22226
118713

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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-207736

JUNE 17, 1982

118713

The Honorable Louis O. Giuffrida
Director, Federal Emergency
Management Agency

Dear Mr. Giuffrida:

Subject: Weaknesses in Internal Financial and Accounting Controls at the Federal Emergency Management Agency (GAO/AFMD-82-87)

This report contains the results of our survey of internal controls over the Federal Emergency Management Agency's (FEMA's) financial and accounting operations. The survey identified serious weaknesses in internal controls over most aspects of these operations, including accounts receivable, collections, disbursements, imprest funds, and obligations. In addition, we noted administrative deficiencies in control over several major areas in the accounting and financial management operations. We also noted that FEMA's Office of Inspector General had not undertaken any comprehensive reviews of FEMA's accounting systems. We are informing you of these weaknesses to help you discharge your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over and accountability for all funds for which they are responsible.

Our survey was based on audit guidelines designed to identify potential internal control problems, and on interviews and discussions with headquarters officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish their extent or the precise corrective actions needed. The weaknesses are discussed in the enclosure. Because FEMA's accounting system is centralized, our work was generally limited to the financial and accounting functions located at FEMA's headquarters in Washington, D.C. Our work was performed in accordance with our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Since agency officials concurred with our findings and conclusions and have already begun to take corrective action, we did not obtain formal agency comments on this report. However, because we noted serious internal control weaknesses over most aspects of FEMA's financial and accounting operations, we are recommending that you (1) ensure that adequate followup actions are taken to correct the weaknesses we have identified, (2) develop and issue

(905048)

022431

written procedures covering all aspects of financial and accounting operations, including related internal controls, to all appropriate offices, (3) assign qualified staff to all accounting functions of the agency, (4) issue instructions emphasizing that the agency's fiscal procedures and instructions must be followed, (5) instruct the inspector general's office to increase its audit coverage of the agency's internal financial operations, with particular emphasis on internal controls, and (6) develop an accounting system conforming to the standards established by the Comptroller General.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending a copy of this report to Senator John Tower because our review was undertaken as part of our effort to respond to his June 3, 1981, request for a "base-line audit" of FEMA's operations. In the near future, we will issue an overall report to Senator Tower on FEMA's management systems and organization structure. We are also sending copies of this report to the Director of the Office of Management and Budget and to your Inspector General.

We appreciate the courtesies and cooperation extended to us at the headquarters office.

Sincerely yours,

W D Campbell

W. D. Campbell
Acting Director

Enclosure

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT THE FEDERAL EMERGENCY MANAGEMENT AGENCY'S HEADQUARTERS OFFICE

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain a system of accounting and internal control over all the agency's assets. Our survey evaluated the controls at the Federal Emergency Management Agency's (FEMA's) accounting station in Washington, D.C. We found that:

--Accounts receivable were inadequately controlled, receivables were not promptly and accurately recorded in the accounting records, and collection efforts on outstanding receivables were neither prompt nor aggressive.

--Collections were inadequately controlled. They were not properly logged and verified, promptly deposited, and adequately safeguarded; and employee duties were not properly segregated.

--Travel records were not properly maintained, and travel advances were not controlled and collected.

--Safeguards and controls over disbursements were weak; preaudits were inadequate to preclude duplicate payments, and procedures controlling the timing of disbursements were not adequate.

--Imprest funds were poorly managed, excess moneys were maintained in the funds, and funds were not periodically verified and audited.

--Government Transportation Requests (GTRs) were poorly controlled; they were not secured or properly accounted for.

--Obligations were poorly controlled; they were not adequately reviewed, recorded, or reconciled.

--Internal audit coverage of financial management functions was insufficient.

--Accounting functions were poorly managed; staffing and training of personnel were inadequate and formal procedures and job descriptions were needed.

These internal control weaknesses, which can adversely affect FEMA's overall financial condition, are discussed in detail below.

CONTROLS NOT ESTABLISHED OVER ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from operations and, therefore, are Government assets to be controlled, safeguarded, and most importantly--collected. The GAO Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.4) emphasizes the importance of controlling accounts receivable, stating that they should be recorded accurately and as soon as the acts entitling an agency to collect the amounts are completed. When amounts due are not properly recorded in the appropriate records, the agency's financial statements and reports will be incomplete, and management will not be in an informed position to take the actions necessary to ensure collection of all moneys owed the agency.

Despite the widely recognized necessity of good controls over accounts receivable, we noted that such controls were virtually nonexistent at FEMA. In fact, FEMA officials were unable to determine the total amount owed the agency. A FEMA official said the agency did not make a serious attempt to establish control over its receivables until May 1981.

In our view, the lack of controls over accounts receivable resulted from the failure to (1) establish policies and procedures for recording and accounting for receivables, (2) assign accountability for billing and collecting receivables, and (3) develop collection procedures to identify and follow up on delinquent accounts.

<u>Receivables not properly recorded or accounted for in FEMA's first 2 years of operation</u>

FEMA did not use its accounting system to properly record and account for its accounts receivable. As a result, at the time of our review in August of 1981, officials could not state with certainty the total amount owed the agency. Under such circumstances, there is little likelihood that FEMA can identify and collect all amounts owed the organization.

The GAO Manual (2 GAO 12.4) states that accounting for receivables is an important form of control over agency resources, in that it results in a systematic record of amounts due which must be accounted for. In this regard, the manual specifically provides that:

--Accounts receivable shall be recorded accurately and promptly upon completion of the acts that entitle an agency to collect amounts owed it (billing for performance of services or sales of materials, loans, or advances made, and the like).

--Accounting records for receivables shall be maintained so that all transactions, and only such transactions, affecting the receivables for each reporting period are included.

As discussed below, FEMA did not seriously attempt to comply with these requirements until it had been in operation for nearly 2 years.

Until May 1981, FEMA did not enter information on receivables into its automated Financial Accounting and Reporting System, commonly referred to as FARS. Instead, limited information on accounts receivable related to grants administered by FEMA's regional offices was recorded in a separate management information system. However, this system did not have the capability to reflect any payments made against these receivables and, as a result, the system greatly overstated the dollar value of FEMA's accounts receivable.

Other receivables, such as those relating to reimbursable-type agreements for contracted services provided to other Federal agencies, were recorded in records maintained at FEMA headquarters. However, these records also failed to take into account partial payments made against the receivables and, as a result, they were overstated until the receivables were paid in full.

In August 1981, FEMA began an effort to establish accounting control over its receivables by entering all records into the FARS system. This system has the capability to handle the information necessary to account for receivables. For example, it will reflect the changes in the receivable balances resulting from payments made against them. If properly operated, the system could bring about considerable improvement in FEMA's control over its accounts receivable.

However, FEMA's efforts to establish such control were severely compromised, because adequate precautions were not taken to ensure that only accurate and valid accounts receivable data were entered into FARS. FEMA employees entered receivable data taken directly from the management information system and the manual records. However, this information contained many errors which had not been previously detected and, thus, FARS started off with information that could not be relied upon. For example:

--Four receivables totaling $516,657 were collected by regional offices but were listed in the accounting system as still outstanding.

--A receivable was entered into FARS at its original estimated amount of $1,900,000. A payment of $1,448,940 had been made against this receivable several months earlier, but was not credited against the original amount due.

--FEMA had received payments of over $115,140 to be applied against a receivable originally established at $500,000. However, only the original amount was entered into FARS and this amount was not reduced to reflect the $115,140 in payments FEMA had received.

FEMA's accounting and financial officials were aware that little control over accounts receivable existed. They attributed part of this condition to the many problems involved in establishing a new agency, such as obtaining accounting personnel, creating job descriptions, implementing the FARS accounting system, and training employees.

Responsibility and accountability for receivables not established

Although FEMA's accounting operations were officially centralized at the headquarters office in Washington, D.C., we noted that in practice, there was no consistency as to which functions were performed at headquarters and which at the regions. This resulted in almost every conceivable type of breakdown in the accounts receivable process. Some receivables were established and invoiced in the regions and not reported to the headquarters office. Other times, regions would report a receivable to headquarters, but headquarters would neglect to either record the receivable in its records or send an invoice to the debtor. Also, we noted that receivables were sometimes collected by the regions, but the outstanding balance in the headquarters records was not reduced accordingly.

Moreover, management appeared to be giving little direction to the overall accounts receivable operation. Reconciliations were not performed to identify differences between records or to resolve them. Under such conditions, the agency's accounting records and financial reports produced from the records were, at best, of very little value. Perhaps even more importantly, the collection of amounts due the Government was placed in jeopardy. The following examples illustrate the conditions resulting from the absence of assigned responsibility and accountability.

--Three accounts receivable totaling $509,001 were collected and cleared from regional office records. Yet 7 months later, these receivables were still shown as outstanding on the official headquarters accounting records.

--In March 1981 a regional office reported to headquarters three receivables for invoicing and entry into the accounting records. As of August 1981, however, these receivables, valued at $134,000, had not been invoiced or recorded.

--A receivable for $33,062, recorded on regional office records, was incorrectly recorded as $36,062 on the headquarters records. Because it was not FEMA's practice to reconcile accounts receivable records and investigate deficiencies, an error of this sort could conceivably go undetected.

--Three accounts receivable for $16,315 were recorded on regional records but not on headquarters records.

Inadequate and ineffective efforts to collect accounts receivable

As specified in the Joint Standards of the Federal Claims Collection Act of 1966 (4 C.F.R. 101-105), the heads of Federal agencies, or their designees, should take prompt and aggressive action to collect accounts receivable due the Government. The Standards further require that (1) three written demands be made at 30-day intervals, (2) collection be made by offset where feasible, (3) debtors be personally interviewed, (4) the possibility of compromise be explored, and (5) other persistent actions to achieve collection be attempted.

At the time of our review, FEMA did not comply with these requirements for several reasons. First, as discussed above, officials could not judge from the records the amounts and status of the agency's receivables. Second, efforts were not made to identify those past due by analyzing the receivables that were contained in the records. Finally, no formal procedures were established to require followup actions on receivables known to be delinquent.

One method of determining and controlling delinquent receivables is through accounts receivable aging schedules. These schedules categorize accounts receivable chronologically by due date, and are useful for identifying problem accounts requiring management attention. Despite the widely recognized value of aging schedules, we noted that FEMA did not prepare them.

Once receivables are identified as delinquent, actions taken to collect them should be governed by official written procedures. These should provide specific guidance to employees on specific actions that should be taken, as well as indicate the timing of such actions. Experience has shown that timely, persistent followup actions are more effective than those taken long after a receivable becomes delinquent. At the time of our review, FEMA had not fully developed such procedures.

As a result, substantial amounts owed the Government were not being collected. We identified over $1 million in delinquent accounts receivable for which no effective collection actions were being taken. The following examples illustrate the results of FEMA's inability to control and monitor its receivables.

--A receivable for $235,212, transferred to FEMA by another agency when FEMA was formed in 1979, had not been collected. Yet, FEMA's records showed that there had been no collection efforts on this receivable for over 2 years.

--On September 23, 1980, a regional office requested headquarters to issue a bill for $315,088.14, but a bill was not issued until December 12, 1980. One followup bill was issued on February 9, 1981. As of August 1981, the bill had not been paid, and no further collection action had been taken.

--On December 26, 1979, $217,095 was questioned by auditors but not billed until April 11, 1980. FEMA's record showed that this bill was 16 months delinquent; yet no followup action was taken to collect this money.

--Bad checks totaling over $6,400 had been returned to FEMA, but little action had been taken to collect these funds. Most of these checks were at least 6 months old, but only one demand letter had been issued for them.

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

Amounts collected by FEMA's headquarters office averaged over $1.7 million monthly during fiscal 1981. These collections were received through the mail, and consisted of amounts paid to FEMA for such things as disallowed grant costs, reimbursable costs arising from interagency agreements, and travel advance refunds.

As discussed below, both the GAO Manual and the Treasury Fiscal Requirements Manual specify that agencies' collections should be promptly recorded, deposited, and adequately safeguarded. Further, the manuals state that responsibilities related to cash collections should be adequately segregated. At FEMA's headquarters office, we found that these requirements had not been complied with, thus exposing checks that were collected to the risk of loss or misuse.

Collections not placed under immediate accounting control

Checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, the GAO Manual (7 GAO 11) specifies that agency collections should be placed under appropriate accounting and physical controls as soon as they are received. Such controls should, among other things, provide for the checks to be immediately logged in and verified by an individual other than the one opening the mail. This establishes immediate control and, by reconciling deposit tickets to the mailroom log, provides a permanent check to determine whether all receipts are subsequently processed and deposited.

FEMA's procedures did not provide for such control. Instead, mail was received and sorted in the mailroom and delivered unopened to various departments and employees, based upon the judgment of mailroom personnel. Since most accounting department mail was not opened in the mailroom, checks could not be recorded by mailroom personnel.

When delivering the envelopes, mailroom personnel distributed them to various accounting areas, rather than to one central location within the accounting department where they could be logged in. The accounting department had no consistent procedures for recording the delivered checks. For example, accounts receivable employees did not log checks in. The travel section did, but the log was not reconciled to deposit tickets. The accounts payable section also received checks but did not maintain a log. As a result of these poor controls, FEMA did not have assurance that all moneys received were properly accounted for and deposited. Moreover, these conditions provided the opportunity for checks to be fraudulently diverted with minimal risk of detection.

Collections not deposited promptly

When collections are not deposited promptly, access to the funds by the Treasury is delayed, thus increasing the amounts the Treasury must borrow from the public and raising the Government's interest costs. Moreover, maintaining checks on hand unnecessarily increases the potential for them to be lost, stolen, or misused.

According to standards in the GAO Manual (7 GAO 12.2), collections should be deposited daily, if possible. The Treasury Manual (1 TFRM 6-8030) provides more specifics, stating that collections of $1,000 or more should be deposited daily but that smaller collections may be accumulated and deposited when the total reaches $1,000. Still, deposits must be made at least weekly regardless of the amount accumulated.

However, FEMA frequently did not comply with these requirements. One reason was relatively slow processing at the headquarters office. For example, the State of California sent FEMA (headquarters) a check for $751,900. The check was a refund for a duplicate payment made earlier on a disaster relief contract involving flood damage in California. The check was received by FEMA on May 28, 1981, but not deposited until 6 days later.

A more serious obstacle to prompt collections was FEMA's practice of requiring its regional offices to mail all collections to its Washington, D.C., headquarters office for deposit. This does not conform to Treasury's Fiscal Requirements Manual (1 TFRM 5-4010), which specifically provides that unless otherwise authorized, "depositors of public money will deposit funds in the nearest Federal Reserve bank." Accordingly, we believe FEMA should require its regional offices to deposit all collections in the Federal Reserve bank or branch nearest them.

Furthermore, we noted some delays that could not be explained by either slow processing or delays in the mail. To illustrate, the State of Idaho sent a check for $805.64, dated December 3, 1980, to FEMA's Federal Regional Center in Bothell, Washington. The regional office received the check December 20, 1980, but it was not received by headquarters until June 17, 1981, almost 6 months later. FEMA headquarters' employees could not explain the delay, but one official stated that the check probably was left in a safe and forgotten.

Duties of persons handling collections not adequately divided

As specified in the GAO Manual (7 GAO 11.2), a basic principle of internal control is dividing critical functions between two or more persons, a technique referred to as separation of duties. Experience has shown that fraudulent activities are less likely to be successful if their commission requires two or more individuals.

We found that the separation-of-duties technique was not being followed in handling FEMA's collections. One employee was responsible for not only collecting and accounting for checks received, but also for depositing them. Under such circumstances, checks could be fraudulently diverted, and their disappearance would not be readily detected. Moreover, should this occur, it would be extremely difficult to establish guilt because, in many cases, no records would be available to show that FEMA ever received the checks.

Collections not adequately safeguarded

Since checks are highly susceptible to improper conversion or loss, the agency's accounting controls should include adequate physical security measures to safeguard them. Even though FEMA had adequate safekeeping facilities for the storage of checks, its employees were not regularly using these facilities. We observed that checks were often left unattended on desks, both during the day and overnight. On one occasion, employees' travel reimbursement checks totaling over $2,400 were left unattended on a desk.

NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES

The GAO Manual (7 GAO 25.6) provides that agencies' accounting systems should include procedures for periodic review and analysis of outstanding travel advances to ensure that (1) travel advances are made only for authorized travel, (2) the size of the advances does not exceed appropriate limits, and (3) advances are cleared promptly by repayment of travel vouchers. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum. However, because FEMA did not develop policies to control travel advances and because the records were in such poor condition, these requirements were not met.

Travel advance records were inaccurate and unreliable

Had management attempted to review and analyze FEMA's travel advances, its efforts to do so would have been severely hampered by deficiencies in the records of these advances. In our view, those records could not be relied upon. Apparently, FEMA accounting officials shared this view because, during our audit, they were unable to state the total amount of outstanding travel advances.

These conditions resulted from deficiencies in both the manual records of funds advanced to individual employees, and the mechanized accounting records for accumulating and summarizing this data.

FEMA's procedures provided for transactions relating to an individual employee's advances to be recorded on cards, constituting the employee's official travel advance record. These records were maintained in cardboard boxes stored on the floor of the accounts payable section. These records appeared to have been put in the boxes randomly, rather than filed in any order, and we noted numerous omissions in these records. Those omissions may have been the result of difficulty an employee had in locating a particular record to update it.

Other times, we noted that the mechanized accounting records had not been updated to reflect transactions involving advances. To illustrate, we reviewed 50 transactions which had been recorded on individual travel records, but found that 35 of these, or 70 percent, had not been recorded in the mechanized accounting system.

FEMA officials concurred that many problems have plagued the travel advance records since the agency was formed. According to one official, the problems began when the agencies that were combined to form FEMA submitted inaccurate and incomplete travel records. Further, few effective actions had been taken to establish control over travel advances since that time.

Travel advances were not promptly recovered

As discussed above, the GAO Manual requires that any travel advances in excess of a traveler's immediate needs should be promptly recovered. However, we encountered no evidence that FEMA's management attempted to implement this guidance. According to FEMA's records, over $1.5 million in advances had been outstanding in excess of 120 days at the time of our review. Although the condition of the travel records prevented us from verifying the accuracy of this figure, we noted numerous cases where problems in controlling advances were encountered. To illustrate:

--Some employees received many travel advances without ever fully liquidating all previous advances. One employee received five advances in 1980 totaling $6,100, but as of May 31, 1981, the employee had paid back or accounted for only $990.85.

--Eight employees left FEMA with unliquidated travel advances totaling over $26,458. Six of the eight individuals left in February 1981, while one person with an outstanding travel advance of $4,795.66 left in November 1980. The eighth employee left FEMA in May 1981 with an outstanding travel advance of $17,406 still on the agency's records.

--Travel advances exceeded the Treasury's $300 limit established for an emergency advance. One employee with an outstanding travel advance of $284 received another $600 emergency advance from a regional office imprest fund.

Travel advances represent sizable amounts of Government funds. Accordingly, they should be as well controlled as other types of receivables. Agency officials agreed to take prompt action on resolving outstanding travel advances.

NEED TO IMPROVE CONTROLS OVER DISBURSEMENTS

FEMA's disbursing operation did not conform to Treasury and GAO requirements and, as a result, Federal funds were being unnecessarily exposed to the risk of loss, theft, or other misuse. Moreover, the Government's operating costs were needlessly increased, because the disbursement activities did not conform to principles of sound cash management.

Legality, propriety, and accuracy of disbursements should be checked before payments are made

Because disbursement transactions are susceptible to misuse and diversion, both GAO and Treasury provide extensive guidance to help ensure the propriety, accuracy, and legality of disbursements. For example, the GAO Manual (7 GAO 24.2) requires that vouchers be preaudited before they are certified for payment. This examination should include, among other things, (1) verification of the accuracy of the data on the voucher, (2) a check to determine that the vouchers and supporting documents were properly authorized, and (3) a determination that the transaction was legal and the goods and services were received.

We noted that FEMA's preaudits could not provide these assurances. For example, employees performing preaudits did not have a list of authorized signatures or signature cards of officials with authority to approve such items as purchase orders and contracts. As a consequence, even though some disbursing employees claimed to check for approval signatures, they were not in a position to know whether the approval was proper. Moreover, we noted instances where disbursements were made without any evidence of approval.

In addition to requiring preaudits, agency procedures should also specify that persons performing them must document the audit steps taken. This helps ensure that preaudits are performed according to management's instructions and also affixes individual responsibility for the steps performed. However, FEMA's disbursement records generally failed to indicate the specific preaudit steps performed or who carried them out. Furthermore, in some instances, it could not be determined whether any preauditing was performed at all. To illustrate:

--A group of 14 contract payments totaling $172,709 lacked any evidence of preaudits. The contract and payment files contained only a public voucher and/or invoices. Among the items missing were: an approval of the payment by an authorized official, evidence that mathematical accuracy was verified, and evidence that services were received and in accordance with the contract.

--One invoice for $21,952.63 was paid without the signature of an authorizing administrative official or any other evidence of a preaudit.

--Another invoice for a $60,432.45 progress payment on a $4-million contract was paid without evidence of a preaudit or approval by an authorized official.

We also noted serious inadequacies in preaudits of vouchers for travel advances, which permitted employees to obtain new advances, even though they already had outstanding advances. Travel voucher examiners did not check outstanding travel advance data before approving advances; instead, as one employee stated, "We rely on the honesty of employees."

This practice permitted a FEMA employee to improperly obtain over $2,400 in travel advances. The employee was able to receive payment under numerous travel advance applications and travel vouchers although the employee was not entitled to them. The FEMA Inspector General's report on this incident showed that the employee was given travel money without adequate preaudits to establish that she was entitled. Despite this clear indication of the need for preaudits, FEMA had not implemented procedures to ensure they were performed.

<u>Disbursements were not timely</u>

FEMA's accounting office did not schedule its disbursements to coincide with invoice due dates, or to take advantage of discounts offered by some vendors for prompt payments. The GAO Manual (7 GAO 24.8) provides that (1) procedures be established to ensure that vendors' invoices offering discounts for prompt payment are scheduled so that payments may be made within the time prescribed and (2) failure to take cash discounts be fully explained on appropriate documents. Further, the Treasury Manual requires that agencies schedule the issuance and mailing of checks as close as possible to the due date of the invoice, contract, or other agreement.

Early payments unnecessarily accelerate the flow of cash from the Treasury. This increases the amounts Treasury must borrow from the public and adds to the national debt and related interest costs. Late payments, on the other hand, are not only contrary to good business practices, but also prevent the Government from taking advantage of cash discounts offered by vendors for prompt payment. Explanations of discounts missed enable financial managers to evaluate disbursing and cash management activities, and help them identify and eliminate the problems that prevent the agency from taking advantage of discounts.

FEMA's financial managers attempted to comply in part with this guidance by instructing employees to pay bills offering discounts first, and to pay the remaining bills on a "first-in, first-out" basis. However, we noted that even with these instructions, numerous invoices were not paid in time to take advantage of cash discounts. We selected 19 paid invoices offering discounts and found that 17 of them had been paid after the discount period had expired. As a result, discounts amounting to over $482 were lost. To illustrate:

--An invoice for $3,861 received by FEMA's headquarters office offered a 3-percent discount if paid within 20 days. This invoice was paid late, and a discount of $115.83 was lost.

--Another invoice for $1,254.08 was received by FEMA's Denver regional office and offered a discount of 3-1/2 percent. Again, this invoice was paid late, causing FEMA to lose a $31.35 discount.

Moreover, we found that for all 17 discounts lost, no written explanations were provided as to why the discounts were not taken. We also noted that some payments were made too early.

Duplicate payments were not prevented

GAO's Manual (7 GAO 24.3) states that agencies shall establish procedures to guard against duplicate payments. Such controls are especially critical for FEMA, because of the poor condition of its records overall. One common control procedure is stamping invoices and vouchers "paid" when they are processed for payment.

We noted that FEMA was not marking all of its settled bills "paid," thus increasing the potential for some bills to be paid twice. We noted two instances where duplicate payments were actually made. In one case, FEMA received two invoices from one agency totaling $45,299 which were paid in January 1979. However, in September 1980, FEMA erroneously paid the same contractor another $45,299. This duplicate payment was discovered about a year later by FEMA employees reviewing contract files. In the other case, an invoice for $5,851.73 was paid by FEMA in April 1980, and paid again in May 1981. The contractor who issued the invoice brought the situation to the attention of FEMA. This error may have resulted because FEMA had two file folders, but neither folder had any indication that the invoice was paid. FEMA officials agreed with the need to prevent duplicate payments and started using "paid" stamps in December 1981.

NEED TO IMPROVE CONTROLS OVER IMPREST FUNDS

FEMA headquarters' imprest fund was not adequately controlled, safeguarded, and reviewed. As a result, the $20,000 fund was unnecessarily exposed to the risk of loss or misuse. Furthermore, the headquarters' imprest fund, as well as several imprest funds at regional offices, maintained cash balances in excess of those needed.

GAO and Treasury have provided extensive guidance on controlling, safeguarding, and managing imprest funds. GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27) sets forth the requirements for the use of imprest funds by the various departments and agencies. Treasury's Fiscal Requirements Manual and its Manual of Procedures and Instructions for Cashiers specify procedures for agencies to follow when operating imprest funds. Many Federal agencies have incorporated GAO's and Treasury's guidance in their own procedures manuals and regulations. However, at the time of our review, FEMA did not have any formal written procedures to control its imprest funds. This may have contributed to the weaknesses we noted.

Size of imprest funds should be reduced

Our review showed that FEMA maintained balances in its imprest funds that exceeded its apparent needs. Maintaining excess cash balances may unnecessarily increase the amount of funds Treasury must borrow from the public and the related interest costs. Excessive balances also increase the amount of funds susceptible to loss or misuse.

The GAO Manual (7 GAO 27.4) states that an imprest fund should be limited to the smallest amount commensurate with the authorized purpose of the fund. Moreover, Treasury regulations state that when the source of funds is reasonably close to the disbursing officer or cashier, and no more than 24 hours' notice is required to obtain cash, only 1 week's requirement should be maintained when the fund is $10,000 or over, but less than $100,000. In addition, a 2-week requirement should be established when the fund is $2,000 or over, but less than $10,000. Funds less than $2,000 should be replenished no more frequently than once a month.

Based on Treasury's criteria, the size of the imprest fund at FEMA headquarters should be approximately $8,200. Instead, that imprest fund maintains a cash balance of $20,000. Moreover, our analysis of records maintained at headquarters on FEMA regional offices' imprest funds indicates the size of some of these funds is also excessive. The following schedule shows the balances of imprest funds maintained by FEMA's offices.

Summary of FEMA's Imprest Fund Reimbursements

Fund location	Fund authorization	Average weekly disbursements for Aug. 1980 - July 1981
Washington, D.C.	$20,000	$4,114
Berryville, Va.	10,000	926
Emmitsburg, Md. a/	5,000	626
Emmitsburg, Md. b/	2,500	103
Richmond, Ky.	1,000	81
Palo Pinto, Tex.	2,500	236
Forest Park, Ga.	2,500	152
Boston, Mass.	10,000	872
New York, N.Y.	6,000	36
Gaithersburg, Md.	2,000	160
Philadelphia, Pa.	30,000	2,397
Thomasville, Ga.	50,000	3,531
Chicago, Ill.	25,000	3,113
Battle Creek, Mich.	10,000	1,318
Denton, Tex.	20,000	1,611
Kansas City, Mo.	25,000	836
Denver, Colo.	10,000	541
San Francisco, Calif.	12,500	1,388
Santa Rosa, Calif.	2,000	216
Bothel, Wash.	8,000	759

a/National Fire Academy.

b/Emergency Management Institute.

In addition, we noted that the headquarters' imprest fund was maintained entirely in cash. A better practice, which Treasury encourages, would be to have the fund balance consist primarily of Treasury checks in varying amounts which could be cashed as needed, and only a small amount of cash.

Basic control procedures not followed in day-to-day operations

Accounting control procedures to minimize opportunities for loss or misuse of imprest funds are set forth in the GAO Manual, Treasury's Fiscal Requirements Manual, and Treasury's Manual of Procedures and Instructions for Cashiers. Despite the widely recognized need for strong internal control over imprest funds, the headquarters' office was not adhering to several basic control procedures. For example:

--Periodic, unannounced reviews and quarterly verifications of the fund were not performed as required by GAO and Treasury guidelines. In our view, such unannounced reviews and verifications are a primary deterrent to improper operation or use of imprest funds. Their purpose is to determine whether (1) funds are properly accounted for, (2) the amounts of the funds are in correct proportion to cash requirements, (3) the procedures followed protect funds adequately from loss or misuse, and (4) the funds are used for authorized purposes only.

--The imprest fund cashier did not have a list of names or signature cards for officials authorized to approve disbursements from the fund. Such documentation is required to help assure that only properly authorized disbursements are made from imprest funds.

--Requirements for prompt liquidation of advances from the fund had not been established. As a result, a year-old advance of $100 was still outstanding, and the employee to whom the advance was made is no longer with the agency.

--Subvouchers supporting disbursements from the fund were sometimes left out, unattended and unsecured. Such documents should be properly safeguarded at all times to ensure accountability for the funds.

FEMA officials concurred that better controls were needed over the imprest funds. They agreed to correct the deficiencies we noted.

CONTROLS OVER GOVERNMENT TRANSPORTATION REQUESTS WERE NOT ADEQUATE

Government Transportation Requests, when presented to a carrier, authorize the carrier to issue tickets to Government travelers, and to bill the Government agency for the cost of the tickets. By their nature, these documents can easily be improperly used, and it is essential that they be placed under adequate safeguards and controls.

In this regard, the General Services Administration's Federal Property Management Regulations specify accountability controls that agencies should place over GTRs. The regulations state that "each agency shall prescribe procedures to control GTR procurement, stocking, distribution, and accountability and shall establish safeguards to prevent their improper or unauthorized use." As indicated below, FEMA has not developed such control procedures.

--Some GTRs were not secured; we noted that about 40 GTRs were left out on top of a filing cabinet.

--The storage cabinet used to secure GTRs was inadequate. FEMA used a lightly secured office supply cabinet to secure its stock of 12,000 GTRs. We believe that a person could easily pry open this cabinet.

--FEMA has too many GTRs on hand. At the time of our review, it had 12,000 GTRs in its supply cabinet. According to the agency's GTR custodian, FEMA uses approximately 7,200 GTRs annually.

--One employee had total control over the custody, issuance, and accounting for GTRs without any oversight or reconciliation by other employees. Furthermore, at the time of our review, this employee was not officially designated as being accountable for the GTRs.

--FEMA had not periodically reconciled used, unused, and voided GTRs. As a result, airline invoices were paid routinely without being verified and reconciled with employee travel vouchers. We noted thousands of GTRs on file that needed to be reconciled.

--GTR books were not filled in properly. For example, we noted that one book listed only the name of the airline used. Information such as flight designation, departure, and arrival dates and times, and class of carrier used should be entered into the GTR books.

Because of the weaknesses cited above, GTRs were vulnerable to loss or abuse and should either happen, detecting or establishing accountability would be extremely difficult.

Many of the problems noted above could be avoided by using teleticketing machines. As pointed out in a 1978 report we issued to the Congress, use of these machines can reduce or eliminate the costs associated with maintaining and processing GTRs. 1/ Moreover, the report pointed out other potential benefits that teleticketing can provide. These included reductions in costs associated with (1) obtaining airline tickets, (2) processing refund applications for unused tickets, and (3) auditing fares paid.

NEED TO ESTABLISH CONTROL OVER OBLIGATIONS

Obligations specify the amounts of orders placed, contracts awarded, services rendered, or other financial commitments made by Federal agencies that will require cash outlays during the current or some future period. FEMA did not exercise basic required fund controls over its obligations. These controls are specified in the GAO Manual and are necessary to help ensure that agencies use amounts appropriated as intended by the Congress, and that agencies do not make financial commitments in excess of amounts appropriated by the Congress.

1/"Use of Discount Airline Fares and Teleticketing Would Help Save on Government Travel Expenses" (FGMSD-78-46).

Obligating amounts in excess of those appropriated is specifically prohibited by the Anti-Deficiency Act (31 U.S.C. 665). Among other things, this law provides that conviction for a knowing and willful violation can result in imprisonment and/or fines for those responsible.

FEMA had not established requirements for some necessary control procedures, but even if such requirements had been established, the incomplete and deficient condition of records would have made it impossible to comply with them.

Deficient records prevented control over obligations

FEMA did not establish adequate control over its obligation records from its inception as an independent Federal agency. During the time FEMA was being formed, it did not obtain obligation records on a timely basis from the four parent agencies. At that time, FEMA also did not adequately organize and staff the accounting activities needed for effective control of obligations. Formal policies and procedures governing the control and processing of obligations transferred from parent agencies and created by the new agency were not established. Also, FEMA did not obtain personnel trained in obligation accounting functions. As a result, control was lacking from the very beginning of the agency, and as recently as August 1981, it was still not known with certainty whether FEMA had obtained complete and accurate records of the obligations it assumed from the four parent agencies.

In addition to starting off with unreliable and incomplete obligation records, FEMA's processing of obligations created since its inception has been error prone. As a result, numerous errors were added to those already existing. Many such errors resulted from faulty keypunching and coding data accepted by an automated accounting system FEMA was implementing. Moreover, the automated accounting system operated for about 21 months without the edit features needed to match disbursements with recorded obligations. The absence of the edit feature permitted expenditures to be made for which no obligation had been established in the records.

Although widespread errors were known to exist, FEMA's efforts to identify and correct such errors were inadequate and ineffective. To illustrate, the headquarters office has never completely reconciled its obligation source documents to its mechanized accounting records, or reconciled its obligation records to those maintained by area offices, even though these records are not in agreement. According to one FEMA official, a reconciliation of this magnitude would take over 1 year to complete, provided that adequate staff was made available.

Agency officials generally agreed that the needed reviews and reconciliations of all obligations had not been done. However, they pointed out that FEMA had taken some action to review and reconcile its obligations before the close of fiscal 1981. During 1981, the headquarters office sent monthly obligation status reports to all area offices for review and reconciliation. This effort was undertaken to match headquarters' mechanized obligation records against area office source document records. However, because some offices did not respond to this request promptly, FEMA's attempt to completely reconcile obligation records for fiscal 1981 was not effective.

The success of FEMA's efforts to correct its 1981 obligation records was further hampered when the agency allowed a data processing contractor to adjust the records without adequate control or guidance by FEMA officials. FEMA used its data processing contractor to assist in adjusting the obligation records before closing out fiscal 1981. During the year, five contract employees made adjustments to FEMA's obligation accounting records to correct known coding and keypunching errors.

However, FEMA officials did not adequately supervise contract employees to ensure that adjustments were made correctly. As a result, the contract employees were making entries to adjust and correct the records without verifying the entry with FEMA's source documents. In short, they were simply "plugging figures" in FEMA records to balance obligations against liquidations. FEMA detected this problem in March 1981, and requested that the employees research the records before adjustments were made. Since then, the only assurance FEMA has that source documents are used when adjusting entries are made is that the employees have been observed using the source documents. FEMA officials still did not designate a FEMA employee to directly supervise the adjusting entry activity.

Despite the efforts by FEMA and the contractor to put the fiscal 1981 records in order, many errors existed as of the end of that year. To illustrate, we noted the following problems:

--Duplicate obligations were established in FEMA's records. For example, one grant obligation for $10,189 was recorded on March 25 and again on April 2, 1981.

--According to one regional office, obligations were established and liquidated in the wrong fiscal year. For example, one travel obligation for $1,718.26 was erroneously established and liquidated in fiscal 1981 instead of 1980.

--Obligations were unidentifiable. We noted that one FEMA regional office reported that obligations valued at over $2,800 could not be supported by appropriate records.

Moreover, the obligation records for the first 2 years of FEMA's existence, 1979 and 1980, received even less review than those for 1981.

Basic control over obligations not implemented

FEMA did not employ some basic control procedures to ensure that its obligations were being handled properly. In many cases, the absence of reliable records might have prevented such controls from being used effectively. However, FEMA officials have initiated a number of actions to improve the records of its obligations. They should also require that the following control procedures be used:

--Recording obligations. Fund control procedures should ensure that obligations are not incurred until (1) the availability of sufficient funds is established, (2) all valid obligations are recorded, and (3) only obligations meeting the criteria for validity are recorded. These controls are necessary to ensure that the accounting records and reports produced from them accurately reflect the agency's obligational status and that no obligations are made that exceed available funds.

--Reviewing obligations. The GAO Manual (7 GAO 17.3) specifies that obligation documents should be reviewed at the end of each fiscal year to (1) establish the validity of recorded obligations, (2) determine the continuing validity of older obligations, and (3) determine if recently recorded obligations are valid.

--Recording the basis for estimated obligations. The GAO Manual (7 GAO 17.1) requires agencies to estimate the amount of an obligation if the exact amount is not known when it is incurred, and to show the basis for and computation of the estimate on the obligating document. These requirements had not been followed by the headquarters office.

The fact that FEMA did not regularly use the control procedures noted above and had widespread deficiencies in its obligation records raises some doubt about the true status of FEMA's obligations for fiscal 1979, 1980, and 1981.

NEED FOR INTERNAL AUDIT COVERAGE OF FEMA'S FINANCIAL OPERATIONS

In our view, adequate internal audit coverage could have detected most of the control deficiencies discussed above, thus providing agency management with the opportunity to correct them earlier. However, FEMA's Office of Inspector General has provided only very limited audit coverage of the agency's financial operations.

Internal audits are recognized as a part of an agency's system of financial controls. Under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal controls, including internal audit. Since passage of that act, we have issued guidance to Federal agencies on their internal audit activities. For example, we issued statements on the basic principles and concepts of internal audit in 1957, and updated them in 1968 and 1974. These statements stress the need for internal auditors to examine financial transactions to determine whether their agencies are (1) maintaining effective controls over assets, liabilities, revenues, and expenditures and (2) complying with applicable laws and regulations.

The potential benefits from increased internal audit coverage are many. For example, internal auditors could provide the following services:

--Identify and bring to management's attention weaknesses in established procedures.

--Point out specific locations needing management's attention to ensure compliance with established procedures.

--Evaluate the design of accounting and control systems and recommend improvements.

--Provide guidance, advice, and technical assistance to offices being reviewed.

--Identify conditions that could create potential for fraud, waste, and abuse.

--Encourage agency operating units to conform to established procedures.

These services would be especially beneficial to a new agency just beginning operations, such as FEMA. The widespread and serious accounting and internal control weaknesses that we have noted will require substantial time, effort, and perseverance to correct. Experience has shown that even after an agency has established acceptable accounting and internal control procedures, frequent review and monitoring are necessary to ensure that personnel follow the procedures regularly.

Despite widely recognized benefits available from internal auditing, we noted that FEMA's Inspector General had performed very little work on the agency's own financial operations between October 1979 and November 1981. During that period FEMA's Inspector General performed 17 imprest fund reviews and did limited survey work on travel advances. Virtually no work was performed on internal financial controls.

FEMA's Inspector General agreed that expanded audit coverage of internal financial operations would be very beneficial in identifying control weaknesses as well in seeing that established control procedures are complied with. He pointed out that some additional audit coverage had been set forth in an audit plan scheduled for implementation in fiscal 1982. With regard to FEMA's accounting system, however, the plan provided for audit work only in the travel and imprest fund areas. The plan excluded such important accounting areas as collections, receivables, disbursements, and obligations. We believe that more internal control audit work should be planned and implemented in these areas.

NEED FOR BETTER MANAGEMENT AND ADMINISTRATION OF ACCOUNTING FUNCTIONS

Management officials in Federal agencies are responsible for seeing that the purposes and objectives of their agencies are achieved in the most economical way. Effective accounting can greatly aid them in meeting this responsibility. The accounting system is an integral part of a management control system, since the accounting records and related procedures can contribute significantly to attaining the objectives of the control system. Achieving objectives at FEMA has been greatly hampered by basic weaknesses in the administration and management of the accounting operation. Such weaknesses, in our view, are a major underlying cause of the internal control deficiencies discussed in our report.

Specifically, we noted that personnel were sometimes not available to perform essential functions or lacked the training and expertise to properly carry out these functions. Further, written procedures had not been developed to guide and instruct employees in carrying out their day-to-day duties. Moreover, responsibility and accountability for accounting duties were not clearly assigned, and employees' duties were not specified in job descriptions. As noted below, these conditions were present in the accounting operation:

--Inadequate staffing of accounting positions. In some areas reviewed, there was a lack of adequate staff to perform accounting functions. For example, we noted that too few people were assigned to account for and monitor obligations and fund status. As a result, contracted employees were working in this area with little guidance or supervision from FEMA.

--Inadequate training of personnel. Many of the accounting employees were not properly trained for the jobs they performed. As a result, some employees were not always sure that they were performing their jobs properly and had to ask other employees for assistance. We believe that the education, training, and experience qualifications of employees must be appropriate for the responsibilities, duties, and functions assigned to them.

--Lack of assigned responsibilities. FEMA's accounting employees must be fully aware of their assigned responsibilities and understand the nature and consequences of their performance. Many of these employees did not have job descriptions outlining their responsibilities, and without job descriptions, FEMA had no assurance that all necessary accounting functions and duties were assigned.

--Lack of accounting procedures. In the past, FEMA had not issued operating accounting procedures. As a result, some employees were using procedures they acquired at their previous agencies. For example, one employee used procedures learned from previous employment at the Securities and Exchange Commission and at the Department of the Interior. Another employee, who was a grade GS-6, was told to write her own procedures. The employee, however, elected to use procedures she obtained from the General Services Administration. Financial record procedures must be established and followed to ensure uniformity, proper control, and accountability over the agency's records.

--Lack of accounting system approval. Section 112(b) of the Accounting and Auditing Act of 1950 (31 U.S.C. 66(b)) requires the heads of executive agencies to develop accounting systems that conform to standards established by the Comptroller General, and to submit their accounting systems to him for approval. Operating an accounting system that conforms to Comptroller General standards would eliminate many of the control weaknesses discussed in this report. To date, FEMA has provided us with an informal draft of its proposed principles and standards for its accounting system. However, FEMA has not submitted a specific accounting system design for consideration.

CORRECTIVE ACTIONS UNDERWAY AND PLANNED

FEMA's accounting and finance officials were very supportive of our audit efforts and generally indicated concern over the condition of the agency's internal financial controls. During the review, our auditors informally briefed accounting and finance officials on our findings as the audit progressed. In some instances, when time and resources permitted, corrective action was taken almost immediately.

At the conclusion of our field work, we formally briefed FEMA officials, including the Executive Deputy Director, on the results of our review. In all cases the officials concurred with our findings; they also agreed with our conclusion that widespread and serious control deficiencies existed throughout FEMA's financial operations. In our briefing, we pointed out that because of the serious and extensive nature of these financial control problems, bringing about effective, long term solutions will require a major and continuing effort.

Recognizing this, FEMA formed a task force specifically to implement the actions necessary to correct the financial control problems we brought to its attention. The task force was organized into 26 separate projects, each with an assigned objective of correcting specific areas of weakness. The task force was formed in January 1982, and according to an official interim report, it has made definite progress toward its objectives of strengthening FEMA's system of internal financial control in the following areas.

--Accounts receivable. Actions have been taken to improve the recording, monitoring, and collecting of FEMA's receivables. Receivables are now recorded in a separate automated file in a newly established accounting system. The system also generates receivable aging reports, which are being provided to each regional claims collection officer. Also, a new claims collection manual is in the draft stage.

--Collections. FEMA has established a document control center to properly control and account for all mail and checks received, thus correcting the separation-of-duties weakness. Also, new written procedures are being drafted to help ensure that checks received are deposited promptly. Additional instructions and safekeeping facilities have been provided to employees who maintain checks overnight.

--Travel advances. FEMA has developed and issued travel regulations to provide guidance to its employees in obtaining and clearing travel advances. The agency has also taken action to correct errors in the travel advance records.

--Disbursements. Changes have been made to improve FEMA's control over its disbursements. New procedures on voucher examination have been drafted, and a new document control center has been established to help ensure proper and timely payment of invoices received.

--Government Transportation Requests. FEMA has acted to improve the accounting control and security over its GTRs. Also, FEMA officials have made arrangements with the Department of Transportation to use its teleticketing service.

--Imprest funds. FEMA has acted to review and secure its imprest fund at the headquarters office, and new procedures have been issued to the cashier. Also, regional office imprest funds are being reviewed, and in some cases, reduced.

--Obligations. FEMA has acted to review and reconcile all of its recorded obligations. Plans are being made to coordinate headquarters accounting obligation data with that of each region. Also, new procedures have been implemented to track the status of obligation documents.

--General management of accounting functions. FEMA has also made several improvements in its accounting operation. For example, more professional accountants have been hired, and employees have been issued written job descriptions and are being trained regularly. FEMA's accounting system is under the complete control of FEMA personnel and is producing various reports for the accounting division.

FEMA has clearly made a good start in its efforts to establish some control over its financial operations. However, many problems remain to be solved, and persistent efforts will be needed to ensure that newly developed control procedures are followed and operated as intended.

CONCLUSIONS AND RECOMMENDATIONS

As discussed earlier, internal control weaknesses at FEMA's headquarters office are serious and extensive. On an individual basis, any one weakness is not likely to significantly affect the agency's financial condition. However, we believe that in the aggregate, such weaknesses are clearly detrimental to FEMA's overall financial operations.

In response to our findings, headquarters accounting officials generally agreed to take appropriate corrective actions. Such actions, however, will yield significant benefits only if implemented by headquarters and followed by all agency personnel. Experience has shown that constant vigilance by top management is necessary to ensure continued effective operation of any internal control. Accordingly, we are recommending that the Director of FEMA:

1 --Ensure that adequate followup actions are taken to correct the weaknesses we have identified.

2 --Develop and issue written procedures covering all aspects of financial and accounting operations, including related internal controls, to all appropriate department offices.

3 --Assign qualified staff to all accounting functions of the agency.

4 --Issue instructions emphasizing that the agency's fiscal procedures and instructions must be followed.

5 --Instruct the inspector general's office to increase its audit coverage of the agency's internal financial operations, with particular emphasis on internal controls.

6 --Develop an accounting system conforming to the Comptroller General's standards and submit the system's design to us for approval.

22200