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Report to Donald Kennedy, Commissioner, Food and Drug Administration; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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A questionnaire survey was conducted to evaluate the procedures and controls applicable to revenue and expenditure transactions at the Food and Drug Administration's Office of Administration, Division of Financial Management, and at 18 agency accounting stations. The questionnaire covered the system of internal controls over collections, disbursements, imprest funds, and obligations and was designed to identify potential problem areas. Findings/Conclusions: FDA's Division of Financial Management and its accounting stations did not have good internal control of their collections and did not deposit collections promptly. In many instances, they did not properly record collections in control registers upon receipt. Some accounting stations did not safeguard collections before they were transmitted to headquarters for deposit. The Division of Financial Management and the agency accounting stations, in some instances, had not established adequate accounting or physical control of imprest funds. FDA is authorized to bill firms for the cost of removing hazardous substances from the marketplace. The Division of Financial Management, however, did not record amounts it billed private firms as accounts receivable. Some accounting stations did not review and analyze employee travel advances. The Division of Financial Management and agency accounting stations, in some instances, did not provide adequate support for disbursements and periodical review of unliquidated obligations. At four accounting stations, the basis for and the method of computing estimated monthly obligations were not explained in the supporting documents to help managers and independent reviewers insure that the amounts of the obligations were reasonable. (SW)

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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-183363

NOV 8 1977

Mr. Donald Kennedy, Commissioner
Food and Drug Administration
Department of Health, Education, and Welfare

Dear Mr. Kennedy:

This report is to inform you of the results of a questionnaire survey we made to evaluate the procedures and controls applicable to revenue and expenditure transactions at the Food and Drug Administration's Office of Administration, Division of Financial Management, and at 18 agency accounting stations. This work was done pursuant to our responsibilities set forth in the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The questionnaire covered the system of internal controls over collections, disbursements, imprest funds, and obligations and was designed to identify potential problem areas. We obtained responses primarily through interviews and discussions with responsible officials of the Division of Financial Management and the agency accounting stations. These responses indicated some potential weaknesses in the Food and Drug Administration's financial management system.

We tested selected transactions at the Division of Financial Management and the 18 agency accounting stations; however, we limited our work to identifying weaknesses in the internal control system and did not determine the extent of weaknesses and the degree of corrective action needed.

We discussed our survey's results with responsible Division of Financial Management and agency accounting station officials who, in most instances, initiated or promised corrective action. We are informing you of identified weaknesses to help you in discharging 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.

FGMSD-77-76
(90608)

Our observations regarding the identified system weaknesses are included in enclosure I and the locations where we observed weaknesses are identified in enclosure II. Generally, controls over collections, imprest funds, accounts receivable, disbursements, and obligations need improvement.

Although corrective actions were taken or promised in most cases, we suggest you follow up on these actions to determine whether they were adequate. You also may want to review the Brooklyn, Buffalo, and Newark accounting stations, which we did not visit, to verify that these stations do not have the same financial management problems noted at the Division of Financial Management and the other 18 offices.

Accounting station officials said their stations had not been audited by the Department of Health, Education, and Welfare's internal audit staff within the last 3 years. We believe that regular internal audits could prevent weaknesses, such as those we noted, from occurring. To help insure that the system is adequate and is being followed, we suggest that you request the Assistant Inspector General for Auditing to periodically review the Division of Financial Management and the agency's accounting stations.

Because action had either been taken or promised to correct noted system deficiencies at the Division of Financial Management or the agency accounting stations, we are not making any formal recommendations at this time. We would, however, appreciate your informing us in writing of the corrective actions taken.

We wish to thank you for the courtesies and cooperation extended by officials of the Division of Financial Management and of the agency accounting stations.

A copy of this report is being sent to the Assistant Inspector General for Auditing, Department of Health, Education, and Welfare.

Sincerely yours,

D. L. Scantlebury

D. L. Scantlebury
Director

Enclosures - 2

OUR OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT DIVISION OF FINANCIAL MANAGEMENT AND 18 ACCOUNTING STATIONS

NEED TO IMPROVE CONTROLS OVER COLLECTIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1 and 12.2) states that agencies shall place collections under appropriate accounting and physical control promptly upon receipt and deposit these collections daily.

The Food and Drug Administration's (FDA's) Division of Financial Management and its accounting stations did not have good internal control of their collections and did not deposit collections promptly. Prompt deposits allow the Department of the Treasury to use the funds earlier, and good internal controls over collections reduce risks of their being lost.

Collections not promptly deposited

Collections were not deposited promptly because FDA's deposit procedures required accounting stations to mail collections to the Division of Financial Management at the Food and Drug Administration Headquarters in Rockville, Maryland, for deposit. We observed that 18 accounting stations mailed about $200,000 to Headquarters during fiscal year 1976 for deposit in a Treasury account. Under these procedures an average of 19 days elapsed before the collections were deposited. Additionally, an average of 16 more days elapsed before the accounting stations that submitted the collections were notified of the deposit and actually recorded it in their accounting system.

Most collections could be deposited daily since Treasury depositories are convenient to most of FDA's accounting stations, more convenient, in fact, than Headquarters. If necessary, the accounting stations could inform Headquarters of their deposits by sending it deposit slip copies. Also, if the accounting stations made deposits locally, collections could be recorded in the accounting system earlier, and these receipts would be available earlier for use by the Treasury.

When we suggested this method to Division of Financial Management officials, they agreed to issue procedures instructing accounting stations to deposit collections locally.

Collections not logged in or adequately safeguarded

The Division of Financial Management and the accounting stations, in many instances, did not properly record collections in control registers upon receipt. Both the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1) and FDA's accounting manual require agency officials to place collections under appropriate accounting and physical control promptly upon receipt. If remittance control is not established in the mailroom and periodic audits are not made, there is no assurance that all receipts are accounted for. Furthermore, some accounting stations did not safeguard collections before they were transmitted to Headquarters for deposit.

In the Division of Financial Management employees opening the mail did not immediately establish control of collections by recording them in a register before distributing the mail to the appropriate operating units. Collection clerks in the operating units maintained the registers and stored undeposited receipts in a safe which was accessible to other employees.

At nine of the agency's accounting stations, neither mailroom nor fiscal employees recorded collections in the appropriate control records. Additionally, agency employees at two accounting stations retained undeposited funds in such places as unlocked desk drawers or imprest fund safes until they transmitted the collections to the Division of Financial Management.

These collections should have been recorded in the prescribed registers and properly secured upon receipt to help control cash collections until they were deposited. According to the Chief, Accounting Branch, Division of Financial Management, and officials of the agency's accounting stations, action was or will be taken to promptly record and properly safeguard undeposited receipts.

NEED TO IMPROVE CONTROL OF IMPREST FUNDS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27.6) requires agency officials to ensure that imprest fund cashiers can at all times account for funds advanced to them. Both the FDA accounting manual and the Department of the Treasury's cashiers manual prescribe adequate controls over imprest funds. The Division of Financial Management and the agency accounting stations, in some

ENCLOSURE I

instances, however, had not established adequate accounting or physical control of imprest funds.

According to the Department of the Treasury cashiers manual:

--Exclusive accountability should be established over imprest funds.

--Safe combinations should be changed annually and keys should be properly safeguarded.

--Sub-vouchers, invoices and receipts supporting imprest fund transactions should be cancelled immediately after payment.

--Designated officials should make unannounced quarterly verifications of imprest funds.

The Food and Drug Administration accounting manual also requires cashiers to safeguard, and designated officials to annually audit, imprest funds.

We, however, noted the following:

--At the Division of Financial Management and eight of the field accounting stations, the cashiers and alternate cashiers were using the same imprest fund cash boxes. Separate funds accessible to each cashier or alternate cashier would improve control and accountability.

--The Division of Financial Management had not designated alternate cashiers for six of its nine imprest funds which ranged from $100 to $8,000. Designation of alternate cashiers with separate accountability would make imprest funds available for use in the absence of cashiers.

--At one accounting station the cashier shared a safe with two other employees and left the cash box unattended and unlocked. A cashier at another station left unreimbursed imprest fund receipts unattended on her desk. Such practices could have contributed to a $40 shortage in an imprest fund which we noted at a third station.

--The Division of Financial Management and 11 of the agency accounting stations did not change the safe combinations annually. Additionally, appropriate officials at two accounting stations did not keep cashiers' duplicate keys in sealed and dated envelopes. Changing safe combinations periodically and appropriate security of duplicate keys would help to insure the physical security of, and fix the accountability for, imprest funds.

--Cashiers in the Division of Financial Management and at two of the accounting stations did not promptly cancel documents supporting imprest fund payments. Continuing this practice could lead to duplicate payments from the fund.

--Designated officials at seven of the accounting stations did not verify imprest funds; officials at four other stations verified the funds semiannually instead of quarterly. At seven stations appropriate officials did not audit the imprest funds annually. Integration of the verification and audit of the imprest funds into the overall system of management control would help to protect the funds from loss or unauthorized use.

The Chief, Accounting Branch, and field accounting station officials agreed to take corrective action to insure that imprest funds are adequately accounted for and physically controlled.

NEED TO IMPROVE CONTROL OF ACCOUNTS RECEIVABLE

FDA is authorized to bill firms for the cost of removing hazardous substances from the marketplace. The Division of Financial Management, however, did not record amounts it billed private firms as accounts receivable. Also, some accounting stations did not review and analyze employee travel advances.

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies, responsible agency officials must:

--Accurately and promptly record accounts receivable (2 GAO 12.4).

--Periodically review and analyze travel advances (7 GAO 25.6).

The Food and Drug Administration, when directed by the courts to remove items from the marketplace, requires its field offices to bill the firm by letter for the costs incurred. The letter also requires the firms to remit the payment to the Division of Financial Management. The Division uses a copy of the correspondence to control the amount due, instead of establishing an account receivable which would show the amount due as an asset in its accounting records and financial reports. Strict adherence to the principle of promptly recording assets is essential to effective accounting control of accounts receivable.

Field office employees had large travel advances outstanding for long periods of time. We noted the following:

--Advances to employees at three accounting stations substantially exceeded the traveler's needs.

--Employees at two accounting stations did not promptly submit travel vouchers.

--At one accounting station, agency officials had not taken any action to collect a 1973 advance of $150 from a former employee.

An agency's system should provide for periodic review and analysis of employees' travel advances and prompt recovery of advances determined to be in excess of travelers' needs. Such reviews would help assure management that travelers promptly submit travel vouchers and liquidate travel advances.

The Division of Financial Management and agency accounting station officials agreed to periodically review, analyze, and reduce travel advances to a minimum.

NEED TO IMPROVE CONTROLS OF DISBURSEMENTS AND OBLIGATIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to ensure that:

--Disbursements are legal, proper and correct, and accurately recorded and properly reported (7 GAO 24.1).

--Obligations are properly documented and recorded and periodically reviewed (7 GAO 17).

The Division of Financial Management and agency accounting stations, in some instances, however, did not provide adequate support for disbursements and periodically review unliquidated obligations.

Disbursements not adequately supported

The GAO Policy and Procedures Manual for Guidance of Federal Agencies requires agency officials to make special certifications for long-distance telephone expenses and to fully explain lost discounts (7 GAO 25.3 and 7 GAO 24.8).

We noted the following:

--At six accounting stations officials did not properly certify that long-distance telephone tolls were for official business purposes before payments were made

--Employees at the Division of Financial Management and at nine accounting stations did not explain lost discounts on documents supporting disbursements to help insure that available discounts are taken whenever possible. One of the nine stations lost discounts of more than $2,300 from November 1976 through March 1977. Although a tenth station did explain its lost discounts on the supporting documents, it lost more than $100 on 59 vouchers processed during the last fiscal year.

According to Division of Financial Management and accounting station officials, action will be taken to support disbursements with the required justifications and fully explain lost discounts on disbursement documents.

Need to periodically review and properly support obligations

In some instances, agency accounting stations did not review prior year unliquidated obligations nor properly support estimated obligations.

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies, agencies must periodically review obligations to determine whether they continue to be valid (7 GAO 17.3). Additionally, when the amount of an obligation is not known at the time it is incurred, the basis for and the computations of the estimate should be shown on the obligating document for fund control (7 GAO 17.1).

At two agency accounting stations, employees had not periodically reviewed prior year unliquidated obligations. At one location, unliquidated obligation listings in two accounts included several transactions totaling almost $400,000 that extended from fiscal year 1973 to 1975. At another location, unliquidated obligation listings included several transactions totaling $205 that spanned from fiscal year 1972 to 1975. These may no longer be valid.

At four accounting stations, the basis for and the method of computing estimated monthly obligations were not explained on the supporting documents to help managers and independent reviewers insure that the amounts of the obligations were reasonable.

Agency accounting station officials agreed to periodically review unliquidated obligations and adequately document the method and basis of such estimates.

ENCLOSURE II

SUMMARY OF OUR OBSERVATIONS AT DIVISION OF FINANCIAL MANAGEMENT AND 18 AGENCY ACCOUNTING STATIONS

WEAKNESS NOTED	ATLANTA	BALTIMORE	BOSTON	CHICAGO	CINCINNATI	DALLAS	DENVER	DETROIT	JEFFERSON	KANSAS CITY	LOS ANGELES	MINNEAPOLIS	NEW ORLEANS	PHILADELPHIA	SAN FRANCISCO	SAN JUAN	SEATTLE	ST. LOUIS	DIV. FIN. MGMT.
Need to improve controls over collections																			
Collections not deposited promptly	X	X	X	X	X	X	X		X	X	X	X	X		X	X	X	X	
Collections not logged in	X			X	X		X			X	X	X			X	X			X
Collections not safeguarded	X			X															X
Need to improve control of imprest funds																			
Separate cash funds not maintained	X	X		X	X					X	X	X						X	X
Funds not adequately safeguarded			X		X							X							
Safe combinations not changed annually		X	X	X	X	X		X	X	X	X		X			X			X
Sub-vouchers not cancelled				X								X							X
Verifications not made		X								X	X	X	X			X		X	
Annual audits not conducted	X			X		X		X	X							X		X	
Need to improve control of accounts receivable																			
Some receivables not recorded																			X
Travel advances not adequately reviewed			X	X			X					X							
Need to improve control of disbursements																			
Telephone certifications not made	X			X		X		X				X	X						
Discounts lost and/or were not documented	X		X	X	X				X	X	X		X	X			X		X
Need to improve control of obligations																			
Prior year unliquidated obligations not reviewed	x								X										
Estimated obligations not adequately supported						X			X				X	X					