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GAO

United States General Accounting Office
Washington, DC 20548

Logistics and
Communications
Division

B-114829

FEBRUARY 20, 1980

Mr. John J. Boyle
Public Printer
U.S. Government Printing Office

Dear Mr. Boyle:

Subject: [Need to Improve Internal Controls Over
Cash, Certain Inventories, and Accounts
Payable] (LCD-80-36)

We recently examined the Government Printing Office's (GPO's) fiscal year 1978 financial statements. As part of this examination, we tested the internal control systems for the accounting and safeguarding of cash, three inventories--paper, materials and supplies, and publications held for sale--and accounts payable. In performing our tests, we reviewed policies and procedures, held interviews, made observations, and completed internal control questionnaires for each of the selected systems. As a result of the tests, we noted certain weaknesses in each control system. Although these weaknesses did not appear to materially affect the financial statements, we believe they warrant your attention and corrective actions.

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In summary, we found very few written procedures for managing and controlling the assets we examined. To a large degree, the responsibilities of the personnel managing and controlling these assets were specified only in individual job descriptions. Further, organizational lines of responsibility were vague. We believe that written procedures and stated lines of authority and responsibilities are needed to help management ensure that its policies on managing and safeguarding assets are successfully implemented and overall responsibilities are established.

The following sections discuss the weaknesses identified in the internal control systems for each of the assets examined and in accounts payable.



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CASH

We found virtually no written procedures for handling cash receipts either in the GPO mail room or in the Receipts and Disbursements Branch. A few written policies pertaining to the handling of money and orders were available in the documents area. Individual job descriptions were available, but few related to overall operations.

The Receipts and Disbursements Branch receives very little cash. Occasionally, the branch receives a payment for a parking permit or a new identification badge. This branch receives many Government checks daily--an average of \$650,000 worth. Procedures for handling the checks appeared to be adequate. Deposits were made daily with few exceptions, and duplicate deposit slips were available for inspection.

Security measures within the branch appeared proper. For example, the cashier's window is protected by bullet-proof glass. Also, physical access to the area is closely controlled by locked doors with push button entry only.

The mail room receives about \$250,000 in checks and cash daily (the majority of this amount is checks). Although the mail room is located in a secured area, we noted that access was granted to virtually anyone. The principal tool which GPO uses to ensure that checks and cash are properly safeguarded is a closed-circuit television monitoring system. We believe that it would be possible for an individual to steal checks and cash that may be briefly unattended.

Mail room officials agreed security was somewhat lax, but they felt that their practice of never leaving the room unattended properly safeguarded the checks and cash. We disagree and believe only authorized personnel should be allowed to enter the mail room.

PAPER INVENTORY

We looked at GPO's procedures and controls over paper stored at the central office and Franconia warehouses. Both warehouses lacked adequate written procedures for managing paper inventories, and the controls for safeguarding paper inventories at the central warehouse were lax and offered the potential for theft or losses. While we were not aware of

any specific infractions, we did note that the fiscal year 1978 physical inventories of paper and envelopes onhand disclosed a shortage of over \$100,000 (about 1 percent of inventory) between what was actually onhand and what was recorded.

There were no written procedures on managing the paper inventory at the Franconia warehouse, and the procedures available for the central warehouse were outdated. Guards at both warehouses had specific instructions on safe-guarding paper inventories. According to GPO instructions, guards are required to (1) inspect all shipments and deliveries and record the information on a vehicle log and (2) count shipments before they are loaded on trucks. Guards cannot copy the information from other sources. However, we observed that guards at the central warehouse were not always following these instructions. For instance, the guards often watched the truckdrivers count the shipments and then copied the information on a vehicle log.

Under the procedures we noted, it appears the truckdrivers could remove more paper from the central warehouse than they should and GPO would not know of the discrepancies until inventory counts are made.

MATERIALS AND SUPPLIES INVENTORY

This inventory was valued at about \$5.7 million in fiscal year 1978. Because of the nature of the items in inventory, it is particularly vulnerable to theft and losses. Monthly inventory counts during fiscal year 1978 showed a net loss of about \$14,000 for the year.

We observed that the procedures used by the stores division to issue items were adequate. However, we did note some weaknesses in warehouse receiving and storing functions. For example, the Farrington Avenue warehouse receives, stores, and issues bulk material supplies. Normally, a warehouse operation should have different crews for receiving, storing, and issuing. However, this particular warehouse has one crew to do all the functions. We believe that the failure to segregate duties at this warehouse is improper.

We also noted that the responsible security guard at the central warehouse did not always make an independent check of items being shipped. The shipping section loads the items on a truck in accordance with the load ticket while the truckdriver inventories the items which are

loaded. The truckdriver is responsible for the items once he or she signs for them. The truckdriver is, therefore, the control for ensuring that only those items on the load ticket are loaded on trucks and shipped. This means any items which are shipped but not signed for are "lost" to GPO. The security guard should be the control for assuring that items shipped and items listed on load tickets coincide.

In addition, inventories were occasionally adjusted without the stores division being notified. This fact appears to indicate the GPO system for guarding against unauthorized adjustments is not adequate.

SALE OF PUBLICATIONS INVENTORY

The Sale of Publications Inventory consists of those publications held for sale to the public by the Superintendent of Documents. This inventory was valued at about \$24.7 million at the end of fiscal year 1978. The bulk of this inventory is maintained in a warehouse in Laurel, Maryland.

Written procedures have been prepared for the various storage and distribution operations at the warehouse. However, some of these procedures were still in draft form at the time of our review.

The warehouse appeared to have the necessary physical security to prevent large-scale theft of publications. However, theft of single or few publications would be difficult to control.

We noted that losses due to damage were not completely controlled. This situation was demonstrated by the fact that workers destroyed damaged copies without advising supervisors responsible for recording the destruction.

ACCOUNTS PAYABLE

Very few procedures had been written to describe the flow of information in accounts payable. Despite this lack of written procedures, the practices in use appeared to provide reasonable control over payments. There is a separation of duties between the groups which verify and approve invoices and payments, maintain accounting records, and perform the check writing and mailing functions.

While we noted no instance of duplicate payments of invoices, GPO officials said duplicate payment of invoices occurred because supporting documentation was misfiled and the payment was delayed beyond the 10-day goal for payments. After 10 days, contractors provided a second copy of the supporting documentation and consequently two sets of documents were certified for payment of the same voucher.

We were told that duplicate payments were rarely made, were usually for amounts less than \$2,000, and were a result of the large volume of transactions processed and the timelag between payment and filing of paid vouchers. We were also told that, when discovered, the duplicate payments were recovered either by deducting the amounts from subsequent payments or by having the contractors to repay the amounts.

CONCLUSIONS AND SUGGESTIONS

We believe that controls over the assets we tested need to be strengthened to ensure that such assets are properly safeguarded and losses minimized. While our tests were limited, we believe that we have identified areas where the potential for loss or theft exists.

To ensure that assets are properly managed and safeguarded, we suggest that GPO:

- Establish written procedures describing operations in detail, system flow, and lines of responsibility for each of the functions discussed above.
- Admit only authorized personnel in the GPO mail room.
- Instruct security guards at the central warehouse to comply with GPO orders setting forth their duties.
- Establish procedures to ensure the recording of any destruction of publications for sale.

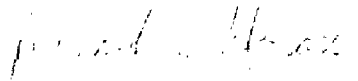
In addition, special attention is needed to avoid processing second invoices to preclude duplicate payment of invoices.

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We would appreciate being advised of the actions you plan to take to improve the internal control systems discussed above. If you desire, we would be glad to discuss further our observations.

Sincerely yours,



R. W. Gutmann
Director