

## ECONOMY

## GAO Criticizes Accounting at Fed Bank

Agency Fears That Lapses  
At Los Angeles Branch  
Could Occur Elsewhere

By JOHN R. WILKE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The General Accounting Office, delving into Federal Reserve Bank irregularities that surfaced in June in California, said it found significant cash reporting and accounting problems at the Los Angeles branch of the Federal Reserve Bank of San Francisco and warned that such lapses could occur at other Fed banks.

The congressional watchdog agency launched its study after the disclosure in June that the Los Angeles branch of the bank was altering balances on reports to the Federal Reserve Board when they didn't agree with its account of cash on hand. The branch handles \$80 billion in cash a year, a hoard second in size only to that at the New York Fed.

The GAO doesn't say that any cash was missing. But a draft report of the GAO's findings says, "The L.A. bank's inability to precisely summarize currency activity from its cash inventory records raises

serious questions about the integrity of its accounting and internal controls." The draft report said that cash reports "were prepared incorrectly at the direction of the L.A. bank's management" and the practice of altering the reports, which are sent to the Fed board in Washington, "had been in place for some time."

## Findings Are Disputed

San Francisco Fed officials rejected the GAO's findings. "We have complete faith in the integrity of our system to account for the cash in our vault," a spokesman said. "There has never been any money missing from the L.A. branch, and no one has ever charged that there's any money missing."

In Washington, the Federal Reserve Board said it had conducted its own audit of the Los Angeles branch this summer, which it said found that "the accounting for the cash handled by the branch was accurate and that proper safeguards and controls exist." The Fed said its audit "was significantly more comprehensive" than the GAO's recent review.

A spokesman for the Fed board said that earlier this year, management at the Los Angeles branch "discovered errors in the methodology used to prepare its reports of cash statistical information to the board." It said that those procedures have

since been revised "and the branch is now filing accurate statistical reports."

## 'Unauthorized Adjustments'

But the GAO found it troubling that the staff has "the ability to cause an original transaction posted to the general ledger to subsequently be deleted" and that no one checked the ledger for unposted transactions. "Thus, certain staff could make unauthorized adjustments that could go undetected," the GAO said.

Moreover, it said, the lapses "raise concerns" about other Fed banks that use the same cash-inventory system and for other Fed banks and branches that use less-sophisticated systems, including some that are still accounting for cash manually. The GAO said that in the three months it studied last year, the monthly currency-activity reports "were prepared and reported incorrectly" and that reported cash receipts from local commercial banks "were not taken from the L.A. bank's cash inventory records — in other words, independently determined—but rather 'forced' to ensure that the currency activity report agreed with the daily balance sheet for the last day of the month." In December, those errors amounted to \$111 million, "a net figure [that] represents a number of errors that were initially obscured" because of the Los Angeles bank's practice of altering

the reported balances.

The draft GAO report documents several serious errors and accounting lapses, including about \$121 million in entry errors in a single month. These included such problems as a clerk entering a cash deposit as \$300,000 instead of \$3 million, or crediting a local bank for \$8.6 million even though it deposited only \$432,000. While this error was corrected, "it resulted in an error being entered in the L.A. branch's general ledger," the GAO said.

Rep. Henry Gonzalez, a Texas Democrat and longtime Fed critic, ordered the

GAO review. He said its findings show it need to put uniform cash-accounting procedures in place at the 12 Fed banks; many of them now use different systems.

Alan Greenspan, the Fed chairman said following the June disclosures that the errors in Los Angeles didn't affect the board's deliberations about the money supply and pointed out that the error totaled less than one-half of 1% of Los Angeles's cash volume.

"No taxpayer money has been lost [and] no key decision-making has been compromised," he said.