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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

FEB 28 1975

Mr. John M. Woodbridge, Executive Director
Pennsylvania Avenue Development Corporation
425 13th Street, NW., Suite 1148
Washington, D.C. 20004

Dear Mr. Woodbridge:

This letter has been prepared to summarize for your consideration our suggestions for improvements in certain accounting procedures and internal controls noted during our examination of the financial statements of the Pennsylvania Avenue Development Corporation for fiscal year 1974. Our comments were discussed with appropriate personnel on January 17, 1975, and, in some cases, necessary corrective measures may have already been put into effect.

The matters discussed below, although needing correction, were not so material that they required us to qualify our opinion on the financial statements of the Corporation for fiscal year 1974. Corrective measures taken or contemplated will be considered by us in connection with subsequent examinations.

In general, we believe the accounting and internal control systems are operating effectively. We hope these suggestions will be helpful to your staff in improving these systems.

Segregation of duties

The administrative officer has authority to (1) approve purchase orders, contracts, travel documents, and requisitions for equipment, supplies and services; (2) certify receiving reports and invoices for payment; and (3) maintain various accounting records required by the General Services Administration (GSA). A fundamental concept of good internal control is the segregation of duties and responsibilities so that no one person will handle an accounting transaction completely from beginning to end.

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Division of duties should provide steps whereby transactions are authorized, recorded, and the custody of assets accounted for by different individuals so as to provide proper internal checks on performance, as well as minimizing the possibility of misappropriation.

We recommend segregating the approval, certification, and accounting functions among corporate officials and employees, thus providing a greater degree of internal control.

Property records and inventories

The Corporation has responsibility for both maintaining subsidiary property records and annually conducting a physical inventory of its property. Our work on the property account revealed the following areas where improvements could be made.

1. Equipment control cards should not be overly detailed. For each unit of property the cards should give a brief description of the property along with its location, quantity, and cost. Cost includes invoice price, freight, and installation charges.
2. Equipment control cards should be serially numbered and all appropriate units of property tagged with an identification number corresponding to the number on the detail equipment control card. This step would facilitate inventory taking and routine inspections of high valued items.
3. Equipment control cards should be balanced periodically with the general ledger control account and any differences reconciled.
4. Annual physical inventories should be performed by an independent staff member not having property accountability. The inventory should be designed to verify the existence, location, and condition of all property listed on the equipment control card, as well as to disclose the existence of any unrecorded units. The inventory results should be reconciled to the general ledger control account.
5. A dollar criteria should be established in capitalizing fixed assets. Such criteria should be defined in terms of dollar minimums below which expenditures for acquisitions will be accounted for as current operating costs rather than as investments in property.

The use of dollar minimums for some kinds of property, such as office partitions and accessories, is a practical device that may be used to avoid unnecessarily detailed property accounting for items that are too small or interchangeable to warrant such accounting.

Cash discount

During our review of purchase orders and payments, cash discounts allowed by vendors were not taken due to untimely payments. Although the discounts lost were not material the amounts could be more significant in the future. Vendor invoices should be inspected for discount allowances and, since discount periods are relatively short, special attention and coordination with GSA may be necessary to take advantage of the discounts offered.

Corporate minutes

Corporate minutes are the official record of the actions taken at meetings of the board of directors. Since a definite relationship exists between certain board actions and our audit verification procedures, it is suggested that these minutes be signed (by the chairman and the secretary) to establish their completeness and authenticity. We would like to request that a courtesy copy of minutes be furnished to us after their preparation. This would allow us to stay current on corporate activities as well as to be aware of actions and decisions having an impact on the financial statements.

Trade accounts payable

Our audit of trade accounts payable revealed \$48,000 in unrecorded liabilities involving four contractors. An adjustment, agreed to by GSA, was made to properly reflect these payables at June 30, 1974.

In determining payables we suggest reviewing outstanding contracts and appropriate invoices received near the close of the fiscal year. To facilitate our future work, we request that a list of accounts payable at yearend be prepared showing the names of vendors and contractors, voucher numbers, dates, and amounts so that we can verify the yearend liability.

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We would appreciate receiving your views and comments on the above matters and advice as to any action taken or contemplated. We would be pleased to meet with you for further discussion if this would be helpful.

We wish to take this opportunity to formally express our appreciation for the cooperation and many courtesies extended to us by you and your staff during the course of our work.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager