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Report to Harvey J. Baine III, Assistant Administrator for Fiscal Affairs, National Credit Union Administration; by David P. Sorando, Regional Manager, Field Operations Div.: Regional Office (Washington).

Issue Area: Accounting and Financial Reporting (2800).
Contact: Field Operations Div.: Regional Office (Washington).
Budget Function: General Government: Central Fiscal Operations (803).

Following the annual audit of the National Credit Union Administration's financial statements, improvements were recommended in the internal control system.
Findings/Conclusions: Controls over payments to contractors, cash receipts and deposits, and voucher reviews could be strengthened. The Administration had 18 active non-Federal Government contracts totaling more than $346,000 as of June 24, 1976. Invoices against such contracts were not subject to approval by the recipient prior to payment by the Division of Financial Management (DFM), and DFM personnel did not routinely verify that the terms of the contract were met and that charges do not exceed contract price. Daily receipts through the mail are logged by the cash clerk, but mail personnel occasionally open mail when the clerk is not present. Some receipts are not recorded immediately. There is inadequate control and unclear responsibility for cash receipts. In many cases, transaction vouchers are not signed by approving officials. The Administration's liability for security services provided have not been properly recorded in the accounting records.
Recommendations: The Director of DFM should: insure effective management control of disbursements to contractors, open the mail only when the cash clerk is present to record the cash receipts, and lock up and safeguard daily deposits. Personnel in DFM should indicate voucher review by signature or initial to substantiate the system of internal control. (RRS)

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00308

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WASHINGTON REGIONAL OFFICE
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FALLS CHURCH, VIRGINIA 22046

FEB 28 1977

Mr. Harvey J. Baine III
Assistant Administrator for Fiscal Affairs
National Credit Union Administration
2025 M Street, NW.
Washington, D.C. 20456

Dear Mr. Baine:

As you know, we have recently completed our annual audit of the National Credit Union Administration's financial statements. In connection with that effort, we reviewed selected aspects of the internal control system in effect.

Based on our review, we found controls over payments to contractors, cash receipts and deposits, and voucher reviews could be strengthened and recommended improvements as discussed below. In addition, we found the Administration's liability for security services provided had not been properly recorded in the accounting records. We discussed these points with the Director, Division of Financial Management (DFM), and in all cases were informed that corrective action would be taken.

Payments to contractors

The Administration had 18 active non-Federal Government contracts totaling in excess of $346,000 as of June 24, 1976. These are contracts for products and services to various offices throughout the Administration. Officials in the receiving offices are aware of contractual terms and contractor performance, and effective fund control requires that such officials play a key role in processing contractor billings for payment.

We found, however, that invoices against contracts are not subject to approval by the recipient prior to payment by DFM. DFM personnel do not routinely verify that the terms of the contract were met and that the charges do not exceed the contract price before processing an invoice for payment. This practice could result in erroneous payments to contractors or payments for inadequate contractor performance.

We recommended action be taken to insure effective management control of disbursements to contractors. The Director, DFM, also recognized the weaknesses in this system.

He informed us that a new procedure would be instituted that would require prior approval of certifying contractor performance by the cognizant official receiving the service before any payments are made and would develop a control within DFM to insure payments do not exceed contract price ceilings.

Cash receipts

Daily receipts through the mail are logged by the cash clerk for DFM. Mailroom personnel occasionally open mail when the clerk is not present, and some receipts are not recorded immediately. The risk of theft or loss could be minimized by requiring the presence of the cash clerk when mail is opened.

We recommended to the Director, DFM, that mail be opened only when the cash clerk is present to record the cash receipts. He agreed and informed us that corrective action would be taken.

Daily deposits

An accounting technician in DFM prepares daily cash receipts for deposit with the Administration's bank account. The deposits are taken to the DFM Director's office and remain without safeguard in his secretary's outgoing mail box until picked up by a messenger and taken to the bank. The messenger signs for deposits but does not obtain a bank receipt for funds deposited. These practices provide inadequate control and unclear responsibility for cash receipts, and could result in the loss of cash receipts.

We discussed this matter with the Director, DFM, and he assured us that daily deposits would be locked in a bag and safeguarded while awaiting messenger pickup and that the messenger would carry daily deposits to the bank in the locked bag.

Voucher review

The Administration's procedures require documentary evidence that the transaction voucher review phase of the system of internal control is being practiced. Our review of the Administration's accounting records showed that transaction vouchers in many cases were not signed by approving officials. Personnel in DFM should indicate their reviews by

signature or initial to substantiate the system of internal control is being followed in DFM.

We discussed this matter with the Director, DFM, and he informed us he would emphasize this internal control point to his staff.

Liability for security services

Security services for the Administration's headquarters office are provided by the General Services Administration (GSA) under contract on a fiscal year basis. The Administration recorded no liability for fiscal year 1976 services at yearend pending receipt of a bill from GSA. Accounting principles require the recognition of liabilities in financial statements even when precise amounts are unknown, in order to provide a proper matching of revenue and expenses. The security service expense could be reasonably estimated and recorded in the accounting records based upon periodic billings from GSA.

As a result of our discussions with officials in DFM, the accounting records were adjusted in fiscal year 1977 to reflect the security service liability of $9,200 for fiscal year 1976, and the expense will be recognized as incurred in the future.

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We appreciate the corrective actions promised and taken by the Director, DFM. If you have any questions concerning the matters discussed in this letter, please contact us. Thank you for the courtesy and cooperation provided our staff during the review.

Sincerely,

David P. Sorando

David P. Sorando
Regional Manager