



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

JUN 19 1971

Dear Mr. Condon:

We have reviewed the accounting records of the Working Capital Fund (WCF) which was established by the Department of Housing and Urban Development (HUD) to provide administrative services such as printing, communications, supply, and automatic data processing (ADP), on a reimbursable basis, to the HUD central office organizational units. On June 30, 1971, the WCF had assets of about \$8.4 million.

The objectives of our review were to determine whether (1) the operating procedures of the WCF accounting system complied with the accounting principles and standards prescribed by the Comptroller General, (2) the WCF accounting system was functioning in the manner contemplated in the Design of Accounting System Requirements for HUD (Design) approved by the Comptroller General in April 1970, and (3) the accounting records were maintained accurately.

We have concluded that (1) the operating procedures for the WCF accounting system complied with the accounting principles and standards prescribed by the Comptroller General, (2) the system functioned in the manner contemplated in the Design, and (3) the WCF accounting records, except for the two items discussed below, were maintained in a generally satisfactory manner. The WCF accounting records pertaining to the ADP supply inventory--which amounted to about \$128,000 at July 31, 1971, or 57 percent of the total WCF inventory--were not maintained accurately and therefore were unreliable and purchase discounts were not handled correctly.

Our review covered transactions recorded in the accounting records during the period from January 1, 1970 through November 30, 1970. However, the part of our review concerned with the records pertaining to the ADP supply inventory was extended to include entries made in the general ledger account and the subsidiary perpetual inventory records through July 31, 1971--the date on which WCF employees counted the inventory.

ADP SUPPLY INVENTORY

The dollar value of the ADP supply inventory determined by physical count amounted to \$128,287, compared with \$107,185 recorded in the inventory account in the general ledger. Also, comparison of the quantities determined by the physical count and the quantities shown in the perpetual inventory records--the records in which a continuous balance

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of quantities that should be on hand for the 20 kinds of supply items in the inventory is maintained--disclosed 17 differences in quantities. In nine instances the quantities shown on the perpetual inventory cards were understated; in eight instances the quantities were overstated. The understatements amounted to 568 cases of material with a dollar value of \$4,910, and the overstatements amounted to 126 cases of material with a dollar value of \$1,763.

The above differences were reconciled and in the process a number of adjustments were made to the accounting records for (1) acquisitions that had not been recorded in the general ledger control account but in the subsidiary perpetual inventory records, (2) incorrect information that had been recorded in the perpetual inventory records as a result of using purchase orders as source documents for entries whereas vendors' invoices were used as source documents for entering purchases in the general ledger account, and (3) supplies that had been issued but issuances were not recorded in the perpetual inventory records. Some of the adjustments corrected inaccuracies of long standing, indicating that the ADP supply inventory records could not have been relied upon to provide correct information on status of the inventory for at least a year prior to July 31, 1971.

We were present at the July 31, 1971, physical inventory count and we observed that the area used to store the ADP supply inventory was not safeguarded so as to prevent unauthorized removal of inventory items. We had discussed this matter with HUD management personnel on July 6, 1971, and subsequent to the July 31, 1971, physical inventory count the storage area was enclosed.

PURCHASE DISCOUNTS

We noted that most of the vendors' invoices had been recorded at billed prices and not net of discounts as prescribed by the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies--2 GAO 37. Failure to reduce the vendors' billings prices by the purchase discounts resulted in higher prices to HUD users because the WCF bases its charges on recorded costs. We discussed this matter with a WCF official and action was instituted to treat purchase discounts as prescribed by 2 GAO 37.

CONCLUSION AND RECOMMENDATION

In our opinion, the conditions relevant to accounting for the ADP supply inventory as well as the purchase discounts, indicate that these phases of the WCF operation may not have received sufficient management attention. Accordingly, we recommend that the supervisory procedures exercised in the foregoing areas be reviewed and revised, if necessary, to ensure efficient overall WCF operations.

We appreciate the cooperation given to our representatives during this review, and we shall be pleased to discuss with you or members of your staff, the matters discussed in this report.

We would appreciate your views and comments on action taken or planned with respect to the above matters.

Sincerely yours,

B. E. Birkle

B. E. Birkle
Assistant Director

The Honorable Lester P. Condon
Assistant Secretary for
Administration
Department of Housing and Urban
Development