GENERAL ACCOUNTING OFFICE WASHINGTON DC ACCOUNTING ETC F/6 5/1
WEAKNESSES IN INTERNAL FINANCIAL AND ACCOUNTING CONTROLS AT DEP--ETC(U)
SEP 81 W D CAMPBELL
UNCLASSIFIED GAO/AFMD-81-106
The Honorable James B. Edwards
The Secretary of Energy

Dear Mr. Secretary:

Subject: Weaknesses in Internal Financial and Accounting Controls at Department of Energy Accounting Stations

This report contains the results of our survey of accounting stations over revenue and expenditure transactions at 10 accounting stations within the Department of Energy. Included were four regional offices, two operations offices, two naval reactor offices, a project office, and a power marketing office. The survey identified weaknesses in internal controls over accounts receivable, collections, disbursements, imprest funds, and obligations. In addition, we noted a lack of audits of internal control procedures by your auditors and a general absence of local operating instructions. We are informing you of these weaknesses to help you discharge your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over and accountability for all funds for which they are responsible.

Our survey was based on questionnaires designed to identify potential internal control problems and on interviews and discussions with accounting station officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses existed, but we did not attempt to establish their extent or the precise corrective actions needed. The weaknesses are discussed in enclosure I and their locations are shown in enclosure II.

We discussed our survey results with responsible accounting station officials and the Department of Energy Controller and, in most instances, they initiated or promised corrective action. However, because the weaknesses were widespread, we are recommending that you issue appropriate instructions to insure that (1) follow-up actions are taken to correct the weaknesses we have identified, (2) written procedures covering all phases of accounting operations are issued, and (3) all established control procedures are followed. We are also recommending that...
you instruct the Inspector General, Department of Energy to provide increased audit coverage of the Department's internal financial operations.

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 taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee 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 are sending a copy of this report to the Inspector General, Department of Energy. We are also providing a copy to the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations.

We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

W.D. Campbell
Acting Director

Enclosures
Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), requires the head of each executive agency to establish and maintain a system of accounting and internal control over, and accountability for, all the agency's assets. Our survey evaluated the controls at 10 accounting stations including four regional offices, two operations offices, two naval reactor offices, a project office, and a power marketing office. It disclosed that:

--Accounts receivable were inadequately controlled; many receivables were not entered in the accounting records, and those that were recorded were not monitored to ensure timely collections.

--Collections were ineffectively safeguarded; they were not properly logged in, correctly accounted for, or promptly deposited.

--Disbursements were made without complying with established procedures; preaudits were inadequate to preclude duplicate payments or overpayments, single monthly travel vouchers were not used, and Government Transportation Requests and airline tickets were ineffectively controlled.

--Imprest funds were poorly managed; they were not periodically verified or audited and opportunities to reduce fund balances had not been explored.

--Obligations were not properly handled; commitments were made before funds were certified as being available and obligations were not validated at yearend.

--Operating instructions and audit coverage were inadequate; written procedures were nonexistent or in draft form and internal control audits had not been performed.

These internal control weaknesses are discussed in detail below; enclosure II identifies the types of weaknesses noted at each location we visited. It shows that each accounting station had at least some weaknesses, and identifies several locations where weaknesses were widespread.
NEED TO IMPROVE CONTROLS OVER ACCOUNTS RECEIVABLE

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.4) states that accounts receivable should be recorded accurately and promptly upon completion of the acts which entitle an agency to collect the amounts involved. Accounts receivable represent the debts of others to the Department that arise through the normal course of operations. Accounts receivable should be accounted for as assets that will be liquidated by cash settlements or their equivalent, converted into other resources, or determined to be uncollectible. The system of accounting for receivables should provide management with information on (1) what is owed to the agency, (2) who owes the agency, (3) when payment is due, and (4) which accounts are delinquent.

Nine of the 10 accounting stations we visited did not record or adequately monitor all of their accounts receivable. Potential amounts due from sources such as fines and penalties, unenclosed grants, and audit disallowances were not being recorded. Unneeded travel advances were not being periodically reviewed or promptly recovered. As a result, agency officials did not have information needed to effectively manage the Department's available resources.

Civil penalties not recorded in financial records

Before controls were lifted on January 28, 1981, the Department's Office of Enforcement had responsibility for ensuring compliance with pricing and allocation regulations for petroleum products. In carrying out this responsibility, the offices investigated violations of the guidelines and levied civil penalties where violations were found to exist. According to Department officials, many violators paid the amounts due at the time settlement agreements or consent orders were signed, but in other cases the officials agreed to payment of the penalties in installments.

We found that amounts due in installments from civil penalties were not being recorded as accounts receivable in the accounting records. Although the Office of Enforcement kept individual files on these cases, the Department's financial statements do not reflect these receivables. A listing dated February 2, 1981, provided to us by Enforcement personnel at one office showed that about $11,700 was currently due from 11 different parties. In addition, about $180,800 of partial payments had been collected during calendar year 1980, none of which had been recorded as accounts receivable.
Receivables from completed grant projects not determined

Department regulations provided procedures for closing out grants when the work is completed. The closeout process establishes that all required administrative actions and work under a grant have been completed by both the grantee and grantor. It also establishes the amount of unused funds, frequently referred to as unencumbered balances, remaining upon completion of the grant project. Immediate refund to the Department should be made of any unencumbered balances.

Although not all of the offices we visited had awarded grants, activity was substantial in some offices over the last several years. In the Atlanta office alone, new grant awards amounted to $36.9 million during fiscal year 1980. However, the offices were not actively closing grants when they were completed so that amounts due the Government could be recognized and recovered. In fact, at one office with grants totaling $220,500, we found that no grants had ever been closed out. As a result, no action has been taken to account for and collect potentially significant amounts due the Government.

Amounts from audit disallowances not recorded

Receivables also arise when auditors take exception to costs claimed by grantees and contractors. If management officials agree with the auditors' findings and disallow the costs, the amounts become receivables that should be recorded on the agency's records. Department-wide open audit reports contained about $26.9 million of disallowed costs.

We found, however, that disallowed costs resulting from audits had not been recorded as a receivable in the accounting records at six of the offices we visited. As of December 31, 1980, these offices had over $12.2 million in open audit reports representing amounts due.

Travel advances are not periodically reviewed or promptly recovered

The GAO Manual (7 GAO 25.6) provides that agency accounting systems should include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to keep outstanding balances to a minimum. At eight of the 10 stations, we found weaknesses in the controls over travel advances which
permitted them to remain outstanding for excessive periods, thus unnecessarily tying up funds.

We found the following examples at the Atlanta Regional Office:

--Ninety-one travel advances totaling about $46,000 were outstanding as of January 23, 1981. No action had been taken in almost a year to review outstanding advances to identify those unwarranted.

--Of the 91 advances outstanding, 25 totaling $6,996 had been held for more than 1 year since the employees last traveled.

--Two employees left the agency without repaying travel advances of $1,745.

--One employee claimed that an advance of $1,454 was paid although the finance officer was unable to confirm the repayment.

Agency officials with whom we discussed these matters agreed with our observations and stated that corrective actions would be taken.

NEED TO IMPROVE CONTROL OVER MONIES COLLECTED

Collections by the 10 offices we visited were significant, ranging from about $8,000 to $9 million monthly. The collections were received both over-the-counter and through the mail from sources such as sales of enriched uranium, heavy water, electric power, travel advance refunds, fees from freedom of information requests, and fines and penalties.

Both the GAO Manual and the Treasury Fiscal Requirements Manual specify that agencies' collections should be promptly recorded, deposited, and adequately safeguarded. Further, the manuals state that responsibilities related to cash collections should be adequately segregated. At several offices we reviewed, these requirements had not been complied with, thus exposing money that was collected to the risk of loss or misuse.

Collections not placed under immediate accounting control

Cash and checks received through the mails or over-the-counter are inherently susceptible to loss, theft, or other
misuse. To compensate for this potential for misuse, the DOE Accounting Practices and Procedures Handbook provides that:

"At as early a point as possible in mail handling, preferably at the point where the envelopes are opened, and immediately upon receipt, all cash items shall be listed in duplicate, and a copy of the listing delivered to the person responsible for making reconciliations."

Despite the guidance, we found that at four of the 10 offices we visited the persons who open the mail do not log in collections. For example, mail addressed to the Office of Enforcement, which often contains checks in payment of civil penalties and freedom of information requests, is delivered unopened to the director's secretary. The secretary opens the mail and sends the checks and related correspondence to other Enforcement personnel for further processing, but no record of the receipts is maintained. Therefore, there is no central record which would allow verification that all receipts were in fact sent to the finance office and deposited.

The use of prenumbered receipt forms is also a widely used control method to help ensure that all collections are placed promptly under accounting control. The Department's regulations provide that:

"Over-the-counter cash collections shall be acknowledged by prenumbered receipts, preferably prepared in triplicate, with one copy accompanying the cash to the central cash receiving point, one copy going to the person making the reconciliations, and the original going to the person making the payment."

However, we found that seven of the 10 offices were not using prenumbered receipt forms to acknowledge all over-the-counter collections. Therefore, they had no records to show that such collections had been properly accounted for and deposited.

Collections not adequately safeguarded

Since currency and checks are highly susceptible to improper conversion or loss, the controls should include security measures to protect them while they are awaiting deposit. Such controls should consist of records to document the movement of funds within the office as well as physical security measures. Six of the offices had weaknesses in this regard. For example, one office lost a $480 check and was unable to identify the person who last
had control of it because signed records or receipts were not required when collections were moved internally. Some offices did not place collections under adequate physical security; they stored collections in desk drawers and file cabinets rather than in locked safes as required by Department regulations.

**Collections not promptly deposited**

When collections are not deposited promptly, access to the funds by Treasury is delayed and the potential for loss, theft, or misuse of the funds is increased. Undue delays in depositing monies collected mean that the Treasury is denied use of the funds, and as a result, must borrow—increasing the Government's interest costs.

Because timely deposits are important, both GAO and the Treasury manuals contain guidance on how frequently collections should be deposited. According to GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 12.2), collections should be deposited daily whenever possible. The Department of the Treasury provides more specifics on the frequency of deposits in its Fiscal Requirements Manual for Guidance of Departments and Agencies (I TFRM 6-8000), which states that collections of $1,000 or more should be deposited daily, and collections of a lesser amount may be accumulated and deposited when the total reaches $1,000. However, the manual points out that all deposits must be made at least weekly regardless of the amount accumulated.

Despite the above requirements, five of the 10 offices we visited were not depositing collections in a timely manner. For example:

--- At the New York office we found that only two deposits, in the amounts of $15,147 and $22,011, had been made during a 6-month period. The individual checks making up these deposits had been held from 8 days to almost 4 months before they were deposited.

--- At the Atlanta office checks totaling $9,337.76 were held from 9 days to 3 months before being deposited.

--- At the Boston office 78 cash receipts valued at nearly $68,000 were held 39 days until deposit.

**Duties of persons handling collections not adequately divided**

One of the basic principles of internal control is dividing critical functions between two or more persons, a technique
often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends on collusion. The GAO Manual (7 GAO 11.2) provides that persons responsible for handling cash receipts should not participate in accounting or operating functions which would permit them to conceal the misuse of cash receipts. Written in conformity with the GAO regulations, the Department procedures specify in more detail duties which should not be commingled.

We noted instances where duties were not adequately separated in six of the 10 stations. For example, we found cases where the persons receiving the collections also made the deposits without another person independently verifying that all receipts were included. We also found instances where the person receiving collections also posted them to the accounting records. Failure to separate conflicting duties such as these unnecessarily exposes Department funds to theft or misuse.

We advised the appropriate agency officials of the weaknesses discussed above. They acknowledged that the weaknesses existed in their organizations and said they would take appropriate actions to improve their controls over collections.

NEED TO IMPROVE CONTROL OVER DISBURSEMENTS

As stated in the GAO Manual, Federal agency procedures to control disbursements should insure that (1) all disbursements are legal, proper, and correct and (2) duties related to purchasing, receiving, and paying for goods and services are appropriately separated.

However, we found numerous weaknesses in the controls over disbursements in six of the 10 offices we visited. These weaknesses included inadequate review of payment vouchers, loose control of GTRs, and a lack of separation of duties.

Legality, propriety, and accuracy of disbursements not adequately checked before payments are made

The GAO Manual (7 GAO 24.2) states that vouchers should be preaudited before they are certified for payment. Preaudits are reviews which check and verify the legality, propriety, and accuracy of the data on the disbursement voucher. Some of the items to be verified are: the amount of the payment and the name of the payee; whether the payment duplicates another; and the quantities, prices, and amounts on the voucher. Furthermore, vouchers should
ENCLOSURE I

be checked for proper authorization and legality, and a determination should be made that the goods and services received are in accordance with the agreement.

We found that although some efforts were made to audit disbursement vouchers before they were certified for payment, the adequacy of the preaudits conducted at four accounting stations was questionable, since we found a number of discrepancies. For example, we noted both overpayments and duplicate payments that appeared to have occurred because of inadequate reviews of the supporting documentation:

--A $1.7-million debt was paid twice because disbursement personnel failed to check payment records showing that the original voucher had already been paid. Although Department personnel subsequently discovered the duplicate payment and recovered the money, the error would not have occurred if internal control procedures had been followed.

--A $182,000 payment was made to a contractor consolidating several of his invoices. This payment included an $82,000 invoice which was subsequently paid separately. The duplicate payment could have been readily detected if the voucher examiner had correctly reviewed the payment files.

Duties of personnel processing payments not separated

Good management control requires that functions involving the authorization, performance, and recording of disbursement transactions be performed by different persons. In keeping with this principle, the GAO Manual (7 GAO 24.5) provides that duties related to purchasing, receiving, and paying for goods and services should be separated to the extent permitted by the size of the organization.

Our review noted that internal controls over disbursements could be strengthened by better separation of duties at two of the 10 stations. For example, in one office, the contracting officer was also a certifying officer, which is contrary to GAO and Department guidance. His designation as a certifying officer was revoked when we brought this matter to management's attention.

Another weakness noted at one office was that a procurement official also signed as the receiving official on certain invoices for machine rental and other goods and services. To
preclude the opportunity for misuse of Government funds, persons who are responsible for making purchases should not also have the responsibility for certifying that the goods and services were received.

**Controls over Government Transportation Requests not adequate**

Government Transportation Requests (GTRs), when presented to a carrier, authorize the carrier to issue tickets to Government travelers. In addition, GTRs authorize the carrier to bill the Government agency for services provided. By their nature, these documents are readily convertible to improper use, so it is essential that they be placed under adequate safeguards and controls.

The GAO Manual instructs each Federal agency to develop procedures that will prevent improper or unauthorized use of Government funds, property, and other resources. The DOE Travel Policy and Procedures Manual (DOE 1500.3) also provides for administrative controls over GTRs and airline tickets. However, our review disclosed weaknesses in the controls at three of the 10 offices.

The regulations require that GTRs and airline tickets be kept in a locked safe. At two of the offices we visited, they were stored in desk drawers, credenzas, etc. The regulations also require offices having blank GTRs to check periodically on the use of GTRs and verify those in the possession of employees as of midyear and yearend. We found that no verification of GTRs in the hands of employees had ever been made at two of the offices.

We discussed the above weaknesses with agency officials who agreed to take corrective actions.

**NEED TO IMPROVE CONTROL OF IMPREST FUNDS**

Imprest funds are "cash on hand" funds comprised of currency, coin, or Government checks advanced by a U.S. Treasury disbursing office to agency imprest fund cashiers. By their nature, imprest funds provide opportunities for misuse, loss, and theft of money. Accounting and physical controls to minimize these opportunities are set forth in GAO's Policy and Procedures Manual for Guidance of Federal Agencies.
Unannounced audits of funds not performed

One of the most basic controls over imprest funds is the performance of unannounced audits and examinations. Their purpose is to determine whether (1) funds are properly accounted for, (2) the amounts of the funds are in correct proportion to cash requirements, (3) the procedures followed protect funds adequately from loss or misuse, and (4) the funds are used for authorized purposes only. Further, in our view, the knowledge that unannounced audits are frequently performed serves as a deterrent to irregular acts. Despite their widely recognized value, three offices did not use unannounced audits to protect their imprest funds.

Size of funds exceeds appropriate needs

The GAO Manual (7 GAO 27.4) specifies that an imprest fund should be limited to the smallest amount commensurate with the authorized purpose of the fund. Maintaining cash balances in excess of actual needs can unnecessarily increase the amount of funds Treasury must borrow from the public, thereby increasing the national debt and related interest costs. Excess balances also increase the amount of funds susceptible to theft, loss, and misuse.

We noted that five offices could reduce the size of their imprest funds by requiring continual-basis travelers to file a single monthly voucher instead of separate vouchers for each trip taken. In these offices, travelers routinely secured advances and expense reimbursements from the imprest funds because the cost of a single trip seldom exceeded the fund's limits ($250 for routine disbursements, $500 in emergencies). Since these travelers were in actuality continual-basis travelers, they should have been required to obtain travel advances to cover their longer term needs and file single monthly vouchers to recover their expenses for all trips taken during the month. If they had handled advances and expenses in this manner, the amounts would have generally exceeded the disbursement limits of the imprest funds and payments would have been made by Treasury check. Thus, the activity of the imprest funds would drop and the authorized balances could be lowered substantially.

Agency officials have agreed to take corrective actions to prevent further unauthorized use of the imprest funds.
NEED TO IMPROVE CONTROLS OVER OBLIGATIONS

Obligations specify the amounts of orders placed, contracts awarded, services rendered, or other financial commitments made by Federal agencies that will require cash outlays during the current or some future period. The GAO Manual (7 GAO 4) provides guidance to Federal agencies for controlling and accounting for obligations. However, we found weaknesses in the Department's controls over obligations in three of the offices we visited.

At one office, we found that obligations had been incurred without a determination that sufficient funds were available to cover the obligations. For example, we noted that an energy conservation grant was awarded in the amount of $91,000, but no one had certified whether funds were available. Failure to certify funds availability had also been pointed out by a headquarters procurement review team in that office as well as in one other office we visited.

The GAO Manual also specifies that obligation documents should be reviewed at the end of each fiscal year to (1) establish the validity of recorded obligations, (2) determine the continuing validity of older obligations, and (3) determine if recently recorded obligations are valid. At two of the offices, we found that obligations were not being reviewed at yearend to determine their validity. As a result, obligations no longer valid could still be shown on the Department's accounting records and financial statements.

Agency officials agreed with our findings and promised to take corrective actions.

NEED FOR A COMPREHENSIVE ACCOUNTING PROCEDURES MANUAL

According to GAO's Policy and Procedures Manual (2 GAO 32), the head of each Federal agency should publish a comprehensive accounting manual containing sections that detail internal control procedures for employees' day-to-day use. The Department published an accounting practices and procedures handbook in October 1979, which contains only very general requirements for handling cash and other financial transactions. The handbook does not furnish detailed instructions for the operating level and recognizes that supplemental local guidance should be provided.

We found that five offices had not developed written local operating instructions dealing with financial controls. Moreover,
we found that several supplementary control instructions prepared by the Department's Controller and other headquarters offices had not been issued in final form. For example, the travel policies and procedures, the cash management manual, and the guidance for Federal assistance process (grants) were in the draft stage at the time of our review. As a result, there was a lack of consistency between offices in the way various financial transactions were handled, and uncertainty existed on specifically how transactions should be processed.

NEED FOR INCREASED INTERNAL AUDIT COVERAGE

In our view, adequate internal audit coverage could have detected most of the control deficiencies discussed earlier, thus providing agency management with the opportunity to correct them. Internal audits are widely recognized as part of an agency's system of financial controls. Under section 113 of the Accounting and Auditing Act of 1950, agency heads are required to establish accounting and internal controls, including internal audit.

However, in seven of the 10 offices visited, we found that neither the Inspector General nor other internal auditors had reviewed the internal control procedures within the last 3 years. In fact, internal control procedures had never been reviewed in some of these offices.

The Department's Controller agreed that expanded audit coverage of internal financial operations would be very beneficial in identifying control weaknesses as well as helping to maintain compliance with established control procedures. However, the Controller also pointed out that he did not have the authority to require the Department's internal auditors to undertake such reviews.

CONCLUSIONS AND RECOMMENDATIONS

As discussed in the preceding pages, internal control weaknesses at the Department are serious and extensive. On an individual basis, any one weakness at a single accounting station may not be likely to have a significant impact on the Department's financial condition. However, we believe that in the aggregate, such weaknesses are detrimental to the Department's overall financial operations.

In response to our findings, accounting station officials and the Department's Controller generally agreed to take appropriate corrective actions. Such actions, however, will yield significant benefits only if implemented at all accounting stations.
rather than just at the ones we visited. Additionally, experience has shown that constant vigilance by top management is necessary to insure continued effective operation of any internal control. Accordingly, we are recommending that the Secretary of Energy:

---Ensure that adequate followup actions are taken to correct the weaknesses we have identified.

---Ensure that written procedures covering all aspects of financial and accounting operations, including related internal controls, are developed and issued to all appropriate Department offices.

---Issue instructions emphasizing that the Department's fiscal procedures and instructions must be followed.

---Instruct the Inspector General's office to increase its audit coverage of the Department's internal financial operations with particular emphasis on internal controls.
### Summary of GAO's Observations at 10 DOE Fiscal Offices

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<th>Clinch River Breeder Reactor Plant Operations Office</th>
<th>Oak Ridge Operations Office</th>
<th>Boston Regional Office</th>
<th>New York Regional Office</th>
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### Summary of GAO's Observations At 10 DOE Fiscal Offices

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