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

GENERAL GOVERNMENT
DIVISION

February 9, 1973

Dear Mr. Torbet:

As requested by your memorandum of November 21, 1972, the General Accounting Office has examined into the financial operations of the Radio Technical Commission for Marine Services.

At the time of our examination the accounting records maintained by RTCM were not current and, with the exception of a short period in 1971, had not been kept current for a period of about 30 months. For most of this period, RTCM had been without the services of a qualified bookkeeper. Under these circumstances we directed our examination toward an evaluation of the internal controls employed over the receipt and expenditure of funds, and to a verification of the amounts expended by RTCM in fiscal year 1972.

Our review and analysis of fiscal year 1972 financial records showed that RTCM's receipts and expenditures were as follows:

	<u>Federal Funds</u>	<u>Non-Federal Funds</u>	<u>Total</u>
Receipts*	\$38,800	\$32,366	\$71,166
Expenditures:			
Personnel compensation	27,263	14,614	41,877
Travel and transportation	1,322	134	1,456
Printing and reproduction	101	5,115	5,216
Other services and expenses	1,205	8,969	10,174
Supplies, materials, office expenses	4,386	1,861	6,247
Equipment	<u>959</u>	<u>447</u>	<u>1,406</u>
Total expenditures	<u>\$35,236</u>	<u>\$31,140</u>	<u>\$66,376</u>
Balance unexpended	<u>3,564</u>	<u>1,226</u>	

The balances in RTCM's bank accounts were as follows

	<u>6/30/72</u>	<u>12/31/72</u>
First National Bank - checking	\$1,109.74	\$ 32.39
Riggs National Bank - checking	387.05	2,078.78

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	<u>6/30/72</u>	<u>12/31/72</u>
Riggs National Bank - savings	7,131.72	5,115.69
National Permanent Savings and Loan Association	<u>42.12</u>	<u>-</u>
Total	<u>\$8,670.63</u>	<u>\$7,226.86</u>

EXPENDITURE CONTROLS

RTCM is funded by Federal contributions, membership fees charged industry participants, and the proceeds from the sale of technical publications. The uses to which Federal and non-Federal funds can be put have not been defined, and as illustrated above, both are used for the same types of expenditures.

We found that RTCM had not prepared a budget for fiscal years 1972 and 1973, and the Executive Secretary advised us that he uses whichever funds he desires, taking into consideration the availability of each and the time factor in the procurement. Immediate needs are met with non-Federal funds while less pressing needs are met with Federal funds through FCC procurement channels. The Executive Secretary also advised us that it is his objective to substantially increase his reserve of non-Federal funds to serve as a cushion against a decline in membership fees. We noted that in fiscal year 1972 Federal expenditures exceeded non-Federal expenditures by about \$4,000. The RTCM by-laws provide that it is the organizations' intent to equalize Federal and non-Federal expenditures.

Expenditures of non-Federal funds are made at the discretion of the Executive Secretary and are not subject to approval by higher authorities, although the Executive Secretary advised us that he seeks approval of the RTCM Executive Committee for unusual or high priced items.

All RTCM purchases with Federal funds are initiated by the Executive Secretary and processed through normal FCC procurement channels which assures that sufficient funds are available and that normal sources of supply are utilized. However, our discussions with FCC officials indicated that the necessity of RTCM expenditures is not questioned unless the purchase would clearly not be approved if it were an FCC procurement. Rather, a requirement for RTCM expenditures is assumed to exist and the purchase made as long as funds are available. FCC is reimbursed by the other participating Federal agencies on a prorated basis.

The controls in effect are adequate to preclude an overobligation of Federal funds. However, a procurement planned with Federal funds, if disallowed, could easily be made with non-Federal funds and vice versa.

To achieve effective control over expenditures, we recommend that:

1. The uses to which Federal and non-Federal funds can be put be clearly defined.

2. RTCM prepare an annual budget which includes estimates for both Federal and non-Federal receipts and expenditures.
3. FCC procurement officials be made aware of the RTCM budget and approve only those purchases that are in accord with the budget.
4. A dollar limit be established for non-Federal expenditures that can be made by the Executive Secretary without prior approval by the Executive Committee.
5. Periodic financial reports be submitted to the Executive Committee by the Executive Secretary. These reports should contain a comparison of the budget and actual receipts and expenditures for both Federal and non-Federal funds.
6. An annual audit of RTCM be performed.

Except as noted below, our examination showed that all Federal and non-Federal expenditures by RTCM were adequately supported by documentary evidence.

FEDERAL EXPENDITURES

During fiscal year 1972, a duplicate payment of \$335.94 was made under an annual service contract for RTCM's offset printing press. This duplicate payment occurred because the vendor billed RTCM on both a monthly and semiannual basis for the same time period and this was not discovered prior to payment. The chief of FCC's finance branch told us that the vendor was advised of the error and adjusted RTCM's account for the amount overcharged.

NON-FEDERAL EXPENDITURES

RTCM has three non-Federal employees: a full-time secretary, a part-time clerk and a part-time printer. Each of these employees is paid at an hourly rate and each maintains his own time card from which the Executive Secretary computes the employees' wages.

In computing the employees' net wages, the Executive Secretary does not withhold State income taxes. The District of Columbia requires employers to withhold District of Columbia income taxes from residents' wages, whereas the States of Maryland and Virginia require this if the employee so requests. Currently, one RTCM employee is a resident of the District of Columbia and should have income tax withheld from his wages. Employees yearly earnings are reported by RTCM to the appropriate State authorities.

In computing the amount of Federal income taxes to be withheld from employees' wages, the RTCM Executive Secretary used the wrong tax table for the part-time printer who worked irregular hours and pay periods. Using the correct table would have increased the amounts withheld.

In addition, RTCM does not have an insurance policy providing for workmen's compensation benefits. We were informed by the District of Columbia workmen's compensation office that all employers must have

workmen's compensation coverage or be subject to penalties for violating the law.

The practice of having employees maintain their own time and attendance records provides no assurance that the reported hours are correct. The problem is increased in this situation since RTCM employees do not work hours that coincide with the Executive Secretary's normal work day. We believe that controls can be improved if the newly detailed bookkeeper, a Federal employee, is designated the timekeeper for the office secretary and the part-time clerk. The printer works for RTCM in the evenings and his reported hours could be verified by the security guards' records which show the time of entry and exit from the building during security hours. An alternative to the above would be to utilize a time clock and have each employee punch-in and -out.

PROPERTY MANAGEMENT

According to the Chief, Finance Branch, FCC is accountable for fixed assets purchased by RTCM with Federal funds. However, our examination showed that property records have not been maintained on a current basis. We found that the property management division had not received notification of property acquisitions by RTCM (as well as FCC organizational components) since about November 1971. Consequently, FCC property records did not include RTCM fiscal year 1972 capital expenditures totaling \$707.05. Also, a physical inventory of RTCM furniture and equipment disclosed that most of the property on the premises was not accounted for on FCC property records. Most items had FCC property identification numbers and, according to the Executive Secretary, were obtained from FCC's property store room. We also found that the property management records contained items that RTCM had disposed of in fiscal year 1972 and prior years. For the most part, we were unable to obtain documentation from RTCM of how these items were disposed of.

RTCM does not maintain property records for capital items purchased with non-Federal funds. Given the state of RTCM's records, we found it impractical to verify that property purchased in prior years was still on hand or had been properly disposed of.

We recommend that:

1. Only Federal funds be used for capital expenditures. This would insure reasonable purchase prices, resolve questions of property ownership should RTCM be discontinued, and provide adequate accounting for RTCM's assets.
2. The property management records be updated and maintained on a current basis so that they establish accountability for Federal property.
3. The Procurement Division notify the Administrative Services Division of all capital acquisitions by RTCM.
4. RTCM be required to notify the Administrative Services Division of all fixed asset retirements.

CONTROL OF RECEIPTS

RTCM receives funds in the form of checks for membership contributions, cash and checks from the sale of its booklet "Marine Radio Telephony" (MRT) and other technical publications, and checks for registrations and other matters relative to its annual assembly meeting. Receipts are not recorded in the accounting records on a daily or other regular basis. However, an analysis of the deposits in the bank accounts maintained by RTCM show that in fiscal year 1972 about \$32,000 was received from these sources.

RTCM has membership contributions sent in care of FCC and thus receives them via the FCC mail. Also, MRT orders are still received via the FCC mail despite recent efforts to have these sent to RTCM's post office box; however, payments for registrations and other matters relative to the annual meeting are received at the post office box.

Mail at the post office is picked up early in the morning by the Executive Secretary and opened by him. However, mail received via FCC may be opened by the office secretary as well as the Executive Secretary. Cash and checks are accumulated in the office and bank deposits made when time permits or the amount on hand is large. Bank deposit tickets for all but MRT receipts are prepared by the Executive Secretary, whereas MRT deposit tickets are prepared by the office secretary and reviewed by the Executive Secretary.

Membership contributions are deposited to a savings account RTCM maintains at the Riggs National Bank whereas MRT receipts are deposited to a checking account at the same bank. Receipts dealing with assembly matters are deposited to a checking account maintained at the First National Bank. The Riggs checking account also serves as RTCM's operating account and funds are transferred from the Riggs savings to the Riggs checking account as needed to meet operating expenses. Although an attempt is made to use the proceeds from one activity to meet the expenses of that activity, a strict distinction is not always maintained.

During fiscal year 1972, RTCM also had a savings account with the National Permanent Savings and Loan Association, but did not use this account during the year. The account was closed out on July 3, 1972, and the balance of some \$40 was deposited to the RIGGS checking account.

In analyzing RTCM's fiscal year 1972 expenditures, we noted that its checking account at the First National Bank was overdrawn by about \$80 from September 8, 1971 to September 28, 1971. A review of the checkbook entries showed that this occurred because a deposit of \$90 was recorded twice during March 1971, and bank service charges totaling \$13.55 for January 1, 1971 through August 31, 1971, had not been deducted in the checkbook. Thus, while the checkbook showed a balance of \$23.23 at the end of August 1971, the correct balance was a deficit of \$80.32. The deficit, however, was eliminated by the end of September by deposits

of \$95 which were made during the month. Monthly bank reconciliations would have disclosed this situation; however, the Executive Secretary advised us that such reconciliations are not made.

In our opinion, the existing system of internal control is inadequate to safeguard RTCM's receipts. While a completely effective internal control system is never possible in a small operation such as RTCM, we believe that the following recommendations will make substantial improvements:

1. All RTCM mail should be received at the post office box. Mail should be picked up daily by the Executive Secretary and opened by him.
2. Deposit tickets for all receipts should be prepared by the Executive Secretary when the mail is opened. All receipts should be deposited daily by the office secretary.
3. All receipts should be recorded in the accounting records daily by the bookkeeper.
4. Monthly bank reconciliations should be prepared by the bookkeeper and copies maintained in the files.
5. Only one checking and one savings account should be used. Bank service charges may be reduced and the accounting function simplified. Subsidiary records can be maintained to segregate receipts and expenditures by function or activity.
6. All expenditures should continue to be made by check.
7. Cash sales of RTCM publications should be discouraged.

MRT Booklet Sales

The Marine Radio Telephony (MRT) booklet published by RTCM and sold to the public for \$1 is a primer on proper radiotelephone communication procedures. In fiscal year 1972, MRT sales were \$5,478, net of refunds.

The publication of the MRT booklet was recommended by an RTCM special committee in 1956 and since its original publication it has been revised three times. The current edition was prepared from the third edition by an RTCM special committee. The editing was performed by an editor outside of Government and the booklet was printed by a private company. All of the editing and printing costs were paid for with non-Federal funds.

RTCM also sells technical papers that have been presented at its annual meetings. These papers are printed with supplies and equipment purchased with Federal funds, although the printer employed by RTCM is paid with non-Federal funds.

Existing statutes generally provide that funds received by Federal agencies are to be deposited in the Treasury as miscellaneous receipts if they are for the use of the United States or are from the sale of public property. There is no specific legislation prescribing the lawful

activities of RTCM and the existing statutes dealing with the handling of receipts do not appear to be applicable to RTCM. In our opinion, therefore, there is no legal objection to RTCM's retention of funds from the sale of its technical publications.

RTCM Accounting System

The RTCM accounting system has failed to serve as an adequate record of RTCM's financial transactions or as an aid to management. Our discussions with the Executive Secretary and the bookkeeper recently detailed to RTCM indicated that neither understood the system's design and both considered the system too complex. RTCM's accounting has been on a cash rather than an accrual basis for many years and the accounting system has fallen into disuse.

We believe that the accounting system can be simplified through the use of a combined receipts and disbursements journal. Receipts can be segregated in the journal by source, and expenditures can be recorded in as much detail as is desired by the Executive Secretary or the Executive Committee. Since all disbursements are made by check, a notation on the check at the time it is written could simplify the bookkeeping by identifying the activity to which the expenditure applies. This in turn would simplify the preparation of periodic financial statements.

The design of a simplified system must await decisions on the appropriate uses of Federal and non-Federal funds, the types of reports higher management levels want to receive from RTCM, and the kinds of information the Executive Secretary needs to manage RTCM's day-to-day activities.

The matters presented above have been discussed with the RTCM Executive Secretary. We will be pleased to discuss these matters with you if you so desire.

Sincerely yours,



Robert A. Peterson
Assistant Director

Mr. John M. Torbet
Executive Director,
Federal Communications Commission

BEST DOCUMENT AVAILABLE