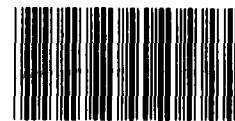




UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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~~BTSF~~

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES



113531

B-199914

OCTOBER 10, 1980

The Honorable Douglas J. Bennet, Jr.  
Administrator  
Agency for International Development *AGC 02097*

Dear Mr. Bennet:

Subject: Internal Control at AID Missions (FGMSD-81-5)

This report contains the results of our survey of accounting controls over revenue and expenditure transactions at seven AID Missions in Latin America and the Caribbean. The survey disclosed weaknesses in internal controls over accounts receivable, cash collections, and imprest funds. Also, we noted a need for increased internal reviews. We are informing you of our survey results 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.

Questionnaires designed to identify potential internal control problems were the basis of our interviews and discussions with mission officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed. But we only verified the existence of the weaknesses and did not attempt to establish their extent or the precise corrective actions needed. The weaknesses are discussed in enclosure I and their locations are shown in enclosure II.

We discussed our survey results with responsible accounting station officials and, in most instances, they initiated or promised corrective action. For this reason, we are not making any formal recommendations in this report. However, we suggest that you follow up on the adequacy of the corrections, and also that you consider the deficiencies noted in this report during any future accounting system design efforts. We would also appreciate being informed, in writing, of the actions taken or planned to correct the weaknesses discussed in this report and its enclosures.

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GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT  
SEVEN AGENCY FOR INTERNATIONAL DEVELOPMENT MISSIONS  
IN LATIN AMERICA AND THE CARIBBEAN

Section 113 of 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, and accountability for, all the agency's assets. Our survey of internal controls at seven missions in Latin America and the Caribbean disclosed that:

- Collections were not adequately controlled at many accounting stations; employee duties were insufficiently separated, prenumbered receipts were not controlled, collections were not always deposited promptly, and collections were not verified administratively.
- Accounts receivable were not collected aggressively and promptly. Receivables for outstanding travel advances, unused transportation tickets, medical insurance reimbursements, and amounts due for employees' personal telephone calls remained outstanding long after due.
- Imprest funds at most accounting stations were not properly handled and safeguarded, and were not verified on an unannounced basis.
- Internal audits were not frequent enough, depriving the missions of an important management tool.

These internal control weaknesses, most of which existed at more than one accounting station, are discussed below. The locations of the weaknesses are identified in enclosure II.

CONTROL OVER COLLECTIONS  
NEEDS IMPROVEMENT

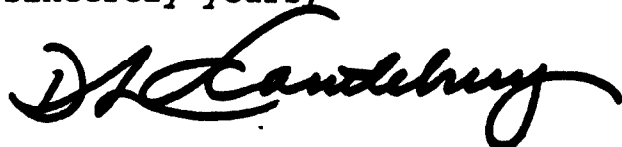
The GAO Manual (7 GAO 11.1 and 12.2) states that agencies shall place cash collections under appropriate accounting and physical control upon receipt and shall deposit these collections daily. The collections for the seven activities visited consisted of such items as refunds for unused employee travel advances, living quarters and educational allowances, personal telephone calls, and unofficial use of vehicles, as well as amounts due from unused airline tickets and the sale of property. While controls over collections were generally adequate,

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We are sending a copy of this report to the Inspector General, Department of State, and the Auditor General, Agency for International Development.

We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. L. Scantlebury". The signature is written in a cursive, flowing style with a large initial "D".

D. L. Scantlebury  
Director

Enclosures - 2

we identified weaknesses in the separation of duties, control of receipt documents, timely deposit of collections, and performance of required administrative examinations.

#### Better separation of duties needed

One of the basic principles of internal control is dividing the critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely when its success depends upon collusion. The GAO Manual (7 GAO 11.2) provides that persons handling cash receipts should not participate in accounting or operating functions which would permit concealing the misuse of those cash receipts in the accounting records. We found violations of this principle at two locations:

--In Ecuador, the subcashier prepared the bills for receivables in addition to making the collections.

--In Haiti, the cashier prepared the bills and maintained the accounts receivable records for amounts due for unofficial use of vehicles, and also collected and deposited these receipts.

USAID officials at these locations stated they would act to provide for separation of duties and to insure that all collections are routed directly to the cashier.

#### Prenumbered receipts not used or not adequately controlled

Prenumbered receipts can help insure that all collections are promptly placed under accounting control. For this internal control function to be effective, however, the receipts must be properly safeguarded, accounted for, and signed by the cashier.

At three locations (Guatemala, Haiti, and Ecuador), collection receipts were not prenumbered and, at one of these locations, the subcashier did not sign the collection receipt. In Jamaica, no one verified that all the sequentially issued receipts were accounted for. USAID officials generally agreed that prenumbered cash receipts should be used and properly accounted for.

#### Deposits not made promptly

Both the GAO and Treasury manuals provide that collections should be deposited promptly, in most cases daily.

Similarly, AID regulations state that receipts be deposited, to the maximum extent possible, no later than the following business day. Prompt deposits reduce the risk of loss or misuse of funds.

The locations we visited had a small volume of collections (generally around \$1,000 or \$2,000 a month). Few missions deposited funds on the day after collection and three locations did not always make weekly deposits. In some instances, these missions held collections for more than two weeks. USAID officials generally agreed that they should make deposits more promptly and stated that they would initiate corrective actions.

#### Administrative examination of collection transactions needed

The GAO Manual (7 GAO 28.12) states that agencies should have adequate administrative procedures for systematically examining collection transactions to verify their legality, propriety, and correctness. At two locations, USAID officials were not examining these transactions, and thus the cashiers' collections and deposits were not independently verified. Officials agreed that this should be done and promised to initiate corrections.

#### MORE AGGRESSIVE ACTIONS NEEDED TO COLLECT ACCOUNTS RECEIVABLE

The GAO Manual (4 GAO 69.1) calls for timely, forceful, and persistent action to collect all claims of the United States. The Federal Claims Collections Standards require three written demands to be made at 30-day intervals, collection by offset where feasible, personal interviews with debtors, exploration of compromise, and other persistent actions until claims are either paid, determined to be uncollectable, or sent to GAO for settlement. The AID Handbook (19 Chs. 1 and 7) also provides similar guidance. As shown by the following examples, these procedures were not always followed.

- The USAID mission in Bolivia had over \$13,600 in receivables outstanding for over 60 days. About \$600 had been outstanding 1 to 2 years, \$425 outstanding 2 to 3 years, and \$1,500--over 3 years. We noted that this mission did not have procedures to ensure systematic and aggressive followup actions to collect delinquent receivables.
- The USAID mission in Ecuador has two receivables totaling \$1,107.60 that have been outstanding for several

years. No action was being taken to either collect these bills or to have them written off as uncollectable.

--Regulations require that, upon completion of travel, the traveler promptly prepare a voucher and liquidate any outstanding travel advance. The USAID mission in Jamaica had seven advances for \$4,204 outstanding for over 3 months. The followup actions being taken were only informal reminders which, apparently, were not effective.

We brought these outstanding receivables to the attention of USAID officials. The officials agreed to take more aggressive followup action on receivables and to write off any which are uncollectable.

#### CONTROL OF IMPREST FUNDS NEEDS IMPROVEMENT

USAID missions are authorized cashier operations to collect funds and make limited cash disbursements. At six of the seven activities reviewed, cashiers were advanced a total \$81,650 for imprest funds. (There is no imprest fund at the mission in the Dominican Republic.)

Because such funds consist largely of cash or negotiable checks, the funds are susceptible to losses through fraud, waste, and abuse unless tightly controlled. In their manuals, GAO, Treasury, and USAID provide extensive and detailed guidance on the controls needed to reduce the potential for misuse of imprest funds.

Two important controls are limiting access to an imprest fund to only the cashier authorized to maintain the fund and performing frequent, unannounced, and independent verifications of the fund's balance. At some activities, these basic controls were not in operation; for example:

- In Ecuador, Peru, and Guatemala, employees other than the authorized cashier knew the combination for the cashier's safe and had access to it. In Peru, we also noted that the cashier's safe was left open and unattended at times.
- At two posts, the combinations to the cashiers' safes were not changed annually as required to further limit access. At a third post, records were not available to determine when the combination was last changed.

--In Haiti, Guatemala, Peru, and Ecuador, unannounced cash verifications were not performed monthly. Such verifications are specifically required by the AID Handbook.

Local officials said they would correct these deficiencies by assuring that only appropriate persons have knowledge of a safe's combination, and by performing unannounced cash verifications and combination changes more frequently.

MORE EXTENSIVE INTERNAL AUDIT NEEDED

The GAO Manual (7 GAO 28.12) requires that departments and agencies conduct systematic internal reviews independent of accountable officers. These reviews are needed to provide assurance that effective controls are maintained over disbursements and collections, and to assure that appropriate corrective actions are taken when needed.

At five of seven missions visited, however, the AID Area Auditor General had not conducted internal audits of collections and disbursements over the past 3 years. USAID officials at these missions generally agreed with our observation concerning the need for independent internal audits. As one director pointed out, such audits can help the missions improve internal control and management of their administrative functions.

**WEAKNESSES NOTED AT  
AID MISSIONS IN LATIN AMERICA AND THE CARIBBEAN**

**Weaknesses**

**Locations**

**Need to improve control over collections:**  
 No separation of duties  
 No control over receipt documents  
 Deposits not made promptly  
 No administrative exam of collections

**Need for more aggressive collection actions**

**Need to improve control over imprest funds:**  
 Funds not always properly safeguarded  
 Unannounced verifications not made  
 Safe combinations not changed as required  
 Temporary advances not properly accounted for  
 nor liquidated promptly

**Need for prior approval of disbursements**

**Need for systematic internal audit of  
 receipts or disbursements**

Guatemala	Haiti	Jamaica	Bolivia	Peru	Ecuador	Dominican Republic <sup>a/</sup>
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<sup>a/</sup>No imprest fund at mission.