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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-157135

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The Honorable John N. Nassikas
Chairman, Federal Power Commission

Dear Mr. Nassikas:

Our review of the Federal Power Commission's accounting system showed that it was not operated in complete accordance with the system design approved by the Comptroller General on June 30, 1965.

Specifically, the system was not on a full double entry basis, trial balances were not prepared, not all property was physically inventoried annually and reconciled to property records and to the general ledger control account, and internal audits were not made annually. We also observed several opportunities for improvements in accounting procedures.

The accounting system was approved by the Comptroller General with the expectation that the approved design would be faithfully followed in operating the system. As indicated below, several aspects of the system are not functioning in accordance with the approved design. We suggest that prompt action be taken to correct these deficiencies so that the system can retain its approved status.

In our review which was completed in June 1975, we observed the procedures used to control and account for revenues and collections, disbursements, obligations, property, liabilities, and accruals and the extent to which internal and external reports were derived from accounting records. We did not test the payroll computation subsystem because major changes were being made in it which will require it to be submitted to the Comptroller General for approval.

Our findings and recommendations for corrective actions are explained in this report.

SYSTEM NOT ON FULL DOUBLE ENTRY BASIS

The approved system design requires that accounts be maintained on a double entry basis.

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We observed that some kinds of cash collections were recorded on a single entry basis; i.e., a cash account was debited but no other account was credited. For example, over $3 million in deposits were debited to the Treasury General Fund cash account for registration and filing fees from July 1, 1974, through December 31, 1974, but like amounts were not credited to the appropriate accounts.

The failure to maintain the accounts on a full double entry basis constitutes a material deficiency in the system and a considerable deviation from the system's approved design.

Recommendation

We therefore recommend that the Comptroller operate the system on a full double entry basis.

TRIAL BALANCES NOT PREPARED

A trial balance is a listing of the debit or credit balance in each general ledger account. When the trial balance is totaled, the total of all the debits should equal the total of all the credits, thereby proving that each transaction was fully recorded in double entry. This practice provides an easy method for making sure that all transactions have been posted to the affected accounts and are mathematically in balance.

In addition to proving that the accounts are in balance, trial balances facilitate making adjusting and closing entries and preparing financial statements, create a useful audit trail, greatly reduce the time required for audit, and are a basic accounting control technique.

The approved system design provides that at the end of each month a general ledger trial balance be prepared and verified.

We observed that no trial balances were prepared at the end of the month. If they had been prepared, they would have shown that not all accounting transactions were entered in the affected accounts.

Recommendation

We therefore recommend that the Comptroller prepare monthly a trial balance containing all the general ledger accounts.

PHYSICAL INVENTORIES NOT PROMPTLY OR COMPLETELY RECONCILED WITH PROPERTY RECORDS AND GENERAL LEDGER CONTROL ACCOUNTS

The approved system design provides a single general ledger account for all equipment. It requires that physical inventories of capitalized equipment be reconciled with property record cards and with the general ledger control account.

The Federal Power Commission Administrative Manual, however, specifies that all serially numbered equipment be inventoried annually and other property every 3 years.

Physical inventories of serially numbered office machines (valued at about $700,000) were taken in 1973, 1974, and 1975. Nonserially numbered equipment (valued at about $2 million) was last inventoried in 1973.

When physical inventories are taken on a cyclic basis, as is the case in the Federal Power Commission where serially numbered property is inventoried annually and nonserially numbered property triennially, the general ledger control account must be similarly divided to permit each segment of property inventoried to be separately reconciled.

Physical inventories of serially numbered equipment can only be reconciled with the general ledger every third year (when all property is inventoried), because serially and nonserially numbered equipment is merged in one account in the general ledger.

The results of the complete inventory taken in 1973

--were not reported to the Comptroller for reconciliation until March 1975 and, at June 30, 1975, had not been reconciled with the general ledger and

--were not valued on the basis of acquisition costs but rather on incomplete and inaccurate property record cards, current supply catalogs, and estimates.

It is important to promptly investigate differences between physical inventories and control accounts to determine the causes for the differences; to identify necessary improvements in procedures to prevent errors, losses, or irregularities; and to bring accounting records into agreement with physical inventory results.

Recommendations

We recommend that you direct

--the Comptroller to maintain separate general ledger control accounts for (1) property physically inventoried annually and (2) property physically inventoried triennially;

--the Director of Administrative Operations to maintain complete and accurate property records, promptly investigate causes for differences between physical inventories and property records, and report promptly to the Comptroller the results of physical inventories;

--the Comptroller to (1) promptly make the necessary accounting entries to bring the general ledger control accounts into agreement with the property records and (2) determine and correct the causes of the differences between the property records and the general ledger control accounts.

REQUIRED INTERNAL AUDITS NOT MADE

The approved system design provides that the Federal Power Commission's Chief Accountant make annual audits of the accounting system and report the audit results to the Executive Director.

Audits of the operations of the Office of the Comptroller, which include the accounting system, have not been made since 1968.

Definite audit plans, required by Federal Financial Management Circular 73-2, for making systematic internal reviews of financial activities have not been developed.

On July 11, 1974, the Federal Power Commission informed the General Services Administration that the size of the Commission prevented establishing an independent, full-time, internal audit staff and that two accountants would comprise the internal audit staff on an "addition to other duties basis."

We doubt whether two accountants, on a part-time basis, can do the audit work suggested by section 113 of the Budget and Accounting Procedures Act of 1950; the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions; and Federal Management Circular 73-2.

Recommendations

We therefore recommend that you direct the Chief Accountant to determine the size of the staff and the scope of the work necessary to fulfill existing audit requirements adequately and submit to you a plan for accomplishing the necessary work.

COST OF INCREASE IN ANNUAL LEAVE LIABILITY
NOT SHOWN IN ACCOUNTS OR COST REPORT

The approved system design provides that

--the yearend liability for unused annual leave be recorded in a general ledger account,

--the cost of the annual change in the liability for unused annual leave be recorded in a general ledger account, and

--the cost of the change be distributed among the activities of the Commission and so shown on the yearend report of activity costs.

We found that the liability was not computed. Consequently, it was not recorded in the general ledger and financial statements and the annual change was omitted from the annual cost report.

Recommendation

We recommend that the Comptroller record and report the cost of, and liability for, unused annual leave in accordance with the requirements of the approved system design.

ALLOWANCES FOR EQUIPMENT TRADE-INS
NOT PROPERLY ACCOUNTED FOR

As the Commission trades in old equipment when purchasing new equipment, it

--values the new equipment on the basis of cash paid plus the amount the seller allows for the trade-in.

--credits the original value of the traded-in equipment to the asset accounts and charges it to the investment of the U.S. account, and

--credits the trade-in allowance to current operating costs (reducing operating costs).

This procedure for the trade-in allowance is incorrect since it is not a current income or expense item but is a reduction in the loss on disposition of the traded-in equipment. Accordingly, it should be credited to the investment of the U.S. account.

The improper accounting procedure resulted from inconsistencies and ambiguities in the accounting manual.

Recommendation

We recommend that the Comptroller clarify the procedures in the accounting manual to insure that trade-in allowances will be properly accounted for.

NEED TO SIMPLIFY ACCOUNT STRUCTURE

The approved system design requires separate subaccounts be maintained for the receipts, deposits, and receivables pertaining to each of 18 Treasury accounts. The subaccounts are grouped into

--three general ledger receipt accounts,
--three general ledger deposit accounts, and
--two general ledger receivable accounts.

The subaccounts are not grouped consistently within the general ledger accounts. That is, the subaccounts grouped into one of the receipt accounts do not apply to the same Treasury accounts as those grouped into one of the deposit or receivable accounts. Therefore receivables, receipts, and deposits cannot be reconciled at the general ledger account level. Reconciliations must be made either in total (i.e., total receipts, receivables, and deposits) or at the subaccount level. Also, account totals are not used in any reports.

Recommendation

Therefore, we recommend that the Comptroller maintain single general ledger accounts for deposits, receivables, and receipts containing the subaccounts for all Treasury accounts.

NEED TO SIMPLIFY ACCOUNTING PROCEDURES

The procedures used to record and process billings, collections, and deposits are unnecessarily cumbersome and, in some respects, are ineffective. Some types of receipts are recorded several times before they are deposited, and not all collections received can be traced to deposits to insure that all receipts are accounted for. Some collections for the credit of other agencies are held in suspense accounts until yearend with the result that the benefiting appropriation or fund is not credited promptly.

We believe the procedures to process and record billings, collections, and deposits could be simplified considerably and made more effective, thereby strengthening controls and reducing the accounting function workload.

We suggested specific changes in these procedures which the Comptroller agreed to study. We would be pleased to discuss these matters in further detail.

PROCEDURES CHANGED TO PERMIT PROMPT DEPOSIT OF FILING FEES

The Commission deposited about $12 million in fees and charges during fiscal year 1974. Most of these deposits were not made promptly after receipt. For example, our examination of all checks for $5,000 or more for filing fees showed that they were deposited an average of 22 days subsequent to the first working day after the day of receipt and that individual delays ranged up to 140 days.

Delaying deposits denies Treasury the use of the funds during the period of delay and requires the Treasury to borrow and pay interest on equivalent funds during such period.

We estimated that the interest costs applicable to the delayed deposits of filing fees was about $13,000 for the year. Had these deposits been made promptly the Treasury might have been able to reduce its interest costs by that amount.

The delays in depositing receipts were caused by administrative procedures which required that filing fee remittances not be deposited until the correctness of the amounts had been verified.

We proposed to the Executive Director that the manner of processing checks for filing fees be changed so that checks could be deposited sooner, thereby avoiding Treasury borrowing costs during delay periods. The acting Executive Director issued instructions on April 24, 1975, which directed that our proposals be put into effect.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We want to thank the staff of the Office of the Comptroller and other employees of the Commission for their cooperation and assistance.

We are sending copies of this report to the Senate and House Committees on Government Operations, the Senate Committee on Appropriations, the Subcommittees on Public Works of the House and Senate Appropriations Committees, the Senate Committee on Commerce, and the House Committee on Interstate and Foreign Commerce. Copies are also being sent to the Director, Office of Management and Budget; the Administrator, General Services Administration; and the Secretary of the Treasury.

Sincerely yours,

D. L. Scantlebury

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Director