



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

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~~SECRET~~

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

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JANUARY 19, 1979

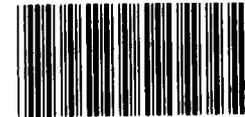
The Honorable Brock Adams
The Secretary of Transportation

Dear Mr. Secretary:

We have reviewed the extent of internal financial auditing performed by your Office of Audits as part of a series of reviews we are conducting in the major Federal departments and agencies. The head of each Federal agency is responsible for establishing appropriate internal audit controls over the agency's funds, property, and other assets under the provisions of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a).

Four audit groups in the Department of Transportation are to be consolidated into a new Office of Inspector General under the Inspector General Act of 1978. Our review was limited to the Office of Audits because it alone is now responsible for performing reviews of internal financial operations within the Department. The other three organizations 1/ are responsible for external audits of the activities of contractors, grantees, and other recipients of funds from their respective organizations.

The Office of Audits' professional staff numbers 82, which is a decrease of 23 positions during the past 5 years including a decrease of 17 in fiscal 1978. The three external audit groups have a total of 293 auditor positions-- 22 more positions than 5 years ago.



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1/The Office of Accounting and Audit of the Federal Aviation Administration, the Office of Program Review and Investigations of the Federal Highway Administration, and the Office of Administration of the Urban Mass Transportation Administration.

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WIDESPREAD FINANCIAL
COVERAGE PROVIDED

The Office of Audits has been providing widespread internal financial coverage to the Department's activities. During fiscal 1975 through 1977 the Office of Audits issued 605 reports, including 264 directed specifically at in-house financial operations. Our review of the audit programs, a sample of the reports, and supporting working papers indicated that coverage has been provided to a wide range of financial areas in each organization within the Department, including

- imprest cash funds, travel activities, and use of GSA self-service store credit cards in the Office of the Secretary;
- management controls over property, procurement activities, and payroll in the Transportation Systems Center of the Research and Special Programs Administration;
- equipment management practices and the right-of-way revolving fund in the Federal Highway Administration;
- internal controls over disbursements, payroll operations, and financial transactions and reports of the U.S. Coast Guard;
- regional accounting operations, voucher examination certification, and the highway safety grant program administered by the National Highway Traffic Safety Administration;
- the accounting system of the Federal Railroad Administration, and selected activities of the National Railroad Passenger Corporation (AMTRAK);
- facilities and equipment, unliquidated obligations, and management of airport grants provided by the Federal Aviation Administration; and
- the accounting system, procurement activities, and the use of capital grant funds awarded by the Urban Mass Transportation Administration.

FINANCIAL AUDITS CONTRIBUTE
TO PREVENTION OF FRAUD AND ERROR

Many of the reports of the Office of Audits focused on lapses in internal controls which, if continued, could have permitted fraud, error, or abuse. For example, a September 15, 1977, report on procedures for internal control over disbursements at the U.S. Coast Guard, First Coast Guard District, Boston, Massachusetts, pointed out that the separation of duties in the disbursing office was inadequate.

The report stated that in the First Coast Guard District, which had an average monthly payroll of about \$3.5 million, checks were prepared, signed, and issued by an assistant disbursing officer under a delegation of authority from a Treasury Department disbursing office. The assistant disbursing officer

- controlled the inventory of blank checks;
- prepared, and under certain circumstances, signed checks;
- controlled and operated the check-signing machine and plate with facsimile signature of the disbursing officer;
- mailed all checks;
- reconciled checks issued with the monthly statement furnished by the Treasury Department, and
- maintained disbursement records.

The majority of the 10,000 checks issued monthly were prepared by the automated data branch, but the assistant disbursing officer and the disbursing clerk--the only disbursing staff personnel--manually typed 1,700 to 1,800 checks each month. The Office of Audits pointed out that this concentration of responsibility did not provide for effective checks and balances within the disbursing activity and did not assure a reasonable degree of internal control over the integrity of the disbursing process.

The First Coast Guard District, which initially was reluctant to correct this deficiency, agreed in November 1978 that the assistant disbursing officer function would be abolished on or near January 1, 1979. Check issuance will be performed by a Treasury regional disbursing office, as the Office of Audits had recommended.

Numerous other violations of internal control procedures have been reported by the Office of Audits. For example:

- An April 1975 report on the Federal Railroad Administration's accounting system pointed out several violations of good internal control, including the fact that one employee had been assigned responsibility for receiving cash, preparing the certificates of deposit, making deposits, and sometimes recording cash receipts in the cash receipts journal.

- A report on civilian payroll activities at the Transportation System Center issued in July 1977 showed that internal controls over the automated data processing system used to prepare payrolls needed improvement. Tests of the computer programs disclosed that they did not incorporate edit routines to flag or reject
 1. invalid bond deduction data,
 2. payments for 80 hours of annual leave and overtime earned in the same pay period,
 3. payroll data on inactive employees, and
 4. lump-sum annual leave payments to current employees.

- A report issued July 15, 1976, on supply management at the Federal Aviation Administration's Flight Inspection Field Office at Battle Creek, Michigan, showed that despite the Federal Aviation Administration's policy that "employees purchasing property shall not receive or store property, * * *" the field office's supply technician was responsible for requisitioning, receiving, storing, issuing, and recording operating materials for which the field office had a recurring demand. He performed the same functions for contractor-owned materials, and in addition, was responsible for taking the inventory.

The Office of Audits has generally been successful in obtaining compliance with its recommendations in the above instances, thereby substantially reducing the opportunity for fraud or error in the audited program areas.

CONCLUSION

The Office of Audits has been providing widespread coverage to the Department's internal financial operations. In addition, many of its reviews have focused on weaknesses in management controls which, if uncorrected, could have permitted the occurrence of fraud or error. However, the decrease in the professional staff of the Office of Audits from 105 to 82--most of that in fiscal 1978--may reduce the audit organization's capabilities to continue the present level of coverage of financial areas without decreasing the coverage of program operations. In view of the impending consolidation of the Office of Audits with the three external audit groups and the investigative groups within the Department, we are reserving our comments on audit staffing at this time except to note that combining internal and external audit in other agencies frequently has resulted in reduced emphasis on internal financial auditing. We hope that you will not allow this to occur at the Department of Transportation.

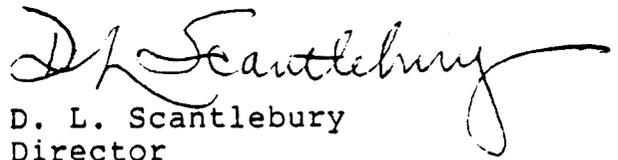
We will be following up in the near future on the actions taken by the Department of Transportation and the other 11 agencies included in the Inspector General Act to implement the provisions of that legislation. We will at that time determine whether each agency is providing adequate emphasis on internal financial auditing as part of the fraud prevention activities of their Offices of Inspector General.

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We are sending copies of this report to the Director, Office of Management and Budget; and to the Assistant Secretary for Administration and Director, Office of Audits of the Department of Transportation.

We appreciate the courtesies and cooperation extended to our representatives during our review.

Sincerely yours,


D. L. Scantlebury
Director