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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

MAR 10 1972

Dear Mr. Zarb:

We have completed a review of the Working Capital Fund (WCF) segment of the Department of Labor's accounting system in operation. This review is our first test of the WCF segment since the design for the segment was approved by the Comptroller General on January 28, 1970.

The WCF was established on June 29, 1957, to provide authority for financing certain specified services by reimbursement, in advance, from funds available to the Department's bureaus and offices, and other Government agencies. The services, which include accounting and payroll, data processing, visual exhibits, space management, procurement, and contracting, are performed by various organizational units in the Department designated as WCF cost centers.

Our review, which covered primarily the period July 1, 1970, through June 30, 1971, was directed toward evaluating whether personnel in the Office of Assistant Secretary for Administration and Management (OASA) were operating the WCF segment within its approved design. The review included an examination of the procedures and internal controls, test-checks of transactions, reports, records and related documents, and reviews at four of the 43 cost centers established to provide centralized services. We did not make an audit of the financial statements prepared for the WCF.

Our review revealed a number of weaknesses and deficiencies in the operation of the WCF accounting system segment and an indication that the system was not operating fully within its approved design. Most of the problems noted resulted because OASA personnel of the WCF accounting staff, the Branch of Voucher Payment and other cost centers, did not follow the procedures and requirements in the WCF accounting manual and the General Accounting Office (GAO) Policies and Procedures Manual for Guidance of Federal Agencies.

The details of our findings were presented to OASA officials who agreed with them and informed us of various corrective actions taken or planned. Our findings are summarized briefly below, along with our recommendations for further corrective action.

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Required Financial Statements Not Prepared Or Not Prepared Timely Or Accurately--The WCF accounting staff did not prepare the required monthly and quarterly internal statements on the WCF for several periods during fiscal year 1971 and, when the required statements were prepared, they were not prepared timely. Also, the required financial statements prepared and submitted quarterly to the Treasury Department during fiscal year 1971 contained errors and misclassifications of assets and liabilities, and misstatements of income and expenses.

OASA officials stated that the misclassifications, misstatements, and errors we noted would be corrected, that monthly accruals where needed would be prepared, and that a review of all internal financial statements and reports would be made to determine those deemed necessary for managing the WCF.

Need To Improve Controls Over Reporting Unliquidated Obligations--The Department's year-end closing instructions for fiscal year 1971 required departmental personnel to reconcile, beginning as of April 30, 1971, unliquidated obligations to the accounting records and to certify that each item represented a valid obligation. We found that the WCF accounting staff and personnel in the cost centers had not complied with these instructions. It appears that some of the \$824,205 in unliquidated obligations recorded by the WCF at June 30, 1971, may not have been valid obligations. OASA officials stated that the accounting staff and cost centers would make a thorough review of the unliquidated obligations for the WCF and remove all old, inactive amounts and adjust any incorrect amounts.

Action To Be Taken To Accrue Expenditures In Proper Periods--The WCF accounting staff was not recording accruals for some purchases in the proper periods even though data was available from which to develop the accruals. In other cases, the cost centers failed to provide the accounting staff with the data necessary to make the accruals. After we brought our findings on this matter to the attention of the accounting staff, they made adjustments in the accounting records to have the amounts accrued and reported to the Treasury Department for the fiscal year ending June 30, 1971.

Controls Over Other WCF Accounts And At Various Cost Centers Need Improvement--Weaknesses noted in the internal controls over various other WCF accounts included (1) inadequate control over refunds due from vendors, (2) income not being recorded in the period earned, (3) the retained earnings account being used as a contra account for prepaid expenses and to adjust the supplies inventory account contrary to manual requirements, and (4) the general ledger property accounts not being reconciled quarterly to the Department's master property records.

Other weaknesses in internal controls and fiscal operations were noted at (1) the Visual Services cost center in the Office of Information, Publications and Reports, (2) the Branch of Voucher Payment in the Office of Accounting and Payment Service, and (3) the Departmental Data Processing Center.

OASA officials advised us that procedures would be changed and action taken to correct the noted deficiencies and that a team of Systems and Procedure Specialists would visit the three cost centers to provide the managers guidance on proper procedures and controls for future fiscal operations in connection with the WCF.

Need For Internal Audit Of WCF--The Division of Internal Audit has not made any audits or examinations of the WCF operations since the WCF segment design was approved and the revised accounting system was implemented beginning in January 1970. It appears that many of the weaknesses and deficiencies noted in the operations of the WCF accounting system could have been identified and possibly corrected earlier had an internal audit been made of the WCF.

The Chief of the Division of Internal Audit stated that other higher priority work and lack of adequate staff were the principal reasons for the lack of audit effort on the WCF.

Conclusions And Recommendations--We believe that actions taken or to be taken as outlined to us by OASA officials should help eliminate some of the weaknesses and deficiencies revealed by our review. As indicated above, however, the deficiencies occurred primarily because established procedures and regulations in the GAO Policy and Procedures and WCF manuals were not followed.

We believe also that the results of our review have demonstrated a need in the future for a planned and systematic review of the adequacy of the WCF accounting system's procedures and controls by the Department's Internal Audit Staff so that top management would know whether the WCF system is operating as intended.

Accordingly, we recommend that (1) OASA supervisory personnel provide the necessary guidance and instructions to the WCF accounting staff and personnel in the cost centers so that they can more effectively follow required procedures in the GAO and WCF manuals when carrying out their financial management and accounting responsibilities and (2) the Division of Internal Audit be instructed to plan and undertake in the future a systematic review of the WCF accounting system in operation.

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We wish to acknowledge the cooperation given our representatives during the review and we would appreciate being advised of actions taken on the matters and recommendations discussed above.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Associate Director

The Honorable Frank Zarb
Assistant Secretary for Administration
and Management
Department of Labor

cc: Deputy Assistant Secretary for
Administration and Management
Mr. Edward McVeigh
Mr. Edgar Dye
Mr. Wayland Coe