--the Accounting Division periodically record the estimated amounts of uncollectible receivables in the Bureau's accounting records and disclose this information in related financial reports.

NEED TO INSURE THAT THE RECEIPT AND ACCEPTABILITY OF GOODS AND SERVICES ARE ATTESTED BY AUTHORIZED PERSONS

The Bureau's administrative procedures require evidence of the receipt and acceptability of goods and services before vendors' invoices are certified for payment. This evidence is required to be either (1) a receipt and inspection report prepared by personnel in the Property Management Section of the Supply Division or (2) an invoice routing and payment authorization (form NBS-162) signed by an appropriate contracting officer's technical representative. Under the Bureau's procedures the latter form is designed to be used primarily when making payment for services and contracts which require recurring evaluations of a vendor's performance.

We found that the Bureau does not have procedures to insure that forms NBS-162 are signed only by authorized technical representatives or other persons having technical knowledge of the procurements. Thus, according to Bureau officials, the authority or technical competence of persons

signing the forms NBS-162 normally is not questioned by procurement or Accounting Division personnel in the verification process leading to the certification of vendors' invoices for payment. As a result, invoices often have been certified for payment on the basis of forms NBS-162 signed by unauthorized persons.

In a review of 22 randomly selected fiscal year 1971 disbursement vouchers that were supported by forms NBS-162, we found that 10 of these forms (45 percent) were signed by persons who did not have signatory authority as designated technical representatives.

For example, we noted two instances in which a secretary in the Supply Division, who was not an authorized technical representative and presumably did not have technical knowledge of the procurement, had signed forms NBS-162 erroneously attesting to the receipt and acceptability of rented data processing equipment for periods after the lease agreement for the equipment had been terminated and the equipment had been purchased by the bureau under a new contract.

As a result, the related vendor's invoices were preliminarily authorized for payment in amounts that were \$115 in excess of what they should have been. In one instance, the potential overpayment was discovered and prevented by procurement personnel before the disbursement voucher was certified for payment. In the other instance, a \$38 overpayment resulted. We were told by a Bureau official that steps are being taken to recover this amount.

Although the overpayment in this instance was relatively small, the situation serves to illustrate a weakness in the Bureau's internal controls which could result in substantial losses.

We discussed this matter with Bureau officials who stated that appropriate action will be taken to strengthen the Bureau's procedures to insure the appropriateness of signatures on forms NBS-162.

Recommendation

We recommend that the action to be taken by the Bureau include the establishment of positive control procedures to insure that all forms NBS-162 evidencing the receipt and acceptability of goods and services are signed by authorized individuals who have technical knowledge of the procurements involved.

OVERPAYMENTS FOR SUBSISTENCE EXPENSES

Office of Management and Budget Circular A-56, revised June 26, 1969, provides that employees may be paid for subsistence expenses up to 30 days while occupying temporary quarters incident to a permanent change of station. The circular provides further that employees may be paid for an additional 30 days of subsistence expenses while occupying temporary quarters when transferred to or from Hawaii, Alaska, the territories and possessions, the Commonwealth of Puerto Rico, and the Canal Zone.

Our review of travel expense payments to 16 randomly selected employees during fiscal years 1970, 1971, and 1972 revealed one instance in which an employee had been overpaid \$259 for an additional 30 days of subsistence expenses while occupying temporary quarters incident to a transfer within (rather than to or from) Hawaii. In addition, we were told by Bureau personnel of another instance (outside our review sample) in which an employee had been overpaid \$431 for an additional 30 days of subsistence expenses in similar circumstances.

According to a Bureau official, these overpayments were made because the Bureau's travel voucher examiners had misinterpreted the provisions of the Office of Management and Budget circular. The Bureau has taken action to recover the amounts of the overpayments from the payees.

Recommendation

We recommend that (1) a review be made of travel expense payments for fiscal years 1970 through 1972 to determine the amounts of any other overpayments that may have been made for subsistence expenses related to temporary quarters occupancy incident to permanent changes of station within Hawaii, Alaska, the territories and possessions, Puerto Rico, and the Canal Zone and (2) action be taken to recover the amounts of any such overpayments.

NEED FOR MORE FREQUENT
AUDITS OF IMPREST FUNDS

Government departments and agencies, in carrying out their responsibilities for maintaining effective internal control over their cash resources, are required by Treasury Department Circular 1030 to make unannounced audits of their imprest funds, including the verification of cash balances, at least once each quarter.

We found that, in fiscal year 1972, the Bureau made from one to four audits of six of its eight imprest funds but that none of the funds were audited as often as once each quarter. Although these audits did not disclose any discrepancies in cash balances or other serious irregularities

in the handling of the funds, we believe the funds should be audited more frequently to provide the Bureau's management with greater assurance that all funds are accounted for, that the amounts of the funds are not in excess of requirements, and that procedures are being followed that will protect the funds from loss or misuse.

We discussed this matter with a Bureau official who agreed that the Bureau's imprest funds should be audited more frequently. He said that, in the future, these funds will be audited at least once each quarter in accordance with the prescribed procedure.

NEED FOR MORE FREQUENT AUDITS
OF PAYROLL OPERATIONS AND
ACCOUNTABLE OFFICER FUNCTIONS

The benefits of internal auditing, as an important element of management control, are discussed in title 3 of the GAO Manual (3 GAO 50, 51, and 52). The manual (3 GAO 52) points out that internal auditing should extend to all agency activities and related management controls, including the audit of accounts and financial transactions.

In a memorandum dated August 1, 1969 (B-161457), to the Heads of Departments and Agencies, the Comptroller General reemphasized that department and agency procedures and controls should include systematic internal reviews of the financial management system.

In examining into the extent of internal audit coverage at the Bureau, we found that no recent internal audits had been made of payroll operations or the functions of accountable officers except for one audit of imprest funds. We were informed by officials of the Office of Audits, Department of Commerce, that the records of that Office indicated no internal audits had been made of the Bureau's payroll activities or its accountable officer functions (other than those of imprest fund cashiers) during the past 10 years.

We noted the Office of Audits recently has begun a financial survey of the Bureau's working capital fund. We understand the primary objectives of this survey are to evaluate the fund's internal controls and accounting procedures and to determine the accuracy and reliability of the fund's accounting records. Thus, the survey will provide the Bureau with an independent appraisal of this part of its financial management activities.

In our discussion of this matter, an Office of Audits official explained that internal audit priorities are influenced to a considerable degree by the amount of interest expressed by officials responsible for the management of audited activities. We believe, therefore, that the Bureau's

management should participate more actively in the formulation of internal audit plans to provide assurance that internal auditing will extend to all Bureau activities and thus be a more effective part of the Bureau's management control system.

Recommendation

We recommend that, in future discussions of audit plans with Office of Audits officials, the Bureau emphasize the need for systematic, periodically recurring internal reviews of the Bureau's financial management activities--including its payroll operations and its accountable officer functions--to insure that the full potential management benefits from these audits will be obtained.



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FEB 5 1973

Dear Mr. Walleigh:

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

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager

Enclosure

Mr. Robert S. Walleigh
Associate Director for Administration
National Bureau of Standards
Department of Commerce