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Accounting and Information
Management Division

B-279641

June 17, 1998

Mr. Richard L. Gregg
Commissioner, Financial Management Service
Department of the Treasury

Subject: Internal Controls: Issues Regarding Certain Transactions Processed
by FMS

Dear Mr. Gregg:

We recently reported on the United States government's consolidated financial statements for fiscal year 1997.¹ Our audit, done pursuant to the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, included testing the effectiveness of the Department of the Treasury's Financial Management Service's (FMS) internal controls over processes for

- recording Adjusting Journal Entries (Adjustments) needed to accurately reflect FMS' records of agencies' cash receipts and disbursements;
- opening, amending, or closing Agency Location Codes (ALC) which identify agencies and individual reporting locations within agencies on monthly reports of cash receipts and disbursements; and
- assigning or discontinuing Account Symbols, which are used to identify individual appropriations or spending authorizations.² Agencies use account symbols to classify monthly receipts and disbursements by appropriations and spending authorizations.

¹Financial Audit: Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, March 31, 1998).

²Spending authorization is authority provided in laws other than appropriation acts to obligate the government to make payments. It includes contract authority, authority to borrow, and entitlement authority.

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These processes are linked to FMS' overall responsibility to assist agencies in reporting their receipts and disbursement transactions and in reconciling agencies' Fund Balances with Treasury accounts.

The purpose of this letter is to advise you of several internal control matters identified during testing of these FMS processes. More specifically, we are suggesting internal control improvements in the review, approval, and documentation of Adjustments, ALCs, and Account Symbol transactions. We are also suggesting improvements in the reconciliation of Adjustments and ALC transactions.

We reviewed FMS' written policies and procedures for the processes tested and discussed these with FMS officials to gain an understanding of the transactions that flow through these processes. We also selected a statistical sample of 45 transactions for each process and tested the related internal controls. Our work was performed in accordance with generally accepted government auditing standards between December 1997 and February 1998.

Although the internal control matters we found are not material in relation to the federal government's fiscal year 1997 consolidated financial statements, we believe they warrant your attention. Also, federal agencies have had long-standing problems reconciling their Fund Balances with Treasury accounts. Sound controls at FMS over the processes we tested will help improve all agencies' ability to reconcile their Fund Balances with Treasury accounts.

INTERNAL CONTROL WEAKNESSES OVER CERTAIN TRANSACTIONS PROCESSED BY FMS

Our audit of the FMS processes tested identified internal control weaknesses in three key areas—supervisory review and approval, documentation, and reconciliation of transactions.

Although FMS policies and procedures require review and approval of transactions processed by staff, we found that supervisors were not reviewing critical aspects of staff work. In some instances, when they reviewed the work, their reviews were inadequate. Consistent and effective review and approval of employees' work are important to ensure that they process the transactions according to FMS procedures and to ensure that any errors are detected before the transactions are recorded. The Comptroller General's Standards for Internal Controls in the Federal Government requires supervisors to systematically review staff work to the extent necessary and approve it at critical points to ensure that management objectives are met and errors or misunderstandings of procedures are detected.

We also found that staff were not following FMS' established procedures requiring documentation of transactions. Adequate documentation is necessary to track transactions and ensure their completeness and accuracy. FMS procedures require that staff sequentially number and record transactions in control logs and complete control forms to document the transactions processed. These control logs and forms are designed to aid staff in processing and tracking transactions and provide FMS managers with evidence that staff processed the transactions according to FMS policies, procedures, and practices. The Comptroller General's internal control standards also require that all internal control processes and all transactions be clearly documented. The standards also require that the documentation be readily available for examination.

Also, we found that FMS did not have adequate reconciliation controls in place for some of its processes. Periodic reconciliation of transactions (which involves comparing source documents to data recorded in general ledger accounts or master files) is an internal control technique used to ensure that the recorded transactions are valid, complete, and accurate. Because reconciliation usually occurs at the end of processing transactions, it is often the last control for detecting errors. Undetected errors in FMS' records could hinder agencies' ability to properly reconcile their Fund Balances with Treasury accounts because they rely on information recorded and reported to them by FMS.

The following discussion provides more detail on the weaknesses in FMS' internal controls over the review, approval, documentation, and reconciliation of (1) Adjustments, (2) ALCs, and (3) Account Symbols.

Adjustments

FMS' Financial Analysis Branch (FAB) staff make Adjustments to assist agencies in clearing differences identified between the agency records of receipts and disbursements and those reported by independent sources, such as the Federal Reserve, commercial banks, and FMS regional financial centers. FAB tracks these differences in Statement of Differences accounts and Budget Clearing Accounts (BCA), and FAB staff use journal voucher forms and control logs to document and track the Adjustments they make to these accounts.³

³Statement of Differences accounts (account numbers 20A1840 and 20A1875) are used to record short-term (month-to-month) differences that FAB identifies and reports to agencies as a result of its monthly reconciliation of Fund
(continued...)

Statement of Differences accounts are used to record the short-term (month-to-month) differences, while BCAs are used to track differences older than 6 months. However, effective April 30, 1998, FAB stopped transferring differences over 6 months old from Statement of Difference accounts to the BCAs and required agencies to clear all differences remaining in the BCAs by September 30, 1998. This change could result in increased Adjustment activity in the BCAs as agencies attempt to clear their differences by the established deadline. It is important that FAB staff make Adjustments promptly and accurately to assist agencies in reconciling their Fund Balance with Treasury accounts and to ensure that Treasury records of federal receipts and disbursements are accurate.

Specifically, we found the following.

- FAB had no internal controls in place for its Adjustments to the Statement of Differences accounts. Thus, the risk of errors occurring and not being detected in a timely manner is increased. Because there were no internal controls in place, we did not perform statistical sampling control tests for the Adjustments made to these accounts.
- FAB supervisors had not reviewed and approved 5 of the 45 journal voucher forms that support the BCA Adjustments we tested. In our review of these forms, we found one instance where the proposed Adjustment did not agree with the agency's request letter. This Adjustment was subsequently recorded incorrectly. In the other four instances, we could not determine if the Adjustments were correct because the supporting documentation was inadequate. In another 5 of the 45 Adjustments tested, while FAB supervisors approved the Adjustments, the Adjustments did not agree with the agencies' request letters. In these instances, the approved Adjustments were opposite of what the agencies requested and would have resulted in doubling the amount of the differences rather than correcting them. In two of these five cases, errors in the proposed Adjustments were not detected and resulted in the recording of incorrect Adjustments. In the other three instances, the errors were detected and corrected by the person recording the Adjustments.

³(...continued)

Balances with Treasury account activities. BCAs (account numbers F3878 and F3879) are used to track differences that agencies have not reconciled within 6 months from the initial month the differences were reported to them by FAB.

- FAB staff were not properly documenting BCA Adjustments. For 33 of the 45 Adjustments tested, we found no documentation to support either the ALC charged, the account charged, or the amount of the Adjustment. In addition, in eight of the Adjustments tested, FAB staff either had not documented the entries in the control logs or had not properly completed the logs. Also, we found no evidence that FAB supervisors had reviewed these logs.
- FAB did not require staff to reconcile the journal voucher forms or control logs to the Adjustments they recorded in the BCAs. Six of the 45 Adjustments that we reconciled had been recorded incorrectly. Three of the six were the errors that had not been detected during supervisory review, as described above. The other three resulted from staff input errors. These errors would cause the agencies' BCA balances to be misstated unless the agencies detected them in the reconciliation of their Fund Balances with Treasury accounts.

Without effective supervisory review and approval, complete documentation, and periodic reconciliation of transactions, FMS management has no assurance that staff are properly adjusting agency accounts. Accordingly, the risk of errors occurring and not being detected in a timely manner is increased. We suggest that you direct the Assistant Commissioner for Financial Information to (1) establish a system of internal controls for Adjustments to Statement of Differences accounts that includes procedures to ensure adequate supervisory review and approval, complete documentation, and reconciliation of transactions and (2) enforce procedures over Adjustments to the BCAs, until all accounts are closed, by requiring supervisors to ensure that all Adjustments are adequately documented and that Adjustment control logs are completed by staff, and reconciled as necessary.

Agency Location Codes

The Treasury Financial Manual requires agencies to establish ALCs and to use these to identify and report their cash receipts and disbursement transactions. Agencies submit request letters for establishing, closing, or changing ALCs to either the Checks Reconciliation Branch (CRB) or the Budget Reports Branch (BRB), depending on whether an agency disburses its own funds or uses Treasury as its disbursing agent. FMS staff at these branches are required to log all incoming agency ALC requests and complete ALC request forms for each ALC transaction processed.

Specifically, we found the following.

- BRB and CRB supervisors were not adequately reviewing all transactions. Seven of 45 ALC request forms tested in BRB and 5 of 45 ALC request forms tested in CRB contained incomplete or incorrect information. BRB staff had omitted or incorrectly recorded items such as agency contact names, telephone numbers, and addresses on the ALC request forms. CRB staff had not recorded the successor ALCs as required.⁴ Branch supervisors had reviewed and approved these forms, but they did not detect all errors or omissions made by their staff.
- For 7 of the 45 transactions tested, BRB staff did not adequately document the transactions in the ALC control logs as required. For example, in six of the seven instances staff did not document the date confirmations of completed ALC transactions were sent to the agencies. In the other instance, staff did not document the date the ALC transaction was posted.
- CRB staff were not required to reconcile information on the Agency Location Code request forms to the information recorded in the ALC Master Table in FMS' central accounting system. However, effective reconciliation procedures would detect errors like those we found in the five ALC request forms for CRB mentioned earlier.
- BRB staff were not properly reconciling all of their ALC transactions even though branch procedures require reconciliation. BRB staff are required to go on-line and document the date the transactions were recorded in the ALC log. In 4 of the 45 transactions we tested, the date documented by staff on the log was different than the posting date indicated in the central accounting system. For example, in one instance the date documented by staff on the log was November 21, 1996; however, the actual posting date was November 26, 1996. BRB staff could not explain why these discrepancies occurred.

Without effective review and approval, complete documentation, and proper reconciliation of all transactions, FMS has no assurance that errors are detected in a timely manner and that the ALC transactions are processed accurately. We suggest that you direct the Assistant Commissioner for Financial Information to (1) ensure effective supervisory review and approval of all ALC request forms and logs, (2) ensure that FMS staff completely document all ALC transactions,

⁴When an agency requests that an ALC be closed, it must provide the name of a successor ALC to assume fiscal and accounting responsibility for the closed ALC.

and (3) require reconciliation of all ALC transactions processed by CRB and ensure that BRB staff properly reconcile ALC transactions.

Account Symbols

FMS' Finance Management Branch (FMB) assigns Account Symbols to agencies for individual appropriations or spending authorizations granted to federal agencies by the Congress. FMB also discontinues Account Symbols when an appropriation or spending authorization ends. FMS procedures require that all information pertinent to processing Account Symbols be documented on a Treasury Announcement form, and that all supporting documents be attached when this form is forwarded to a supervisor for review.⁵

FMB staff were not adequately documenting Account Symbol transactions. Specifically, we found incomplete or inadequate documentation in 11 of the 45 Account Symbol transactions tested. In 7 of the 11 transactions, we were unable to determine whether staff performed required procedures because they did not fully complete the Treasury Announcement forms. For the other four transactions, FMB staff could not find the documents that supported the information they recorded in FMS' central accounting system.

If FMB staff do not follow existing FMS procedures for documenting Account Symbol transactions, management has no assurance that these transactions are processed completely and accurately. As a result, errors could occur and not be detected in a timely manner. We suggest that you direct the Assistant Commissioner for Financial Information to enforce existing FMS procedures for documenting Account Symbol transactions.

AGENCY COMMENTS

In commenting on this letter, FMS stated that it accepted the findings and plans to implement corrective actions for all of our suggestions by September 30, 1998. We plan to follow up on these matters during our audit of the federal government's fiscal year 1998 consolidated financial statements.

⁵The Treasury Announcement is the control form used by FMS to document Account Symbol transactions. FMB sends a copy of the completed Treasury Announcement to agencies as confirmation of the transactions processed.

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We appreciate the cooperation and assistance of FMS management and staff during our fiscal year 1997 audit. We are sending copies of this letter to the Department of the Treasury Deputy Inspector General and to interested congressional committees. If you have any questions, please call me at (202) 512-3406 or Suzanne Murphy, Audit Manager, at (404) 679-1940.

Sincerely yours,

A handwritten signature in cursive script that reads "Gary T. Engel".

Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

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