



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D C 20548

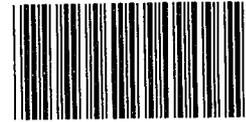
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B-110497

The Honorable Abraham Ribicoff<sup>A.</sup>  
Chairman, Committee on  
Governmental Affairs SEND 06600  
United States Senate

DECEMBER 12, 1978

The Honorable Robert N. C. Nix  
Chairman, Committee on Post Office  
and Civil Service  
House of Representatives



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Public Law 91-189 (5 U.S.C. 1304) requires the Comptroller General to report at least once every 3 years on activities financed by the Civil Service Commission's revolving fund and to make such recommendations as he deems appropriate. The fund, using working capital of \$5 million appropriated by the Congress, finances training, investigating, and other reimbursable services provided by the Commission to Federal, State, and local governments. Excess funds are deposited in the U.S. Treasury as miscellaneous receipts.

In fiscal year 1977, the Commission provided (1) training to about 187,000 Federal, State, and local government employees, (2) full field security investigations for about 23,000 employees, and (3) technical advice and assistance for strengthening State and local governments' personnel administration. Reimbursements to the fund for these services totaled about \$43 million.

The Director of the Commission's Bureau of Management Services is responsible for directing and coordinating the fiscal, administrative, and business management functions of the Commission. This includes making financial analyses and maintaining good overall financial condition of the revolving fund. Within this Bureau is the Office of Management Analysis and Audits, the Commission's internal audit office.

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DLG 03188

The Directors of the Commission's Bureau of Training, Personnel Investigations, and Intergovernmental Personnel Programs are responsible for managing the three major reimbursable programs financed by the fund.

DLG 03189

We examined the management and operation of the fund at the Commission's central office, including the records and

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reports on financial operations and actions to correct accounting and management deficiencies previously reported by the Commission's Office of Management Analysis and Audits and by us. We tested fiscal year 1977 transactions and reviewed account balances as of September 30, 1976, September 30, 1977, and March 31, 1978. We also made a limited assessment of controls in the Commission's computerized accounting system.

ACCOUNTING AND MANAGEMENT  
CONTROLS NEED TO BE IMPROVED

In January 1976, the Office of Management Analysis and Audits reported on its most recent audit that improvements must be made in management of and accounting for the revolving fund. In June 1976 we also reported that the Commission needed to improve its accounting and management controls and take more aggressive action to correct deficiencies identified by internal auditors. Although improvements have been made, the Commission needs to further improve these controls. The Commission must

- properly apply its prescribed accounting and fiscal procedures for reconciling account balances to source documents, collecting accounts receivable, and safeguarding and handling funds;
- strengthen its accounting and management controls to (1) properly account for and depreciate fixed assets, (2) charge all revolving fund activities for accrued annual leave and depreciation expenses incurred, (3) assure adequate financial disclosure in the work-in-process account, and (4) monitor and carry out fully the payment provisions of reimbursable technical assistance agreements; and
- strengthen procedures to assure that auditors' findings are promptly acted on and properly resolved.

An accounting system is an integral part of a management control system since the accounting records and related procedures can contribute significantly to meeting the objectives of the control system. The more important specific objectives of a satisfactory control system are to:

- Promote efficiency and economy in operations.
- Restrict obligations and costs to best carry out an agency's purposes within the limits of congressional appropriations and other authorizations and restrictions.

- Safeguard assets against waste, loss, or improper and unwarranted use.
- Assure that all revenues derived from agency assets or operations are collected or properly accounted for.
- Assure accuracy and reliability of financial, statistical, and other reports.

Prescribed controls are not  
always properly applied

✓The Commission's accounting and fiscal procedures manual describes control procedures which should be adequate to assure that (1) account balances are periodically reconciled to source documents, (2) accounts receivable are collected promptly, and (3) funds are properly safeguarded and handled. These control measures were not always applied properly, ✓

Commission accounting personnel <sup>stated</sup> ~~told us~~ that partial reconciliations of account balances were made but not in the way prescribed by the accounting manual. They cited lack of personnel and increased workload as reasons why complete reconciliations were not made. ✓ Generally, they reconciled current balances with source documents, but they reconciled old balances only as time allowed. As a result, the Commission did not know whether accounting records and associated reports were properly supported.

The Commission had many accounts receivable outstanding and uncollected for long periods. According to prescribed collection procedures, accounts should not remain outstanding for more than 6 months. Many accounts outstanding much longer had not been written off and turned over to us for collection as required by the prescribed procedures. As of June 30, 1978, for example, the Commission's central office (excluding the 10 regional offices) had more than \$138,000 in unpaid training bills that were over 9 months old, some of them for services provided in fiscal year 1972.

✓The Office of Management Analysis and Audits discussed this matter and recommended corrective action in its January 1976 report.

Commission procedures for safeguarding collections provided that remittances would (1) not be left on or in an unattended desk at any time, (2) to the maximum extent possible, be deposited on the day received, and (3) when held over night, be placed in a locked safe. Remittances were generally deposited only once a week and, when held over night, were kept in a locked desk drawer rather than a locked

safe. When informed of these practices, Commission accounting personnel agreed to make necessary changes promptly to conform with prescribed procedures.

Other controls are needed

Additional accounting and management controls are needed to strengthen the Commission's management control system in

- charging all revolving fund activities for accrued annual leave and depreciation expenses incurred,
- properly accounting for and depreciating fixed assets,
- providing adequate financial disclosure within the work-in-process account, and
- monitoring and carrying out payment provisions of reimbursable technical assistance agreements.

The Commission should also strengthen its controls over computer operations.

Charges to revolving fund activities

Public Law 91-189 (5 U.S.C. 1304) states that expenses of operating the revolving fund include provisions for accrued annual leave of employees and depreciation of equipment. These expenses were included in only three of the five activities in fiscal year 1977. Commission officials said they could not justify charging these expenses to one activity because of a low level of costs and reimbursements. The officials could not explain, however, why accrued annual leave and depreciation expenses were not charged to the fifth activity, which had costs and reimbursements over \$700,000 in fiscal year 1977.

Accounting for fixed assets and depreciation

In June 1976 we reported that the Commission needed to improve its method of determining and applying depreciation. The Office of Management Analysis and Audits also discussed this matter and recommended corrective action in its January 1976 report. The Commission has changed its procedures for computing depreciation and, during the fiscal year 1976 transition quarter, made an adjustment of about \$308,000 to correct previous depreciation charges. Depreciation was calculated properly after this adjustment.

Because a complete physical inventory of fixed assets had not been made since 1973, Commission officials had no assurance that the total recorded value of these assets was accurate. In addition, documents showing fixed assets acquired, disposed of, or fully depreciated were not routinely sent to accounting personnel. Without such information, although depreciation expense calculations may be arithmetically correct, there can be no assurance that the appropriate amount is charged to the revolving fund activities.

#### Work in process

The Commission used a work-in-process account to record salaries, travel, supplies, and other costs incurred in developing training courses to be conducted in future accounting periods and in making reimbursable investigations. Purchased training materials were also recorded in the work-in-process account. Although we did not question the use of this account as a control account, we believe more adequate financial disclosure would be provided if the specific types of work in process were shown in separate subsidiary accounts.

We believe that purchased training materials that do not require further work, such as books and periodicals, should be recorded in a separate inventory account. We also believe that training course development costs should be transferred from the work-in-process account to a separate inventory account after a course has been completely developed.

#### Payment provisions of reimbursable agreements

In many cases, the Commission had not properly monitored or carried out the payment provisions of reimbursable technical assistance agreements with State and local governments. Consequently, the Commission failed to (1) monitor income and costs charged to individual agreements to verify that terms were followed or that costs incurred and income generated were shown properly in accounting records and (2) bill State and local jurisdictions according to signed agreements.

#### Controls over computer operations

One of the Commission's many computer applications is the automated accounting system. Processing financial transactions and preparing financial statements for revolving fund activities is a component of this system. Basic control mechanisms should be in place if computer generated data is to be timely, accurate, and complete. We made a limited assessment of these control mechanisms to determine whether they existed and were

operating as designed. A letter addressing our observations and suggesting improvements to strengthen computer operation controls was sent to the Chairman of the Commission on November 20, 1978.

### CONCLUSIONS AND RECOMMENDATION

The Commission's accounting and fiscal procedures manual states:

"The major objectives of the accounting system are development of a primary source of financial data from which managerial determination can be made, and the establishment of methods whereby expenditures and collections of Government funds and resources will be accurately recorded and reported in a manner that will ensure effective control and economical operations."

The major objectives of the Commission's accounting system have not been achieved. In January 1976 the Commission's Office of Management Analysis and Audits reported, and in June 1976 we reported, some of the weaknesses in control described above. Although improvements have been made, further improvement is needed and, in view of the continuing problems, we feel specific management commitment to their resolution is overdue. We believe that it is essential that more effective controls over the activities financed by the Civil Service Commission's revolving fund be implemented without further delay.

The Director, Bureau of Management Services, generally agreed with our findings. He said, however, that considerable improvement had been made since our 1976 report was issued.

A recent GAO report to the Congress 1/ includes a chapter on "A Good Accounting System--A Key to Good Management." Our findings had indicated that Federal managers need to strengthen financial management generally. We recommended that the Director, Office of Management and Budget (OMB), emphasize to the heads of departments and agencies, the need to assure that an adequate and balanced portion of internal audit resources be devoted to reviewing financial statements.

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1/"The Government Needs to Do A Better Job of Collecting Amounts Owed By the Public" (FGMSD-78-61, Oct. 20, 1978).

Another recent GAO report 1/ includes a chapter on "Procedures for Resolving Audit Findings." The report states in part:

"Although there are variations among individual agencies, the general procedures followed for resolving audit findings are very similar. After the auditor's work is completed, he obtains comments of those directly affected. \* \* \* His completed report, including these comments, is then turned over to agency management for action.

"Within agency management, the officer designated to act on the report is usually" an \* \* \* "agency official for matters involving change in internal agency practices. \* \* \* it is these officials who often have failed to act promptly on the audit findings.

"When operating officials and auditors disagree on proposed solutions, agencies typically have procedures for reconciling the differences at higher management levels. \* \* \* Specifically, OMB Circular A-73 requires agencies to

- establish policies for following up on audit recommendations,
- maintain a record of the actions taken,
- designate time schedules for responding to and acting on audit recommendations,
- submit periodic reports to management on recommendations and actions taken, and
- designate persons to follow up on audit recommendations."

RECOMMENDATION

~~We recommend that~~ the Chairman, <sup>B</sup>Civil Service Commission, and the Director, Office of Personnel Management, who will become responsible for the fund in January 1979, <sup>should</sup> take prompt action to:

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1/More Effective Action Is Needed On Auditors' Findings-- Millions Can Be Collected or Saved" (FGMSD-79-3, Oct. 25, 1978).

- ① -- Implement prescribed accounting and fiscal procedures, especially those related to reimbursable accounts and safeguarding and handling Commission funds.
- ② -- Either collect or write off and turn over to our Office for collecting all accounts receivable older than 6 months.
- ③ -- Establish accounting and management controls to assure that (1) all activities are charged for accrued annual leave and depreciation expenses, (2) fixed assets are properly accounted for and depreciated, (3) the work-in-process account provides adequate financial disclosure, and (4) payment provisions of reimbursable technical assistance agreements are monitored and fully carried out.
- ④ -- Strengthen procedures to assure that auditors' findings are promptly acted on and properly resolved.

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Copies of this report are being sent to the Chairmen, House and Senate Committees on Appropriations; the Chairman, House Committee on Government Operations; the Director, Office of Management and Budget; and the Chairman, Civil Service Commission.



Comptroller General  
of the United States