

THE UNIVERSITY OF CHICAGO

APR 23, 1955



**REPORT ON REVIEW  
OF  
PROCEDURES AND INTERNAL CONTROLS  
OF THE  
DEPARTMENT OF STATE  
INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES SECTION  
FOR THE FISCAL YEARS 1954 AND 1955**

**UNITED STATES GENERAL ACCOUNTING OFFICE  
DIVISION OF AUDITS**

UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON 25, D. C.

DIVISION OF AUDITS

B-118672

Mr. L. H. Hewitt, Commissioner  
International Boundary and Water Commission  
United States and Mexico

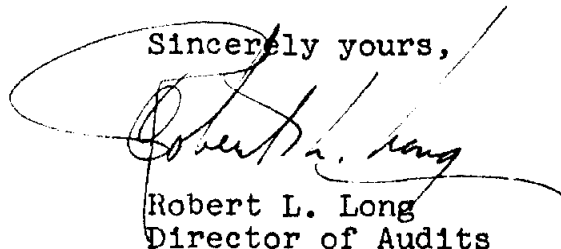
Dear Mr. Commissioner:

Herewith is a copy of our report on weaknesses and deficiencies in procedures and internal controls observed in the audit of the United States Section, International Boundary and Water Commission, United States and Mexico, for fiscal years 1954 and 1955. These comments have been limited to observations other than those to be included in a report to the Congress.

We wish to acknowledge the cooperation given our representatives during the audit. The findings were reviewed with officials of the United States Section, and in many instances action has been taken to correct the deficiencies. We will be happy to discuss these comments in greater detail with you or members of your organization.

Your comments and advice on action taken on recommendations will be appreciated.

Sincerely yours,



Robert L. Long  
Director of Audits

Enclosure

C o n t e n t s

	<u>Page</u>
Transfer of accounting and administrative functions from Harlingen	1
Harlingen field office stream gaging costs	2
Financing of water control activities	3
Need for strengthening procedures for billing, collect- ing, and accounting for revenues	3
Administrative controls over warehouse stock and nonexpendable property not adequate	6
Accounting for and review of stores operating expense	15
Use of imprest cash funds and blanket purchase orders	17
Need to properly record and distribute clearing account transactions	18
Distribution of general office engineering and adminis- trative expenses to benefiting activities	21
Application of work order system not complete	22
Need for shop order system for vehicle repairs	23
Transfers of preliminary survey and investigation costs	24
Detail plan preparation cost charged to nonreimbursable costs account	26
Construction costs financed from operation and maintenance appropriations	27
Transfers of construction costs to plant-in-service accounts	27
Classification of plant in service	28
Accounting for depreciation of facilities	28
Economy in use of motor vehicles and equipment	31
Detailed records of motor vehicle and equipment oper- ating costs	33
Office furniture and equipment at the Harlingen field office in excess of needs	34

	<u>Page</u>
Vacant living quarters at Mercedes, Texas	35
Accounting for reimbursements and refunds	35
Payroll deficiencies	36
Use of distribution ledger for payroll cost distributions	37
Scheduling of travel vouchers for payment	37
File of Application and Account for Advance of Funds, S.F. 1038, as subsidiary record to general ledger account 145--travel advances not maintained	38
Routing of receiving reports	39
Preparation of journal vouchers	39
Workpapers supporting accounting entries prematurely destroyed	39

REPORT ON REVIEW  
OF  
PROCEDURES AND INTERNAL CONTROLS  
OF THE  
DEPARTMENT OF STATE  
INTERNATIONAL BOUNDARY AND WATER COMMISSION  
UNITED STATES SECTION  
FOR THE FISCAL YEARS 1954 AND 1955

Transfer of accounting and administrative functions from Harlingen

In fiscal year 1954 disbursing, payroll, and accounting functions were performed at the El Paso headquarters and the Laredo and Harlingen field offices. During fiscal year 1955 the disbursing, payroll, and accounting functions of the Laredo field office were transferred to the El Paso headquarters office. The existing workload does not appear to justify the retention of these functions at Harlingen.

For fiscal year 1954 and the first half of fiscal year 1955 expenditures made at the Harlingen field office totaled \$273,471 and \$109,195, respectively. At June 30 and December 31, 1954, about 72 employees were included on the payrolls at the Harlingen field office.

It is our belief, based on our review of activities conducted at both the Harlingen field and the El Paso headquarters offices, that economies could be effected, without impairing operations, if the disbursing, payroll, and accounting functions performed at the





### Financing of water control activities

Costs of water control activities conducted in the Harlingen field office are initially financed from operation and maintenance funds allotted to that office for other than water control work. Periodically billings are prepared by the Harlingen field office for the cost of this work, and reimbursements are obtained from the El Paso headquarters office.

The procedure used to initially finance costs from funds allotted one office with subsequent reimbursement from funds allotted another office is cumbersome and unnecessary. The procedure necessitates the tabulation of costs and the preparation of billing and transfer of fund documents. Accordingly, we recommend that funds be initially allotted to the office performing the work to preclude the need for recurring reimbursements.

### Need for strengthening procedures for billing, collecting, and accounting for revenues

Our review of financial transactions disclosed certain deficiencies in the procedures employed in billing, collecting, and accounting for revenues received from operating activities. The deficiencies noted were as follows:

a. No standard system of billing for amounts due has been established in the El Paso headquarters office. Action to collect amounts due are initiated by the organizational units engaged in revenue-producing activities, i.e., the land section of the legal and real estate division for land lease rentals, the Falcon Dam and Laredo field offices for rental of quarters and houses to other than employees, and the procurement section of

the El Paso headquarters office for sales of property and equipment.

b. Contracts for lease of land and rental of quarters are not furnished to the accounting section by the operating units. Contracts for sales of equipment and property are furnished to the accounting section by the procurement sections only after the proceeds of the sale have been collected. As a result, receivables for amounts due are not recorded promptly in the accounting records, nor can a determination be made by the accounting section that all amounts due are collected.

c. Employees at the El Paso headquarters and Falcon Dam field offices regularly engaged in receiving and handling cash are not bonded. Further, written authorizations had not been prepared to designate those employees authorized to receive and handle cash.

d. The majority of the collections are received through the mail by the mail and records unit of the El Paso headquarters office. These collections, which are not scheduled by the mail and records unit, are transmitted by messenger to the accounting section directly, or indirectly through the legal and real estate division, or procurement section, depending upon the nature of the collection.

e. Since the adoption, in fiscal year 1954, of procedures for the direct deposit of collections, as prescribed by Accounting Systems Memorandum No. 31, the accounting section has continued to prepare schedules of collection which are not required and serve no useful purpose in the collection process.

To provide for proper segregation of responsibilities, effective procedures, and adequate assurance of collection of all amounts due the Government, we recommend that:

a. Practices which permit organizational units outside of the accounting section to perform billing functions be discontinued. Procedures should be revised to provide for the performance of billing functions by the accounting section.

b. Original contracts for leases of land, rentals of quarters, and sales of property be submitted to the accounting section immediately after being signed. Billings for amounts due the Government in accordance with contract terms should be prepared by the accounting section and recorded in the accounts at that time.

c. Employees receiving and handling cash be bonded, and authorizations to employees to receive and handle cash be given in writing rather than orally.

d. Collections received by the mail and records unit be listed on a daily abstract of remittances, one copy of which should be retained in the mail room, and the original, together with the receipt, forwarded direct to the accounting section. Collection information needed by any organizational unit should be furnished by the accounting section.

e. The practice of preparing schedule of collection be discontinued because no useful purpose is served by it under the revised procedures.

Administrative controls over warehouse stock and nonexpendable property not adequate

The accounting system of the United States Section provides the means by which accounting controls over property, materials, and supplies can be established. Our audit, however, disclosed that these controls over property, materials, and supplies were not used effectively. Weaknesses and deficiencies in the methods, practices, and procedures used in accounting for warehouse stock and nonexpendable property were noted as follows:

a. Complete physical inventories of warehouse stock and nonexpendable property had not been taken at all locations in recent years, and at the El Paso headquarters and the San Diego field offices a complete physical inventory of nonexpendable property has never been made. Nonexpendable property records in use are maintained solely for physical accountability purposes, and costs shown by these records are not reconciled with the balances shown by the related general ledger accounts.

b. Procedures used in inventorying warehouse stock and nonexpendable property were inadequate. At some locations the physical inventory of warehouse stock was taken by employees responsible for maintaining stock records and receiving, storing, and issuing stock. At the Harlingen field office the latest inventory of nonexpendable property was accomplished by transcribing data from property records to the inventory listings without a physical count having been made at that time or on a cycle basis.

c. Procedures have not been established to inform the accounting section when property and equipment is disposed of other than by sale. As a result, the cost of property and equipment

which had been lost, stolen, or destroyed is not removed from the property and equipment general ledger account balances.

d. At December 31, 1954, the recorded cost of materials and supplies on hand at warehouses in the Harlingen field office area totaled \$97,230. Of this total \$5,553 was classified as active stock, \$24,601 as stand-by construction, and \$67,076 as stand-by operations and maintenance materials and supplies. For the period September 1, 1953, through December 31, 1954 (16 months), issues of stand-by construction and operation and maintenance materials and supplies totaled \$272 and \$10,207, respectively. On the basis of issues of stand-by construction and operation and maintenance materials and supplies in the period September 1, 1953, through December 31, 1954, the inventory balances of materials and supplies on hand at December 31, 1954, represent slightly more than a 120-year supply of construction materials and supplies and about a 9-year supply of operation and maintenance materials and supplies.

e. Part II, section 25.1, of the Manual of Accounts and Finance Procedures states in part that:

"The accounting office will maintain subsidiary control accounts for each store and a general ledger account for all stores."

Our review of procedures at the Harlingen field office disclosed that subsidiary control accounts were not being maintained for materials and supplies stored at the Harlingen, McAllen, Mercedes, and Brownsville warehouses and yards. It was not possible to tell from records maintained at the Harlingen field office the total cost of materials on hand or the classification of stock (active or stand-by) at each location.

f. Balances shown by stores cards maintained by warehouses in the Harlingen field office area and at the American Dam storehouse of the El Paso field office are not regularly totaled and agreed with balances shown by the related general ledger stores accounts. At one location a reconciliation of balances was made annually, but at other locations reconciliations were made less frequently.

g. Stores requisition forms, DS-537, are not always signed by storekeepers and individuals receiving materials and supplies issued from the warehouses. At the Del Rio warehouse stores requisitions numbers 47503 through 47509 were not signed by individuals receiving materials, and at the Las Cruces warehouse stores requisitions numbers 44831 through 44839 were not signed by the storekeeper or individuals receiving the materials.

h. The warehouse at Harlingen is frequently left open and unattended by the supply clerk during working hours. Pads of requisition forms are left in the warehouse so that employees withdrawing materials, supplies, and tools may prepare a stores requisition when the supply clerk is not at the warehouse.

i. Stock record cards at the Harlingen warehouse were not filed systematically to facilitate posting stores transactions. In our audit of warehouse receipts and issues, 12 percent of the transactions selected for audit could not be verified because of the inability of the supply clerk to find the stock record cards on which issues of materials had been recorded.

j. Warehouses in the El Paso Division do not record the receipt of materials and supplies on stock record cards at the time

of their receipt. Postings are delayed until the end of each month at which time the accounting section of the El Paso headquarters office furnishes the warehouses a listing of materials received showing the purchase order number, date, quantity, unit, unit price, and amount.

The practice of delaying the posting of materials received to the stock record cards until a month-end report of receipts is received from the accounting section is not a good accounting practice. In the first place, it eliminates an internal control feature by which transactions are recorded independently by both the warehouse and the accounting section with subsequent reconciliation of items recorded to assure their correctness. In addition, the practice is undesirable because it can result in the incorrect pricing of materials issued. Material issues are priced out at average unit cost. Under this method materials on hand should be recomputed each time additional quantities of materials are received in stock. Failure to record the receipt of materials at the time of their receipt can result in inaccuracies.

k. Invoices received by the accounting section of the El Paso headquarters office are charged to the stores account when account codes are omitted from the related receiving reports and the proper accounts to be charged cannot be determined. Our examination of direct charges to the stores account disclosed that costs of repairing vehicles and equipment, telephone service, and developing film were posted to the stores account. These costs were subsequently cleared from the stores account when information was received by the accounting section as to the proper expense accounts to which the costs were to be charged.

l. Adequate records were not maintained at the Laredo field office to account for Government property, materials, and supplies furnished to, and returned by, contractors. Records maintained of items returned to the Government by contractors consist principally of notes made on scraps of paper and unsigned memorandums. The credit given one contractor, working on Falcon Dam, for materials returned could not be substantiated by employees of the Laredo field office.

m. On January 5, 1955, the Harlingen repair shop received 15 tires to be installed on vehicles. These tires were stored in an unlocked and unattended room in the repair shop along with various motor vehicle repair parts. By February 16, 1955, only 4 of the 15 tires had been installed on vehicles, and the remaining 11 were still on hand at the repair shop.

To strengthen controls over materials and supplies and nonexpendable property and equipment, we recommend that:

a. A complete physical inventory of warehouse stock and nonexpendable property be taken annually. At locations where it is not practicable to take a complete physical inventory of property at one time the cycle method of inventory-taking should be used. The counts should be compared with stores card quantities and adjustments made for the differences. Significant or unusual differences should be checked so as to determine the reasons, and approvals should be obtained for adjustment.

b. Priced physical inventory listings be furnished to the accounting section for reconciliation of amounts shown by the inventory listing with balances carried in the related general ledger



property accounts. The general ledger property account balances should be adjusted for any overages or shortages disclosed by the physical inventory after appropriate approval for significant or unusual differences.

c. The aggregate of amounts shown on accountability records for nonexpendable property be reconciled with the balances in the related general ledger accounts at least annually. This reconciliation should be made within the intervals of physical inventory-takings.

d. Reports of property stolen, lost, destroyed, or otherwise disposed of be promptly furnished to the accounting section for recording in the accounts.

e. The need for materials and supplies in stock, particularly stand-by construction and operation and maintenance materials and supplies in the Harlingen area, be critically reviewed. Action should be taken to dispose of materials and supplies which are found to be obsolete or in excess of actual needs in accordance with applicable regulations.

f. Subsidiary control accounts for each warehouse in the Harlingen area be provided for in the accounts maintained by the Harlingen field office as required by part II, section 25.1, of the Manual of Accounts and Finance Procedures.

g. Balances shown by stores record cards be totaled and agreed with related subsidiary general ledger control account balances at least semiannually. Differences found should be investigated and appropriate adjustments made to stock record card or account balances. In this connection, however, we believe that

the United States Section should make a determination on the degree of control desired for stores. At some locations, it may be sufficient to maintain the stores record cards in quantities only, and to rely on annual physical inventories to disclose the differences with general ledger account balances.

h. Stores requisition forms be signed by the storekeeper, to indicate that the issue of materials was recorded on the stock records, and by the individual receiving the materials, to evidence the receipt of materials from the warehouse.

i. Unattended warehouses be locked at all times to prevent unauthorized withdrawals of materials and supplies. At warehouses where it is not practical to have a supply clerk in attendance throughout the day the supply clerk should open the warehouses at specific times during the morning or afternoon for the purpose of issuing materials requisitioned from stores, or other similar arrangements should be made.

j. Stock record cards be filed in a systematic manner, with divider tabs placed between each group or classification of like stock items, to enable the storekeeper to post transactions without having to spend an excessive amount of time finding each stock record card.

k. Receipts of materials and supplies be recorded on warehouse stock record cards at the time of their actual receipt by the warehouse. Materials received at the warehouses prior to the receipt of a vendor's invoice should be priced on the basis of quoted prices shown on the receiving copy of the purchase order. When invoices are subsequently received significant differences

between the quoted price and the actual invoice price should be adjusted on the stock record cards, and minor differences should be recorded in the stores expenses account. At the end of each month the warehouses should report receipts during the month to the accounting section.

l. Costs of repairs to vehicles and equipment and bills for telephone and other services be charged to an appropriate expense account rather than being treated as a stores transaction. Persons initiating purchase orders or requisitions for vehicle repairs or other services should show on the requisition and purchase order documents the appropriate expense account coding to which the costs are to be charged. This practice will enable accounting section employees to charge these costs direct to the appropriate expense account without the need for recording the costs in the stores account and subsequently transferring them to the expense account.

m. Formal records be maintained of property, materials, and supplies furnished each contractor. Receipts listing in detail all items furnished by the Government should be obtained from each contractor. Each contractor should be relieved of his liability to the Government for property, materials, and supplies furnished him on the basis of certificates of placement submitted by Government inspectors, and certified receiving reports submitted by supply clerks for items returned to stock by the contractor.

n. Materials and supplies be issued from the warehouse, or ordered for direct delivery to a project site or shop, only when there is an immediate need for them. Materials and supplies

retained on hand outside of the warehouses, pending their use, should be properly safeguarded to prevent removal by unauthorized persons. Materials and supplies left over after the job for which they were requisitioned has been completed should be promptly returned to the warehouse.

Accounting for and review of stores operating expense

Part I, section 2.3, of the Manual of Accounts and Finance Procedures provides in part that:

"This account (stores expense account) will include the cost of supervision, labor, and expenses incurred in the operation and maintenance of the general storerooms \*\*\* (and) should be cleared by adding to the cost of materials and supplies issued an equitable portion of the expenses."

\* \* \* \* \*

"Where two or more storehouses are maintained, costs for each storehouse will be accumulated separately."

\* \* \* \* \*

"Normally this account (stores expense account) will have a debit balance to be carried forward each month since the account is credited only on the basis of stores issues."

Our examination of stores expense transactions at the El Paso headquarters and the Harlingen and Laredo field offices disclosed the following deviations from procedures prescribed for accounting for stores expense by the Manual of Accounts and Finance Procedures:

a. At El Paso, costs charged to the stores expense account are transferred at the end of each month to account 153.5--miscellaneous expense, instead of being distributed by adding an equitable portion of the expense to the cost of materials issued during the month.

b. At Harlingen, surcharges on motor and diesel oil and diesel fuel issued by the warehouse in the period July 1953 to December 1954 averaged in excess of 66 percent of the cost of oil and fuel issued. During this same period surcharges on other warehouse stock issues averaged about 20 percent of the cost of the

items issued. In our opinion a surcharge of 66 percent is too high and indicates an uneconomical stores operation or an unequitable distribution of stores expense among types of stores issues. A study to determine the real reasons, however, has not been made.

c. At Laredo, (1) two warehouses were in operation, but only one general ledger stores expense account was maintained, and, (2) adjustments for freight costs, some of which exceeded several hundred dollars in amount each and should have been considered as an increase or reduction of the costs of materials and supplies procured, were recorded in the stores expense account. The stores expense account had a credit balance from sometime prior to July 1, 1953, up until the time the credit balance was written off in January 1955. During this period issues from the warehouses did not include a surcharge for stores expenses incurred.

We recommend that a critical review be made of the procedures used in accounting for stores expense to correct deficient practices and to assure that these expenses are equitably charged to the cost and expense accounts. Additionally, these reviews can disclose uneconomical and ineffective stores operations since the surcharge rates should represent management's standard under anticipated operating conditions. The failure of these rates to absorb stores operating costs should be a signal for an administrative inquiry into the reasons and for appropriate corrective action. Further, these reviews should determine that the provisions of the Manual of Accounts and Finance Procedures are being uniformly followed at all locations.

Use of imprest cash funds and blanket purchase orders

Statistics on procurement activities of the United States Section showed that during fiscal year 1954 and the first nine months of the 1955 fiscal year, 3,523 and 2,529 purchases, respectively, were made costing less than \$25 each. These purchases represented more than half of the total purchase orders issued during these two periods.

An analysis of the procurement activities of the El Paso headquarters and Harlingen field offices disclosed the following:

a. The El Paso headquarters office issued a total of about 800 purchase orders during three months of fiscal year 1955. Of the 800 purchase orders issued, 348 were for local purchases of items costing less than \$25 each. In addition, several vendors in El Paso were patronized frequently enough to warrant arranging for blanket purchase agreements.

b. The Harlingen field office issued a total of 516 purchase orders during the six-month period from July 1 through December 31, 1954. Of the 516 purchase orders issued, 375 were for purchases of items costing less than \$25 each, which included 172 purchases costing less than \$5 each.

Imprest cash funds have not been established, nor has the use of blanket purchase orders been adopted for processing small purchases by the El Paso headquarters and the Harlingen field offices. We were informed that the possibility of establishing an imprest fund at the El Paso headquarters office had previously been

reviewed, but the decision not to establish an imprest fund was partially due to a misunderstanding of how the imprest fund system works.

On the basis of the number of small purchases made by the El Paso headquarters and Harlingen field offices we believe that the establishment of imprest funds and the use of blanket purchase orders at these offices would permit the processing of small local purchases more efficiently and economically. We recommend, therefore, that action be taken to establish imprest funds and arrange for blanket purchase agreements with vendors at the El Paso and Harlingen offices. We also recommend that a study be made at each field office authorized to make open market purchases to determine the feasibility of establishing imprest funds and arranging for blanket purchase agreements with vendors.

Need to properly record and distribute clearing account transactions

Our examination of clearing account transactions disclosed deficiencies in recording and distributing payroll, shop, tools and work equipment, and transportation expenses. Some of the more significant deficiencies follow.

a. Part I, section 7.4, of the Manual of Accounts and Finance Procedures provides that clearing accounts will be maintained, by columnar arrangement or subdivision, to show components of costs charged to accounts, viz., labor, supplies and expense, depreciation, and the like.

Costs charged to clearing accounts maintained at the Harlingen field office were posted to a single debit column in the



accounts rather than being segregated by components of costs as prescribed by the Manual of Accounts and Finance Procedures. This practice prevents a review and comparison of components of costs charged each month, other than by a detailed analysis and rescheduling of charges to the clearing account.

Costs charged to the transportation expense clearing account at the Laredo field office were grouped by cost components which differed from those prescribed by the Manual of Accounts and Finance Procedures. This practice precludes a comparison or consolidation of costs, by components, among the three offices maintaining accounts for transportation expenses.

b. Part I, section 7.2, of the Manual of Accounts and Finance Procedures provides that all clearing account costs, other than those which apply to a succeeding year or cannot be equitably distributed, should be cleared before the close of each year.

At the Harlingen field office undistributed balances in the payroll, shop operations, tools and work equipment, and transportation expense clearing accounts were carried forward to fiscal year 1955. Balances in the accounts at June 30, 1954, represented costs incurred which did not benefit succeeding years and which should have been cleared from the accounts and charged to fiscal year 1954 operations rather than being carried forward to fiscal year 1955.

c. Part I, section 7.4, of the Manual of Accounts and Finance Procedures provides that motor vehicle costs will be distributed from the transportation expenses clearing account on the basis of fixed rented rates per mile or per hour.

An examination of distributions made from the transportation expenses clearing account maintained for the Laredo field office disclosed that costs were cleared on an actual cost basis rather than on the basis of fixed rental rates. This practice complicates the distribution of expenses when vehicles and equipment have been used for more than one job or by different organizational units during the month. Moreover, the method does not facilitate administrative review of motor vehicle operating costs by ascertaining the sufficiency of standard rates to absorb those costs.

d. Part I, section 7.4, of the Manual of Accounts and Finance Procedures provides that indirect costs incurred at the shops will be distributed from the shop expense clearing accounts by surcharging each shop order with a fixed percentage of the direct labor charges.

During the period September through December 1954, a surcharge for indirect costs was not added to direct labor costs incurred by the mechanical and repair shop of the Harlingen field office for work done for the water control sections of the El Paso headquarters and Laredo field offices. Failure to charge indirect costs to each shop order results in an inequitable distribution of indirect expenses incurred by the shops.

To provide the means for an administrative review of indirect costs that can serve to control these costs and to correct the deficiencies in recording and distributing clearing account expenses, we recommend that instructions contained in the Manual of Accounts and Finance Procedures be adhered to.

Distribution of general office engineering and administrative expenses to benefiting activities

Part I, section 6.3, of the Manual of Accounts and Finance Procedures provides in part the following:

"Account 841. General Engineering Expense Transferred to Other Accounts (Cr) is to reflect the distribution of cost of general office engineering as between other activities of the Commission, to the extent appropriate on a service rendered basis."

\* \* \* \* \*

"Account 861. General Administrative Expense Transferred to Other Accounts (Cr) is to reflect the distribution of the expense as between other activities of the Commission to the extent appropriate."

In fiscal years 1952, 1953, and 1954, expenses incurred for general office engineering and administrative services at the El Paso headquarters office were transferred in total to account 206--current year income and expense. The balance in this account is closed out to account 204--nonreimbursable costs.

General office engineering and administrative services benefit projects which are (a) being investigated preparatory to authorization, (b) authorized but not yet under construction, (c) under construction, and (d) completed and in operation. Part of the expenses incurred for general office engineering and administrative services should be distributed to the project accounts. Failure to distribute part of these service costs to the projects has resulted in an overstatement of amounts recorded as nonreimbursable costs and an understatement of preliminary survey and

investigation, construction work-in-progress, plant-in-service, and project operation costs.

We believe that to obtain accurate project costs it is necessary to include general office engineering and administrative expenses incurred for the benefit of projects as part of project costs. We recommend, therefore, that the general office engineering and administrative services applicable to each project be determined. On the basis of this determination rates should be developed to distribute general office engineering and administrative expenses to each project in proportion to the individual project workloads to the total workload. Once rates have been established, periodic reviews of project workloads should be made to determine if the rates are providing an equitable distribution of expenses.

Application of work order system not complete

Part II, section 22, of the Manual of Accounts and Finance Procedures describes procedures to be followed in maintaining a work order system. Our review of work orders maintained at the El Paso headquarters and Harlingen and Laredo field offices disclosed deviations from instructions contained in section 22 of the manual, as follows:

a. Construction and preliminary surveys and investigation work was initiated prior to, and in some cases without, the issuance of a work order.

b. Work orders which had been issued were either not signed as approved or signed by an employee who did not have written authority from the Commissioner to approve work orders.

c. Many work orders did not contain cost estimates or sufficient description of the work to be performed.

d. Work order cost estimates were exceeded without approvals being obtained to incur cost in excess of estimated amounts.

e. Costs recorded on work order ledger sheets for materials and supplies, travel, transportation, contractual services, and the like were being recorded in a single cost column rather than being spread to appropriate cost columns provided by the ledger sheet for each component of cost.

f. Completion notices and completion reports were not used as the basis for transferring work order costs to plant-in-service accounts.

The work order system provides an administrative means of limiting activities to authorized and approved programs, and for administrative control of the costs of construction and survey and investigation work. Accordingly, we recommend that provisions of the Manual of Accounts and Finance Procedures relating to the work order system be adhered to.

#### Need for shop order system for vehicle repairs

Shop orders are not used by the repair shops to accumulate labor, material, and overhead costs incurred in repairing vehicles. This failure to use shop orders to accumulate costs makes it difficult, if not impossible, for management to determine the economy or efficiency of work performed by the Government repair shops.

To provide management with data with which it can critically evaluate the economy and efficiency of vehicle repairs made by the repair shops, we recommend that a shop order system be established

by which the labor, material, and overhead costs incurred for each repair to a vehicle is recorded on a separate shop order. Periodically, costs incurred for repairs made by the Government shops should be compared with costs charged by private shops for similar work to determine if the Government is benefiting by maintaining repair shops of its own.

Transfers of preliminary survey and investigation costs

Part I, section 2.3, of the Manual of Accounts and Finance Procedures provides that project investigation costs shall be carried in account 151--preliminary surveys and investigations costs until it is determined to construct a project or it is determined that a project is not feasible, at which time costs will be transferred to account 121--construction work in progress, or account 204--nonreimbursable costs, as appropriate. During fiscal years 1953, 1954, and 1955 preliminary survey and investigation costs incurred for the following Harlingen field office projects were transferred to the nonreimbursable costs account:

<u>Project</u>	<u>Amount</u>
Anzalduas Dam	\$12,282
San Benito Pump	370
Survey below Mission Pump	<u>447</u>
Total	<u>\$13,099</u>

At March 31, 1955, the Anzalduas Dam Project was authorized for construction, but construction had not begun; the San Benito Pump Project was considered feasible, but construction had not begun; and the Mission Pump Project had been constructed.

Preliminary survey and investigation costs, totaling \$96,195, which were incurred in locating a site for the proposed Upper Dam

Project, were recorded by the El Paso headquarters office as non-reimbursable costs. The Upper Dam Project was still in the process of investigation at March 31, 1955.

To provide for the proper classification of preliminary survey and investigation costs, we recommend that these costs be transferred to the work in progress and nonreimbursable costs accounts in accordance with instructions contained in part I, section 2.3, of the Manual of Accounts and Finance Procedures. We also recommend that preliminary survey and investigation costs incurred on (a) the Anzalduas Dam, San Benito Pump, and Upper Dam Projects be transferred from account 204--nonreimbursable costs to account 151--preliminary survey and investigation costs, and (b) the Mission Pump Project be transferred from account 204 to plant, property, and equipment account 108--bank protection improvements.

Detail plan preparation cost charged  
to nonreimbursable costs account

Certain costs of the Diablo Dam Project have not been properly classified in the records of the Commission. In fiscal year 1955 the chief of the water control section of the El Paso headquarters office performed work on developing capacity criteria for the Diablo Dam Project. In connection with this work he went to New York to use an electronic computer to analyze certain statistical data. Expenses incurred on the New York trip for travel, per diem, and the use of the electronic computer were paid from the construction appropriation, symbol 19X1078, and were charged to a work order in which the costs of detail plan preparation are accumulated for the Diablo Dam Project. The salary of the water control chief, however, was financed from the salaries and expenses appropriation, symbol 1951069, and was charged to expense account 402--international water control and hydrographic studies, which is cleared to account 204--nonreimbursable costs at the end of the fiscal year.

To accurately account for costs incurred for detail plan preparation, the salaries of employees engaged in planning work relating to a particular project should be charged to a project work order, without regard to the appropriation from which their salaries are budgeted, rather than to an expense account which is cleared to the nonreimbursable costs account. We recommend, therefore, that the salary of the chief of the water control section, for the period in which he was engaged in developing capacity criteria for the Diablo Dam Project be transferred from



account 402--international water control and hydrographic studies to the appropriate work order.

Construction costs financed from operation and maintenance appropriations

During fiscal years 1954 and 1955, costs totaling \$3,706 were incurred in obtaining rights-of-way and preparing plans for river levees for the Mission Main Canal. These costs were financed from fiscal year 1954 (\$2,694) and 1955 (\$1,012) operation and maintenance appropriations although construction of levees on the Mission Main Canal was authorized as part of the Lower Rio Grande Flood Control Project.

We believe that costs incurred in obtaining rights-of-way and preparing plans for features of authorized projects should be financed from funds appropriated for construction of the project. We recommend that in the future such costs be charged to funds appropriated for construction of the projects.

Transfers of construction costs to plant-in-service accounts

Part I, section 2.3, of the Manual of Accounts and Finance Procedures provides that construction costs will be accumulated and carried in a construction work-in-progress account until the facility being constructed is completed and ready for service. At that time construction costs will be transferred to an appropriate plant-in-service account. At the Harlingen field office, preliminary construction costs amounting to \$15,321, accumulated during fiscal years 1953 and 1954 for work orders FC-3, FC-4, and FC-6, were transferred to account 104--flood control plant in service prior to the completion of construction of facilities.

To provide for appropriate classification of the costs incurred by the United States Section, we recommend that the \$15,321 of preliminary construction costs recorded in error in account 104--flood control plant in service be transferred to the construction work-in-progress account until such time as facilities for which this cost was incurred are completed and ready for service. This recommendation also conforms to the instructions contained in the Manual of Accounts and Finance Procedures relating to the transfer of construction costs to plant-in-service accounts.

#### Classification of plant in service

Part I, section 3.2, of the Manual of Accounts and Finance Procedures contains a list of subsidiary accounts to the general ledger plant-in-service accounts. At the Harlingen field office costs of completed control and protective works recorded in general ledger plant-in-service accounts 104--flood control plant, and 108--bank protection plant, have not been classified in accordance with the subsidiary account classifications contained in the Manual of Accounts and Finance Procedures.

To provide an effective and adequate evaluation of project plant costs, and an identification of these costs to tangible project features, we recommend that the Harlingen field office conform its subsidiary plant-in-service account classifications to those contained in the Manual of Accounts and Finance Procedures.

#### Accounting for depreciation of facilities

Our review of procedures used to account for provisions for depreciation disclosed the following:

a. Part II, section 23.4B, of the Manual of Accounts and Finance Procedures provides that depreciation shall be calculated on all property from the time such property is placed in service until the expiration of its service life.

Property recorded in accounts maintained by the Harlingen field office, other than vehicles, and heavy equipment, was not being depreciated. At the El Paso headquarters office depreciation was being charged only on vehicles and equipment transferred to that office from the Laredo field office. We are informed that since costs had not been capitalized under the former accounting system it was necessary to analyze all cost data to establish correct property costs in the accounts. Until this survey is completed and correct property costs are established, provisions for depreciation will not be recorded in the accounts.

b. Part II, section 23.4E, of the Manual of Accounts and Finance Procedures provides that depreciation will be computed by using the straight-line method.

At the Harlingen and Laredo field offices vehicles were being depreciated on a use basis by applying a fixed rate to the number of miles each vehicle was driven. As a result of this practice some vehicles, which are still in use, had been fully depreciated in less than two years' time.

To correct deficiencies in procedures for depreciation we recommend that:

a. Depreciation be recorded on all property in service based on property costs shown by the plant-in-service accounts.

b. The analysis and survey of plant costs, now in progress, be completed as rapidly as possible. At the completion of this survey appropriate adjustments should be made to correct plant-in-service and provision for accrued depreciation account balances.

c. The practice of depreciating vehicles on the basis of a fixed rate per mile driven be discontinued. The straight-line method of depreciation required by the Manual of Accounts and Finance Procedures should be used.

Economy in use of motor vehicles and equipment

Our review of vehicle repair costs for fiscal year 1954 showed that extensive and costly repairs were made to vehicles which were over six years old or had been driven in excess of 60,000 miles. We were informed that, because of the limitation on the number of passenger-carrying vehicles authorized to be purchased for replacement (four in both fiscal years 1953 and 1954, and none in fiscal year 1955) and the lack of funds needed to replace light trucks, it was necessary to make extensive repairs to vehicles which otherwise would have been replaced. Illustrations of repair costs incurred for vehicles in fiscal year 1954 are as follows:

<u>Year of manufacture</u>	<u>Make and model</u>	<u>Vehicle number</u>	<u>Accumulated mileage June 30, 1954</u>	<u>Fiscal year 1954 repair cost</u>
1943	Willys jeep	100	81,019	\$ 452
1946	Ford sedan	111	107,664	1,069
1946	Buick sedan	151	31,604	209
1946	IHC pickup truck	156	89,158	396
1946	IHC pickup truck	159	90,470	457
1948	Ford pickup truck	129	140,161	1,412
1948	Willys station wagon	187	62,376	408
1948	Willys pickup truck	189	46,653	551
1948	Willys pickup truck	198	34,782	495
1948	Willys pickup truck	411	79,424	895
1948	Chevrolet station wagon	413	88,866	671
1948	Chevrolet station wagon	414	119,562	567
1949	Dodge pickup truck	437	102,774	822
1949	Dodge pickup truck	461	81,600	1,104
1949	Chevrolet station wagon	447	71,793	1,522
1949	Chevrolet pickup truck	458	61,332	545

In fiscal year 1954 repairs costing in excess of \$150 each were made to 28 passenger-carrying vehicles and 59 trucks of 1-ton capacity and less. The total cost of vehicle and equipment repairs for fiscal year 1954 was \$131,186.

In fiscal year 1954 a review of the economy in the use of passenger-carrying vehicles was made by the United States Section which resulted in the reassigning of vehicles at the various offices and the declaring of six vehicles as excess to needs. In fiscal year 1955 we understand that an additional 12 cars will be declared excess to needs thereby reducing the fleet of passenger-carrying vehicles to 32 by June 30, 1955. The action taken in studying the economy in the use of passenger-carrying vehicles and disposing of those vehicles found to be in excess to needs is commendable. These studies should be continued, as we believe that the Commission's replacement program included in budget justifications will be more favorably considered when it can conclusively be shown that the Commission has no excess vehicles and is incurring high maintenance costs to keep remaining vehicles operative.

Our review of motor vehicle reports prepared for fiscal year 1954 and the first half of fiscal year 1955 disclosed instances, however, where full use had not been made of trucks and heavy equipment. Three tractors, two graders, six tractor mowers, and one drillrig located at the El Paso office were used less than 400 hours each during fiscal year 1954. During the first half of fiscal year 1955 thirteen units of heavy equipment at the Harlingen field office were used less than 200 hours each. Six of these units had not been used at all, and two (tractors) of the six units had not been used since April 1952.

We believe that better vehicle-operating results can be achieved by (1) replacing, rather than making extensive repairs to, vehicles which have deteriorated through long use and (2)

reducing the number of trucks and pieces of heavy equipment operated to those essential in carrying out work programs. Accordingly, we recommend (1) that a determination be made of the number of trucks and heavy equipment really needed at each office and (2) that a review be made of vehicle and equipment repair costs. Trucks and heavy equipment determined to be excess to needs should be disposed of, and the remaining vehicles and equipment which have deteriorated through long use should be scheduled for replacement at the earliest date possible.

Detailed records of motor vehicle  
and equipment operating costs

A ledger sheet is maintained for each motor vehicle and each piece of heavy equipment on which costs of labor, fuel, lubricants, repairs, tires and tubes, storage, and miscellaneous expenses incurred in operating and maintaining vehicles and equipment are recorded. At December 31, 1954, the United States Section had on hand 192 motor vehicles and pieces of heavy equipment, and considerable time was being spent in posting operation and maintenance costs to the individual ledger sheets.

We believe that adequate administrative controls over vehicle and equipment operations can be maintained without the need for compiling cost data by individual vehicles and pieces of equipment.

To reduce the time and cost of maintaining vehicle and equipment cost data, we recommend that operation and maintenance costs be maintained by the classes of vehicles and equipment reported to the General Services Administration.

Office furniture and equipment at the  
Harlingen field office in excess of needs

A review of the property records and the use of office furniture and equipment at the Harlingen field office disclosed that many items on hand were in excess of actual needs. Among the items noted were adding machines, calculators, typewriters, electric fans, electric water coolers, gas heaters, drafting tables and drafting stools.

To make unneeded equipment available for use in other offices of the United States Section and other agencies of the Government, or to obtain revenues from sale of excess equipment, we recommend that the needs of the Harlingen field office for office furniture and equipment be critically reviewed, and that an active program be pursued to dispose of items found to be excess to actual needs.



### Vacant living quarters at Mercedes, Texas

In 1947 two buildings were acquired from the Air Force and converted into a single dwelling at a cost of about \$5,000. In March 1955, this house, which was in good condition and suitable for living quarters, was stored at the Mercedes, Texas, warehouse yard. We were informed by officials at the Harlingen field office that this house had never been occupied as living quarters or used for any purpose since its acquisition.

We recommend that a determination be made of the need for this house and, if it is found to be excess to needs, that it be disposed of in accordance with existing regulations. We also recommend that, to avoid the needless expenditure of funds, the use and purpose of facilities to be acquired or constructed be completely justified and properly approved prior to the expenditure of funds for their acquisition or construction.

### Accounting for reimbursements and refunds

Receipts, representing reimbursements to appropriations, were treated as refunds by the El Paso headquarters office. Reimbursements are required to be reapportioned by the Bureau of the Budget and reallocated prior to their obligation and expenditure. Recording reimbursement-type receipts as refunds avoids this requirement by treating the receipts as a reduction of expenditures, thereby increasing the amount of funds available for obligation and expenditure without a reapportionment and reallocation of funds.

At the Laredo field office entries to record refunds to appropriations were entered in the accounts receivable, accrued expenditure, and cash receipts and disbursements registers. Part II,

section 13.4, of the Manual of Accounts and Finance Procedures, which describes the procedures to be followed in accounting for refunds, does not provide for the recording of refunds in the cash disbursements register.

To comply with existing regulations on accounting for reimbursements and refunds, we recommend that the requirements of the Bureau of the Budget and the Manual of Accounts and Finance Procedures be adhered to in accounting for reimbursements and refunds to appropriations.

#### Payroll deficiencies

Our examination of payrolls disclosed numerous instances where employees certified their own time and attendance reports.

At the Harlingen field office we also found that data were being unnecessarily transcribed from payroll change slips, S.F. 1126, to payroll control registers, S.F. 1125A. This practice had been initiated at a time when payroll change slips were forwarded to El Paso. When procedures were changed and copies of the change slips were retained at Harlingen the practice was not discontinued.

To provide adequate control over employee time reporting we recommend that time and attendance reports be approved by each employee's immediate supervisor. We also recommend that the practice of transcribing data from the payroll change slips to the control register be discontinued as no useful purpose is served by this work.

Use of distribution ledger for payroll cost distributions

The El Paso headquarters office maintains an unnecessary record referred to as payroll distribution ledger in the preparation of monthly journal vouchers used in posting payroll charges to cost and general ledger accounts. At the end of each pay period payroll costs, computed on the Attendance Report and Cost Distribution forms submitted to the accounting section, are listed on a 21-column work sheet by appropriate cost accounts. When all of the costs shown by the Attendance Report and Cost Distribution forms have been listed, the work-sheet columns are totaled, and the individual cost account totals are posted to a payroll distribution ledger. The amounts posted to the payroll distribution ledger are then used in preparing a monthly journal voucher to distribute payroll costs to accounts in the general and subsidiary cost ledgers.

We believe that there is no need to maintain a distribution ledger since the information required to prepare monthly payroll cost distributions can be obtained from the work sheets. We recommend, therefore, that the use of the payroll distribution ledger be discontinued.

Scheduling of travel vouchers for payment

It is the practice of the accounting section of the El Paso headquarters office to process and schedule travel vouchers for payment as these vouchers are received, rather than to delay scheduling until a number of them have been accumulated. In the months of October 1954 and January 1955 travel vouchers submitted for payment numbered 53 and were scheduled on 25 schedules of payment.

Of the 25 schedules of payment processed, 17 schedules had only 1 travel voucher listed, and 5 had only 2 or 3 travel vouchers listed.

The practice of processing and scheduling travel vouchers for payment as these vouchers are received results in increasing, unnecessarily, the number of schedules of payment. We recommend that the accounting section adopt the practice of accumulating travel vouchers and scheduling them for payment biweekly or monthly depending upon the number of vouchers received for payment.

File of Application and Account for Advance of Funds, S.F. 1038, as subsidiary record to general ledger account 145--travel advances not maintained

At the El Paso headquarters office the S.F.'s 1038 are attached to vouchers and schedules of payment rather than being retained on file as a subsidiary record supporting the general ledger travel advances account balance. General Regulations No. 88-Second Revision, dated November 7, 1950, provides that the S.F.'s 1038 (a) will serve as an application for advances of funds and as a subsidiary record in the accounting for advances made, (b) shall be maintained as support to the advance account, and (c) shall be balanced with the general ledger control account each month.

To support balances in the general ledger account for travel advances and to provide for and facilitate month-end reconciliations, we recommend that the Application and Account for Advance of Funds, S.F. 1038, be maintained as a subsidiary record to the travel advance account in the general ledger, as provided in General Regulations No. 88-Second Revision, dated November 7, 1950.

### Routing of receiving reports

At the El Paso headquarters office receiving reports are routed through the property and supply and transportation unit of the procurement section before being submitted to the accounting section. We believe that this procedure tends to weaken internal control on procurement and receipt of goods. To strengthen the internal controls through independent processing of procurement documents, we recommend that the accounting section's copy of the receiving report be sent direct by the receiving agent. If it is found necessary for the property and supply and transportation unit to obtain copies of receiving reports an additional copy of the receiving report should be prepared for its use.

### Preparation of journal vouchers

During our audit we noted that many journal vouchers had been prepared which did not contain explanations as to the purpose of the entries being made and were not signed as approved by an authorized employee.

To assure that the entries in the general ledger accounts are proper we recommend that, in the preparation of journal vouchers, adequate explanations of the purpose be noted on the journal vouchers and that employees authorized to approve journal vouchers sign the vouchers to indicate that they have been reviewed and approved prior to posting.

### Workpapers supporting accounting entries prematurely destroyed

Workpapers prepared at the Harlingen field office to summarize and distribute labor, vehicle, and equipment costs and use

statistics are destroyed rather than being retained on file. This practice prevents a review being made of cost distributions and statistics other than by a complete reworking of original data.

To support the basis used for accounting transactions and to facilitate subsequent review we recommend that the practice of destroying workpapers summarizing costs or other accounting data for use in posting to the accounts and records or preparing reports be discontinued. These workpapers should be filed with accounting copies of journal vouchers or reports to which they relate and preserved in the same manner as are official accounting documents.



