Mr. Lupton

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DECISION

THE COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

FILE: B-199447 **DATE:** March 17, 1981

MATTER OF: Department of the Treasury - Proposal to Net Cashier Overages and Shortages on a Quarterly Basis

DIGEST: Department of the Treasury proposal in the interest of administrative efficiency to permit cashiers throughout the Government to accumulate overages and shortages in their accounts (up to a daily maximum) and net them on a quarterly basis is not approved at this time. The proposed netting procedure could weaken internal controls on cashier accounts and lead to abuses. Therefore, we do not believe it should be implemented.

The Chief Disbursing Officer, Bureau of Government Financial Operations, Department of the Treasury, asks whether cashiers throughout the Government, operating under delegation from his office, may [Authorization to net small cash overages against shortages ~~in their accounts~~ on ~~an~~ accumulated quarterly basis]. Under current procedures, overages and shortages are accounted for separately. Cashiers must restore shortages from their own funds unless relief is granted by the proper authority. 7 GAO 28.14. Overages must be deposited into the Treasury as miscellaneous receipts.

We have concluded that implementation of the proposal to net overages and shortages on a quarterly basis would be undesirable because it would weaken internal controls over the accounting for cash balances.

Treasury's proposal stems from a request it received from the Department of State, whose cashiers operate under Treasury's delegation. Recently, State installed a new electronic cash register (ECR) system, which retains totals for each type of transaction a cashier enters into the register and can at all times determine the correct cash-on-hand total. The ECR system is programmed so that the cashier, after making a physical count of the cash-on-hand, must make a blind declaration of this total, prior to accessing register totals. Treasury thinks that this control feature may cause cashiers to maintain manual external records in order to insure that their cash declarations will always agree with the ECR calculations. However, cashiers would not feel the need to maintain duplicate and redundant manual records if a small margin of overage or shortage errors were accepted and allowed as occurring in the normal course of business.

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Treasury desires to apply the proposed quarterly netting procedures not just to ECR cashiers but to make it a uniform procedure for all the approximately 7,500 cashiers operating under its delegation, most of whom are imprest fund cashiers. The detailed proposal is stated as follows:

> "1. That cash shortages, not to exceed a maximum amount per day (probably $10) be recorded and accumulated throughout an accounting period no longer than three months.
>
> "2. That cash overages not to exceed a maximum amount per day be recorded and accumulated throughout the same accounting period.
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> "3. The total net amount of the cash shortages/overages should be cleared at least quarterly by charging an agency appropriation (not to exceed the amount that an agency can administratively resolve) or crediting the agency miscellaneous receipt account."

In support of its recommendation, Treasury contends that the proposed quarterly netting procedure would promote economy and efficiency. It believes that many cashier man-hours could be saved that are consumed in attempting to determine the cause of relatively small cash shortages or overages. It also believes that, except when large sums of money are involved, the cost to the Government in investigating discrepancies far outweighs any monetary benefit.

Under a number of laws, this Office has been charged with the responsibility of prescribing the principles, standards and related requirements for accounting by executive agencies and departments. 31 U.S.C. §§ 49, 54, 60, 66 and 66a. In addition, under the provisions of 31 U.S.C. § 82a-1, our Office is authorized to relieve accountable officers, including cashiers, of liability for physical loss of funds which has occurred without fault or negligence on their part. In the exercise of this authority, we have found that the majority of requests for relief from liability involve discrepancies in accounts of cashiers. Moreover, many of the losses result from inadequate cashier accounting procedures. Therefore, we believe that before changes are made in cashier accounting procedures, there should be some assurance that the changes will not weaken the existing internal controls.

The Treasury proposal would abolish current procedures whereby any shortages and overages are accounted for separately and resolved as soon as they are discovered, presumably daily. New procedures would be substituted that allow shortages and overages to accumulate over a 3 month period on the theory that they will almost cancel each other out. However, it appears that this theory is not supported by data obtained from actual cashier overage and shortage experience. As we understand it, Treasury has no data on the history of losses for any of the imprest fund cashiers, including those with electronic cash registers. Similarly there are no available data that reflect the actual overage experience of cashiers, as reported to Treasury, because cashier overages are commingled with other deposits going to Treasury and, as such, lose their identity.

We think that separate treatment of overages and shortages is desirable from an internal control standpoint and should be retained. Identifying both overages and shortages as discrepancies emphasizes to the individual cashiers and supervisors the need for action to reduce the frequency or amount of errors. The accumulation of either overages or shortages in large amounts clearly indicates a problem in a cashier's performance warranting the attention of management, even when the net effect is not large.

On the other hand, allowing cashiers to net shortages and overages might provide incentives for cashiers to attempt to offset any accumulated shortage by "creating" overages; that is, a cashier might be more negligent in guarding against overages if the overage could be used to offset subsequent shortages. Also, even when limited to a maximum amount per day, shortages accumulated over a 3 month period could grow into a significant amount that the Government might be unable to recover fully should a cashier terminate employment without notice. Finally, the ability to accumulate shortages over a 3 month period might serve to entice cashiers to borrow funds from the account with the intention of repayment before the end of the period. In the event of a surprise audit, the cashier could conceal the borrowing as accumulated shortages.

Accordingly, in view of the potential problems that could result from the general application of the proposed cashier netting procedure, we do not believe it should be implemented.

Milton J. Socolar

Acting Comptroller General
of the United States