



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-271223

March 13, 1996

The Honorable Richard L. Greene
Chief Financial Officer
Department of State

Dear Mr. Greene:

We reviewed the Department of State's guidance and efforts to reconcile 24 inactive foreign currency bank accounts at its Mexico City, Mexico, Financial Service Center (FSC). As you know, this FSC disburses funds in foreign currencies throughout Latin America on behalf of State Department posts and other U.S. government agencies. As State reported in Federal Managers' Financial Integrity Act (FMFIA) reports to the President and the Congress since fiscal year 1990, its Mexico City FSC has been unable to reconcile its foreign currency bank accounts.

In 1991, the Department of the Treasury expressed concerns about State's cashier accountability, its inability to balance Treasury accounts, and the potential for fraudulent activity to go undetected. State initiated a comprehensive, multipart plan to increase oversight and control of overseas disbursing and cashiering functions, including a program to reconcile foreign currency bank accounts and report on progress. In its 1991 FMFIA report, State also disclosed that its worldwide disbursing and cashiering function was changed from a material weakness to a high-risk area. State reported some improvements during 1995, such that the function was no longer considered high risk; however, it remained a material weakness in State's 1995 FMFIA report. In September 1995, State's Managing Director of International Financial Services requested that we review the Mexico City FSC's draft guidelines and actions to reconcile its inactive foreign currency bank accounts.

We found that State had identified almost all of the differences between 24 inactive foreign bank account balances and FSC's book balances necessary to correct the FSC's cash balances and Treasury reports. However, until January 1996, FSC had performed only a few of the required monthly reconciliations of its

GAO/AIMD-96-51R State Bank Reconciliations

156419.

46 active foreign currency accounts since they were opened in September 1990 through July 1995. The lack of current reconciliations negates basic internal control benefits and results in a more difficult and costly catch-up which State initiated in January 1996.

Mexico City FSC's Efforts To Reconcile Bank Accounts

In 1991, FSC began an effort to reconcile its foreign currency bank account statements from 1987. In July 1993, FSC stopped its efforts to complete all reconciliations and did not make all identified adjustments to correct its book records. No subsequent reconciliations were prepared, and suspense balances in budget clearing accounts continued to accumulate. From September 1990 through April 1994, as FSC implemented State's Overseas Financial Management System, new foreign currency bank accounts were opened, leaving the old accounts open but inactive. FSC initiated no transactions in 24 inactive accounts after April 1994, waited 1 year for items to clear, and closed the accounts in April 1995, transferring final balances of \$1.1 million¹ (as reported by the banks) to its active accounts.

After the April transfer, which reduced the 24 bank balances to zero, FSC book records still showed balances of \$21.4 million in these cash accounts, plus another \$8.3 million in a related cash suspense account. In January 1995, International Financial Services formed the Closeout Reconciliation Unit (CRU) to locate and organize some 1,100 storage boxes containing bank statements, FSC book records, and the working papers prepared by the 1991 to 1993 reconciliation effort. CRU performed the reconciliations with the assistance of an outside contractor.

CRU was able to identify transactions which, when recorded, increased amounts on FSC's books by \$58.0 million due to

- deposits recognized by the banks but not recorded in the books,
- cancellation of old outstanding checks never cleared by the banks,

¹All dollar amounts used in this letter are U.S. equivalents as of April 30, 1995.

- credits for emergency fund repayments from the Agency for International Development,
- transfers recorded in the wrong account, and
- other miscellaneous credits, including bank errors.

CRU also identified transactions which, when recorded, decreased amounts on FSC's books by \$87.7 million due to

- deposits recorded as in-transit which had cleared,
- bank charges which had not been recorded in the books,
- transfers recorded in the wrong account,
- bank clearing checks against the wrong account,
- foreign transaction accounts,
- a \$131,550 theft of funds by a post cashier,² and
- other miscellaneous charges, including bank errors.

After making the adjustments discussed above, an unexplained balance of about \$8.3 million remained which was offset against \$8.3 million that had accumulated in an FSC cash suspense account due to unreconciled items. This offset resulted in a net gain of \$14,361, which was charged to a Treasury Gain or Loss Account. We noted that \$7,721 of this net gain resulted from foreign exchange transactions while the remaining \$6,640 resulted from unexplained net gains from the CRU's reconciliation process.³

²On May 5, 1995, the post cashier negotiated a plea of guilty on four counts of stealing a total of \$48,000 and received a prison sentence of 2 years. No funds were recovered.

³Gains or losses resulting from check cashing or foreign exchange transactions during the year are chargeable to the Treasury Gain or Loss Accounts, with any net gain or loss to such accounts adjusted as provided in 31 U.S.C. 3342(c). In
(continued...)

**Reconciliation Process Was Thorough
But Must Be Maintained**

Overall, we found the CRU reconciliation process to be thorough and conscientious and commend State's International Financial Services and the Mexico City FSC for this effort. We reviewed the final 24 inactive foreign currency bank account reconciliations, tested mathematical accuracy of amounts, traced amounts to Treasury SF 1218 Statement of Accountability reports, and examined supporting documentation on reconciliation increases or decreases in excess of \$10,000. In addition, we reviewed a draft of Bank Reconciliation Guidelines dated May 3, 1995, which were developed by the CRU during its reconciliation process and which State plans to implement worldwide. Overall, the draft guidelines provided detailed descriptions of procedures and reconciling items that can occur in foreign currency bank accounts. We provided comments for improvement on the draft to FSC and International Financial Services officials for their consideration.

While the Mexico City FSC has made a commendable effort to reconcile its inactive foreign currency bank accounts, as of February 15, 1996, FSC had not completed all of the reconciliations of its 46 active foreign currency bank accounts since the accounts were opened in September 1990 through July 1995. The Treasury Financial Accounting Manual (4 FAM 352) requires that disbursing officers perform monthly reconciliations of each bank account. This is necessary to maintain strong internal controls, promptly investigate differences, make adjustments to facilitate accurate financial reports, and prevent misuse of government funds. An International Financial Services team began working at the Mexico City FSC in January 1996 to reconcile active foreign currency bank

³(...continued)

addition, unexplained gains from the reconciliation process should be deposited to the general fund of the Treasury to the credit of the appropriate miscellaneous receipt account as provided in 31 U.S.C. 3302(b). Unexplained losses of funds identified by the reconciliation process are subject to the laws and procedures applicable to adjusting agency accounts for physical losses under the accountable officer relief statutes, 31 U.S.C. 3527(d) and 3530. Also see GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 8 (TS No. 7-43 May 18, 1993).

B-271223

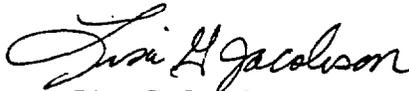
accounts from September 1990 to the present. The work is scheduled to be completed before the Mexico City FSC operations are moved to Charleston, South Carolina. The move is planned for May 1996.

It is very important that all accounts are fully reconciled, necessary adjustments are made to book records and Treasury reports, and that these efforts be kept current until the FSC function is relocated. This is especially important given the disruption of personnel during the planned move, the inherent risk of losing records, and the need to facilitate an accurate transfer of the accounting function. Also, it is imperative that Charleston FSC staff institute and routinely perform monthly reconciliations of transferred foreign currency accounts in order to maintain strong internal controls and comply with Treasury regulations. The discipline of effective monthly reconciliations will avoid a repeat of the Mexico City FSC's problems as discussed in this letter.

We conducted our work in Mexico City, Mexico, in September 1995 and our follow-up work was concluded in February 1996 in accordance with generally accepted government auditing standards. We obtained comments on a draft of this letter from Department of State officials and incorporated their views as appropriate.

We are sending copies of this letter to the Department of State's Director of International Financial Services; Director of International Financial Services, Office of Financial Management Overseas; and Director of the Mexico City FSC. We are also sending a copy to the Chief Disbursing Officer of the Department of the Treasury. If you or your staff have any questions concerning this letter, please contact me at (202) 512-9095, or Roger Stoltz, Assistant Director, at (202) 512-9408.

Sincerely yours,



Lisa G. Jacobson
Director, Defense Financial Audits

(918856)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

**United States
General Accounting Office
Washington, D.C. 20548-0001**

<p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p>

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
