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Report to the Congress; by Elmer B. Staats, Comptroller General.

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Authority: Anti-Deficiency Act (31 U.S.C. 665). (P.L. 84-798; 31 U.S.C. 701-708). 31 U.S.C. 628. 31 U.S.C. 712.

The Health Services Administration of the Department of Health, Education, and Welfare has serious weaknesses in its accounting systems. These weaknesses may have led to violations of Anti-Deficiency Act which prohibits Federal agencies from engaging in programs that will lead to deficits in funds.

Findings/Conclusions: To force its own and Treasury's accounts into agreement as of June 30, 1974, the Health Services Administration made unsupported adjustments totaling \$16 million of which \$2 million involved the illegal transfer of funds between appropriation year accounts. Also, the unexpended balance of appropriations as of June 30, 1975, differed from amounts shown on the Treasury's books by \$190 million.

Improvements are needed in accounting for receivables. Officials do not agree that adjustments were illegal, but they indicate that such adjustments are no longer being made.

Recommendations: The Health Services Administration should: improve accounting and reporting of appropriation data so that reports to Treasury are accurate and properly verified; determine the reasons for discrepancies in the FY 74 and FY 75 reports and adjust appropriation accounts as necessary based on the results of the reconciliation; and determine whether a violation of the Anti-Deficiency Act has occurred and adjust accounts as necessary. (Author/SS)

REPORT TO THE CONGRESS



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Improvements Needed In Recording And Reporting Appropriation Data At Fiscal Year End

Health Services Administration
Department of Health, Education, and Welfare

To force its own and Treasury's accounts into agreement as of June 30, 1974, the Health Services Administration made unsupported adjustments totaling \$16 million of which \$2 million involved the illegal transfer of funds between appropriation year accounts. Also, Health Services' unexpended balance of appropriations as of June 30, 1975, differed from amounts shown on the Treasury's books by \$190 million. For one appropriation, there is a possibility that the Anti-Deficiency Act was violated.

The Department of Health, Education, and Welfare has recognized the seriousness of the accounting systems weaknesses and advised the Office of Management and Budget that the systems could allow fraud and misuse of Federal funds.

The Department stated it would improve its accounting and reporting of appropriation data.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-179708

To the President of the Senate and the
Speaker of the House of Representatives

This report describes the extent to which improvements are needed in the Health Services Administration's recording and reporting of appropriation data at the end of the fiscal year.

Our review was made in response to a request from Congressman George H. Mahon, Chairman of the House Committee on Appropriations.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of the Treasury; the Secretary of Health, Education, and Welfare; and the Assistant Secretary of Health, Department of Health, Education, and Welfare.

A handwritten signature in black ink, appearing to read "James B. Atchafalua".

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVEMENTS NEEDED IN
RECORDING AND REPORTING
APPROPRIATION DATA AT
FISCAL YEAR END
Health Services Administration
Department of Health, Education,
and Welfare

D I G E S T

GAO is recommending that the Secretary of Health, Education, and Welfare see to it that the Health Services Administration improve its accounting and reporting of appropriation data and make a determination as to whether it has violated the Anti-Deficiency Act (31 U.S.C 665). The act prohibits agencies from incurring obligations or making expenditures in excess of amounts appropriated by the Congress.

In order to bring its accounting records into agreement with Department of Treasury accounting records, the Health Services Administration made unsupported adjustments to the unexpended balance (i.e., the undisbursed portion) of many of its appropriations. As of June 30, 1974, the unsupported adjustments exceeded \$16 million. Some of these adjustments resulted in the illegal transfer of \$2 million in funds between appropriation accounts. (See pp. 4 to 9.)

As of June 30, 1975, unexpended balances on Treasury and Health Services books differed by \$190 million. GAO found that Health Services did not perform the necessary work to find out why there was such a large difference. (See p. 5.)

Also, as of June 30, 1975, Treasury records showed that one Health Services Administration appropriation was overexpended by \$47 million. Health Services eliminated the overexpenditure, in part, by transferring funds from three other accounts. However, \$18 million of the amount transferred, could not be adequately supported by the Health Services Administration at the time of GAO's review. As of December 31, 1976, Health Services officials were still attempting to determine whether it was valid to transfer

the \$18 million. If the transfers are not valid, a violation of the Anti-Deficiency Act could have resulted. (See p. 5.)

Department of Health, Education, and Welfare officials recognize that there are serious shortcomings in the financial management systems used by its constituent agencies, including the Health Services Administration. The Department, on May 7, 1976, advised the Office of Management and Budget that to improve its financial management systems it needed more funds for the Health Services Administration, the Office of Education, and the Office of the Secretary. In justifying the additional funds the Department said:

- There are many weaknesses in financial management systems and operations which affect ability to insure program integrity and accountability of appropriated funds and which could result in fraud and misuse of Federal funds.
- Accounting reports are virtually useless as a tool to evaluate and monitor program performance because data derived from accounting systems are frequently erroneous, incomplete, and untimely.
- Accountability and fiscal integrity have deteriorated to unacceptable levels, and while more complex systems have been installed, staff to operate these systems have fallen behind and consequently have lost control.

The Department of Health, Education, and Welfare, in commenting on this report (see app. II), stated that although GAO reasonably assessed the problems with the Health Services Administration accounting system, the Department did not agree that as a result of fiscal year 1974 year-end adjustments, funds were illegally transferred between appropriation accounts. After considering the Department's comments, GAO still believes the fund transfers were illegal. (See p. 13.)

The Department, however, agreed in general with GAO's recommendations and stated that the Health Services Administration would improve its accounting and reporting of appropriation data.

CHAPTER 1

INTRODUCTION

Appropriations are available for obligation during the fiscal year or years specified by the Congress in appropriation acts. The Anti-Deficiency Act (31 U.S.C. 665) requires that agencies exercise control over the execution and financing of budgetary programs. The principal purpose of the act is to prevent incurring obligations or making expenditures which would create deficiencies in appropriations and funds.

When an appropriation is no longer available for obligation, it expires. Unobligated amounts of expired appropriations are required to be withdrawn from the appropriation and returned to the Treasury. The Treasury maintains a record of these amounts in an account called Surplus Fund. Withdrawn balances are identified by appropriation and fiscal year and can be restored to the agency to pay amounts properly chargeable to the appropriation.

Under the provisions of the Public Law 798, 84th Congress, 2d Session (31 U.S.C. 701-708), the net balance of unpaid obligations and accounts receivable that are applicable to appropriations which have been expired for 2 years are merged into a separate account called a successor account, along with unpaid obligations and accounts receivable of other previously expired appropriations for the same general purposes. In the same regard, an appropriation's related surplus fund balance is merged with surplus fund balances of similar prior years' appropriations 2 years after the appropriation expires. The act (31 U.S.C. 703(a)) authorizes the heads of agencies to restore funds to successor accounts from surplus fund accounts if the amounts necessary to liquidate unpaid obligations applicable to the years covered by the fund exceed the balances in related successor accounts.

Section 703(a) also requires agencies to review successor accounts at least once each year to determine which amounts, if any, should (1) be withdrawn from the successor account and placed in the related surplus fund account or (2) be restored to the successor account from the related surplus fund account.

Agencies are required to submit a report as of the end of each fiscal year to Treasury showing the status of each appropriation. On the report form sent by Treasury to each agency for completion, Treasury enters the unexpended balance

of funds shown on its (Treasury's) books for each appropriation, including successor accounts. With regard to the Health Services Administration, information on Treasury's books is derived from disbursement data furnished by accounting stations located in cities throughout the United States.

In completing the fiscal year end appropriation status report, appropriation fund resources--which represent the unexpended balance of the appropriation as adjusted by withdrawals and restorations plus accounts receivable--must equal the status of appropriation resources--which represents unpaid obligations and, in those cases where the appropriation is still available for obligation, the unobligated balance of appropriations available for obligations.

Assume, for example, the following situation as of the end of a fiscal year for an appropriation which is expired and no longer available for obligation.

Fund resources

Unexpended balance from Treasury's books	\$1,000,000
Appropriations to be restored	200,000
Receivables	<u>300,000</u>
Total fund resources	<u>\$1,500,000</u>

Status of resources

Unpaid obligations (i.e., accounts payable and undelivered orders)	<u>\$1,500,000</u>
Total status of resources	<u>\$1,500,000</u>

In this illustration, if unpaid obligations had been greater than \$1,500,000, the report would not have balanced, since the status of resources would have been greater than fund resources. This would mean that the Treasury's unexpended balance was less than the unexpended balance shown on the agency's accounting records, except in those cases where the Anti-Deficiency Act was violated. On the other hand, if the receivable balance in this illustration had been greater, the report would also not have balanced meaning that the Treasury's unexpended balance was greater than the unexpended balance shown on the agency's accounting records. When such differences arise, agencies must reconcile their accounting records to determine the reasons for the differences so their accounting records and/or Treasury's records can be adjusted.

to show the correct balance. The year-end appropriation status report is, therefore, used to assure that agency and Treasury accounts are in balance. The report is also used to inform the Treasury of (1) the amount of unobligated balances that are to be withdrawn from appropriations and (2) the amount of funds to be restored to appropriations from the surplus fund.

SCOPE OF REVIEW

Our review was made at Headquarters, Health Services Administration, where the general ledgers and other accounting records were maintained, and where year-end reports were prepared for submission to Treasury. We also visited a field accounting organization in the Washington, D.C., area to test selected transactions. We reviewed the methods used for reporting appropriation data to Treasury at the end of the year and tested transactions and adjustments made to the accounting records.

The Budget and Accounting Procedures Act of 1950 requires that agency accounting systems be approved by the Comptroller General. These systems must conform to the principles, standards, and related requirements prescribed by the Comptroller General. The Health Services Administration's accounting system has not been approved by the Comptroller General.

CHAPTER 2

IMPROVEMENTS NEEDED IN

RECORDING AND REPORTING

APPROPRIATION DATA

The Health Services Administration made unsupported adjustments totaling several million dollars to its accounting records to bring its records and Treasury's accounting records into agreement. In some cases, the adjustments resulted in the illegal transfer of funds to and from successor accounts and other appropriations. Further, our review showed that for one successor account, the Health Services' records included invalid accounts receivable amounting to \$9.8 million.

We also found that if the transfer of \$18 million between appropriations cannot be established as valid, a violation of the Anti-Deficiency Act might occur in the fiscal year 1973 Health Services Delivery appropriation.

UNSUPPORTED ADJUSTMENTS MADE TO APPROPRIATION ACCOUNTS

For many of its appropriations, Health Services' unexpended balances differed from Treasury's unexpended balances as of June 30, 1974. Rather than reconcile these differences to determine what the balances should have been, Health Services, in its status of appropriation report prepared as of the end of fiscal year 1974, reported to Treasury the balance presented them by Treasury.

In order to force the report submitted to Treasury to balance (i.e., appropriation fund resources equal the status of appropriation resources), and to make its records agree with Treasury balances, the Health Services Administration made unsupported adjustments exceeding \$16 million to its appropriation accounts. In making many of the adjustments, fictitious accounts receivable and accounts payable were established, and unsupported amounts were reported as withdrawn from appropriations to the surplus fund and restored to appropriations from related surplus funds. A total of 53 such adjustments were made. The total dollar value of the unsupported adjustments made to each of the appropriations as of June 30, 1974, is shown in appendix I.

For example, as of June 30, 1974, the unexpended balance shown on the Health Services books for the fiscal year

1973 Mental Health Appropriation exceeded the unexpended balance recorded on Treasury's books by \$399,643. Rather than determine the reason(s) for the difference, the Health Services Administration reported the balance that was entered by Treasury on the report and in order to force fund resources to equal the status of resources, established fictitious accounts receivable of \$399,643 in its accounting records and included that amount in balances on the Treasury report. To offset this amount, fictitious accounts payable were recorded in the fiscal year 1974 Mental Health Appropriation for \$95,212 and in the Mental Health Appropriation's successor account for \$304,431.

With regard to the fiscal year 1975 year-end status of appropriation report, we noted in a memorandum from the Department of Health, Education, and Welfare Audit Agency to the Deputy Assistant Secretary, Finance, that amounts reported to the Treasury by the Health Services Administration differed from amounts on the Health Services accounting records by over \$190 million. Health Services officials stated that these differences were not reconciled before preparation of the year-end appropriation report. In other words, the Treasury's unexpended balance was shown on the completed report to the Treasury despite the fact that Health Services accounting records differed by over \$190 million from the amounts shown on Treasury records.

Further, at June 30, 1975, Treasury records showed that the fiscal year 1973 Health Services Delivery appropriation was overexpended by \$47 million. The Health Services Administration had a balance of \$6.5 million in the surplus fund for the fiscal year 1973 Health Services Delivery appropriation and restored this amount to the appropriation, leaving an overexpenditure of \$40.5 million. Health Services eliminated the \$40.5 million overexpenditure by transferring funds from three of its successor accounts. However, \$18 million of the amount transferred could not be adequately justified at the time of our review. As of December 31, 1976, Health Services officials were reconciling the accounting records in an attempt to determine whether the \$18 million was validly transferred. If the transfers cannot be established as valid, the Anti-Deficiency Act (31 U.S.C. 665), which prohibits agencies from incurring obligations or making expenditures which would create deficiencies in appropriations, may have been violated.

In order to properly administer an appropriation, each agency should maintain accurate records which show, among

other things, each appropriation's unexpended balance. (See 7 GAO 17.2, General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.) Since the Health Services Administration did not determine the reason(s) for differences between unexpended balances on Treasury's books and its books, it did not know which, if either, of the balances was correct. The Health Services' practice of making unsupported adjustments to appropriation accounts, therefore, resulted in inadequate accountability for and control over appropriated funds.

The practice of making unsupported adjustments also resulted in distortion of financial data on obligations, receivables, restorations, and withdrawals reported to the Treasury. The Treasury uses data reported by Health Services to prepare consolidated financial reports which are distributed to the Congress and the public.

Further, Health Services Administration procedures violate the intent of 31 U.S.C. 703(a). That act requires agencies to review their successor accounts at least once each year to determine the amount to be withdrawn from appropriations to the related surplus fund or restored to the successor account. As discussed above, the amounts withdrawn and restored by Health Services were not based on a review of its accounts but rather on the decision to balance its books with Treasury's books.

The head of each executive agency is responsible, pursuant to the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a), for establishing and maintaining an adequate system of accounting and internal control. One of the objectives for accounting systems contained in the act is that agency accounting systems should be effectively integrated with the central accounting and reporting operations of the Treasury.

To assure that its unexpended balances at the end of the fiscal year are correct for each appropriation, including successor accounts, Treasury requires that each agency determine whether unexpended balances shown in the agency's records agree with Treasury's balances. If there are differences, Treasury requires that it be informed, and that before an agency can report an amount different than that shown on Treasury's books at the end of the fiscal year, it must first receive Treasury's approval.

Health Services accounting personnel did not notify Treasury of the differences in the unexpended balances, nor was an attempt made to reconcile the amounts shown on the Health Services accounting records with balances shown on Treasury records. Also, there were no written procedures for reconciling the balances, and for most of the adjustments made we found no evidence that they had been reviewed and approved by supervisory personnel.

We discussed these matters with Health Services officials. Acting on our suggestion, they developed written procedures for reconciling differences between their own and Treasury's accounting records at fiscal year end.

ILLEGAL TRANSFER OF FUNDS
BETWEEN APPROPRIATIONS

Of the 53 adjustments made by the Health Services Administration as of June 30, 1974, 17 resulted in the illegal transfer of funds to and from successor accounts and other appropriation year accounts. These transfers amounted to approximately \$2 million. It should be noted that the 17 transfers were not made to cover an overobligation or overexpenditure but were made to force Health Services and Treasury books into balance.

The following table shows the appropriations affected by these transfers and the amount transferred.

<u>Account symbol</u>	<u>Appropriation</u>		<u>Funds Transferred</u>	
	<u>Title</u>	<u>Year (note a)</u>	<u>Into the appropriation</u>	<u>From the appropriation</u>
75-0321	Health Services Planning & Development	No year 1972/1974 1973/1975 1974 Successor	\$ 402,757 - - 48,446 936,195 45,972	\$ - 936,195 45,972 - 402,757 48,446
75-0363	Mental Health	1973 1974 Successor	399,643 - -	- 95,212 304,431
75-3903	Consolidated Working Fund	No year 1974 Successor	5,709 - 152,680	- 152,680 5,709
75-0335	National Health Statistics	1974 Successor	- 9,683	9,683 -
Total			<u>\$2,001,085</u>	<u>\$2,001,085</u>

a/In some cases, the Congress appropriated funds on a no-year basis (i.e., the appropriation was available until fully obligated). In other cases, the appropriation was made available by the Congress for obligation by Health Services for 1, 2, or 3 years.

As indicated on page 4, the Health Services Administration, in making adjustments to balance its accounts with Treasury's accounts on the fiscal year 1974 year-end status of appropriations report, sometimes created fictitious accounts receivable and accounts payable. Moreover, in some cases, the fictitious accounts receivable were subsequently reported to Treasury as having been received and the payables as having been paid, triggering an adjustment to Treasury's records and, thus, in effect, transferring funds between appropriations.

31 U.S.C. 712a restricts the use of annual appropriations to expenditures required for the service of the particular fiscal year for which the appropriations were made. Further, 31 U.S.C. 628 and 628-1 limit the use of appropriated funds to the purposes for which they were appropriated and prohibit

the augmentation of one appropriation with funds from another appropriation, or any other source, unless specifically authorized by law.

The establishment of fictitious accounts receivable in certain appropriation accounts and balancing accounts payable in other appropriation accounts, in effect, augmented the appropriation in which the receivable was established, and allowed, in effect, funds from the account in which the payable was established to be used for the requirements of a different fiscal year. While Health Services entries could have had the same effect as corrections, where Treasury's balance was incorrect, since Health Services did not know whether the balances shown on Treasury's books or its own were correct, adjustments were made and funds were transferred without any basis. Accordingly, we believe that the transfers were illegal.

IMPROVEMENTS NEEDED IN ACCOUNTING FOR RECEIVABLES

The fiscal year 1974 year-end appropriation status report to Treasury included a substantial amount of invalid accounts receivable.

The Health Services Administration requires field accounting units, as part of preparation of the year-end appropriation status report, to review the validity of and report to Health Services on the balance of accounts receivable. Reports from field accounting units are consolidated at Health Services Administration headquarters accounting activity and form the basis for the amounts shown on the report to Treasury.

In order to properly account for receivables, agencies must assure that receivables are accurately recorded and accounting records are maintained so that all transactions affecting receivables for each reporting period are included. (See 2 GAO 12.4, General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.)

We reviewed accounts receivable for the Health Services Planning and Development appropriation successor account and found that \$9.8 million of the \$10.2 million in accounts receivable reported to the Health Services Administration by field accounting units for the appropriation at the end of fiscal year 1974 were invalid and should have been removed from the accounting records in prior years. This \$9.8 million

was included in the balance of accounts receivable reported to the Treasury for the appropriation. We noted that field accounting units had reported these balances without adequate verification of their correctness.

After we discussed this matter with Health Services officials, they made entries to their accounting records to write off the \$9.8 million in invalid receivables. Further, acting on our suggestion, they assigned a task force to verify accounts receivable balances shown on the accounting records for all Health Services Administration appropriations. Officials advised that we would be informed of the results of the task force work.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The Health Services Administration has not given sufficient attention to the review and verification of financial data. There is a need for increased emphasis on verifying and reconciling amounts included on the accounting records and in determining the reasons for differences between Health Services and Treasury unexpended balances. Further, there is a need for the Health Services Administration to improve its accounting for receivables.

Procedures need to be established to provide for an adequate system of accounting and internal control. This includes integration of the Health Services accounting system with the Treasury accounting and reporting system.

Also, if the validity of the \$18 million transferred to the fiscal year 1973 Health Services Delivery appropriation cannot be established and a violation of the Anti-Deficiency Act results, a formal report to the Congress and the President should be submitted as required by the act.

RECOMMENDATIONS

We recommend that the Secretary of Health, Education, and Welfare direct the Health Services Administration to:

- Improve accounting and reporting of appropriation data so that amounts shown in Health Services accounting records and on fiscal year-end appropriation reports to Treasury are accurate and properly verified.
- Determine the reasons for differences between Health Services accounting records and Treasury accounts at the end of fiscal years 1974 and 1975 and adjust appropriation accounts as necessary based on the results of the reconciliation.
- Complete the reconciliation of appropriation accounts for the remaining \$18 million in unsupported fund transfers made at June 30, 1975, relating to the Health Services Administration fiscal year 1973 Health Services Delivery appropriation to determine whether a violation of the Anti-Deficiency Act has occurred, and adjust appropriation accounts as necessary.

As stated previously, acting on our suggestions, the Health Services Administration assigned a task force to verify accounts receivable shown on the accounting records and developed written procedures for reconciling differences between Health Services and Treasury accounting records at fiscal year end. In view of these actions, we are making no further specific recommendations on these matters at this time.

AGENCY ACTIONS AND UNRESOLVED ISSUES

In a letter dated October 14, 1976, the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, concurred in general with our recommendations. (See app. II.) The Assistant Secretary stated that:

- The Health Services Administration would improve accounting and reporting of appropriation data. In this regard, on May 7, 1976, the Department of Health, Education, and Welfare requested additional funds from the Office of Management and Budget to be used to finance additional financial management positions. In doing so, the Department advised that for the Health Services Administration, the Office of Education, and the Office of the Secretary, there are many weaknesses in financial management systems and operations which affect the ability to insure program integrity and accountability of appropriated funds and which could result in fraud and misuse of Federal funds. The Department also told the Office of Management and Budget that (1) accounting reports are virtually useless as a tool to evaluate and monitor program performance because data derived is frequently erroneous, incomplete, and untimely and (2) accountability and fiscal integrity have deteriorated to unacceptable levels and while more complex systems have been installed, staff to operate these systems have fallen behind and lost control.
- The Health Services Administration would reconcile the remaining \$18 million of unsupported fund transfers made at June 30, 1975, relating to the fiscal year 1973 Health Services Delivery appropriation and upon completion will determine whether a violation of the Anti-Deficiency Act has occurred.
- Although the Department did not agree with our suggestion that establishment of a specific task force is necessary to determine the reasons for differences between Health Services records and Treasury accounts at the end of fiscal years 1974 and 1975, he advised

that the Health Services Administration is making corrections to accounting records and that as resources assigned to the reconciliation of accounts receivable are available, they will be directed to other areas. Health Services Administration officials further advised that they intend, as recommended by us, to reconcile Health Services and Treasury records as resources become available. Since the Department feels it can best accomplish the recommended action without establishing a specific task force, we do not insist that one be established.

The Assistant Secretary further stated that although our report reasonably assesses the problems encountered with the accounting system, the Department does not agree with us that year-end adjustments in fiscal year 1974 resulted in illegal transfer of funds between appropriation year accounts. The Assistant Secretary in his letter described the relationship between agency and Treasury accounting systems and the process for reconciling accounting records and stated that (1) funds were not transferred between appropriations, (2) total expenditures remained in agreement with Treasury totals, and (3) there were no increases in obligational authority in any of the appropriation year accounts in which adjustments were made.

With regard to the Assistant Secretary's contention that funds were not transferred between appropriations, as discussed on pages 7 through 9 we found that funds were in fact transferred between appropriation year accounts. Funds are appropriated by fiscal year and the integrity of appropriations by fiscal year must be maintained. By law, the use of annual appropriations is restricted to expenditures required for the service of the particular fiscal year for which they were made and the augmentation of one appropriation with funds from another appropriation is prohibited.

The issues raised by the Assistant Secretary regarding total expenditures and the lack of increases in obligational authority resulting from the unsupported adjustments do not bear on the illegality of the fund transfers. We are not saying that total expenditures were increased or that obligational authority was increased. We are saying that funds were in effect transferred between appropriation year accounts and that this violates certain statutes as discussed on pages 8 and 9.

Health Services officials advised us that although they do not agree the adjustments were illegal, they are no longer making the type of adjustment questioned by us.

UNSUPPORTED ADJUSTMENTS MADE TO APPROPRIATIONS AS OF JUNE 30, 1974

Account Symbol	Appropriation Title	Year	Number of adjustments	Adjustments to unobligated balances		Increases to accounts receivable	Increases to accounts payable	Total value of adjustments
				Withdrawals	Restorations			
75-0321	Health Services Planning and Development	No year a/1972-74 Successor	1 7 7	\$ - .8 1.7	\$ - .5 -	\$.4 .7 1.3	\$ - 1.3 1.1	\$.4 3.3 4.1
75-0350	Health Services Delivery	a/1972-74 Successor	7	2.6	- 1.3	-	1.8	4.4 1.3
75-0363	Mental Health	a/1972-74 Successor	4 2	- -	.6 .2	.4 -	.1 .3	1.1 .5
75-3903	Consolidated Working Fund	a/1972-74 Successor	4 2	- -	- -	-	.2 -	.2 .2
75-0390	Indian Health Services	a/1972-74	3	.1	.2	-	-	.4
	b/Various other Health Services appropriations	a/1972-74 Successor	13 3	.2 .1	- .1	- -	- -	.2 .2
			<u>53</u>	<u>\$5.5</u>	<u>\$2.9</u>	<u>\$3.1</u>	<u>\$4.8</u>	<u>\$16.3</u>

a/This represents all appropriations made for fiscal years 1972 through 1974 and includes multiyear as well as single year appropriations.

b/These include: 75-0300, St. Elizabeth Hospital; 75-0323, Chronic Diseases; 75-0335, National Health Statistics; 75-0367, Office of the Administrator; and 75-0379, Retirement Pay and Medical Benefits for Commissioned Officers.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

OCT 14 1976

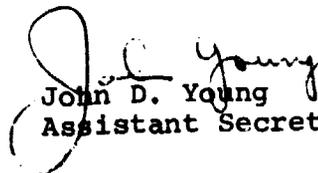
Mr. Donald L. Scantlebury
Director, Division of Finance
and General Management Studies
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Improvements Needed in the Health Services Administration's Recording and Reporting of Appropriation Data at the End of the Fiscal Year." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,


John D. Young
Assistant Secretary, Comptroller

Enclosure

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE COMMENTS ON GAO DRAFT REPORT ENTITLED, "IMPROVEMENTS NEEDED IN THE HEALTH SERVICES ADMINISTRATION RECORDING AND REPORTING OF APPROPRIATION DATA AT THE END OF THE FISCAL YEAR"

GENERAL COMMENTS

The draft report on the Health Services Administration (HSA) system of recording and reporting appropriation data reasonably assesses the problems encountered with the accounting system. We generally accept the conclusions and recommendations included in the report and have implemented or are in the process of implementing certain corrective actions. However, we do not concur with GAO's finding that as a result of year end adjustments in fiscal year 1974, illegal or unauthorized transfers of funds were made between appropriation years. It is within the authority of the Fiscal Officer to make adjustments that are required to correct improper charges to appropriation accounts.

Each government agency is required to submit an annual report on the status of its appropriation and fund balances. The preclosing unexpended balances included on the report are provided by the Treasury, and are derived from monthly Statements of Transactions which are submitted by each organizational unit authorized to make disbursements. These statements are used by the Treasury to charge the individual appropriation account as reported and should agree with the total amount disbursed by Treasury in a given month. This agreement must occur because the Treasury does not initiate the transfer of any monies, but makes disbursements only at the direction of the agency. Therefore, if a reconciliation is made and corrective action is taken by each accounting point to assure that all payments processed by Treasury have been properly recorded in the accounting system, there should be agreement at fiscal year end between Treasury's unexpended balance and that of the agency's cash balances in the mechanized records.

The Schedule of Payments is one of the basic documents used to authorize the Treasury to make individual payments. These schedules are issued by each accounting point that has the authority to certify vouchers for payment. The payments are lumped together in one account under the Certifying Station Symbol. To distribute this total to the appropriation account, each accounting point must manually summarize each of the individual schedules by appropriation and by appropriation year, and then submit a Statement of Transactions. Each accounting point is required to reconcile its Statement of Transactions with the Treasury balance each month, and to reconcile the statement with its cash account in the mechanized records. In actual practice this does not always happen at all accounting points. If the monthly cash reconciliations are not made the errors will not be discovered or corrected.

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At the close of fiscal year 1974, not all accounting points had completed their reconciliations between the mechanized records and the Statement of Transactions. However, the statements had been reconciled to the Treasury balances. Therefore, it was decided that if there were differences between the Treasury's appropriation balances on the Status of Appropriation Report and the accounting records, adjustments to bring the accounting records into agreement with the Treasury balance would be made. Because of the limited time and resources, the follow-on corrective actions were delayed. However, funds were not transferred between appropriations and the total expenditures remained in agreement with the Treasury total. In addition, there were no increases in obligational authority in any of the appropriation years where the adjusting entries were made. It is for these reasons we cannot agree with the GAO findings of illegal and unauthorized transfer of funds.

GAO RECOMMENDATION

Improve accounting and reporting of appropriation data so that amounts shown in the Administration's accounting records and on fiscal year end appropriation reports to Treasury are accurate and properly verified.

DEPARTMENT COMMENT

We concur. However, additional resources are required if HSA is to make rapid progress in this area. The Office of Management and Budget is now considering a supplemental appropriation request for 30 additional positions for the HSA Finance Office. A supplemental appropriation request will be submitted to the Congress requesting the additional resources. In addition, the Department is investigating the possibility of computerizing the Schedule of Payments for the regions, and HSA is in the process of programming its computer to produce this report. Written procedures have been developed and distributed to all accounting points for the completion of reconciliations, and HSA has nearly completed its review of accounts receivable.

GAO RECOMMENDATION

Assign a task force to determine the reasons for differences between Administration accounting records and Treasury accounts at the end of fiscal years 1974 and 1975 and make correcting adjustments to appropriation accounts as necessary based on the results of the task force's reconciliation.

DEPARTMENT COMMENT

We do not concur that a task force is necessary. HSA assigned available resources to verify all accounts receivables shown on the accounting records at the suggestion of GAO. As this task is completed these

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resources will be directed to other areas. Reconciliation of the Statement of Transactions to the Treasury expenditure totals for all accounting points was completed at the close of fiscal years 1974 and 1975. Correcting entries to the accounting records are being made.

GAO RECOMMENDATION

Develop written procedures for reconciling differences between Administration and Treasury records at fiscal year end.

DEPARTMENT COMMENT

We concur. Written procedures have been developed and distributed to all accounting points.

GAO RECOMMENDATION

Complete the reconciliation of appropriation accounts for the remaining \$18 million in unsupported fund transfers made at June 30, 1975, relating to the Administration's fiscal year 1973 Health Services Delivery Appropriation to determine whether a violation of the Anti-Deficiency Act has occurred, and make correcting adjustments to appropriation accounts as necessary.

DEPARTMENT COMMENT

We concur. HSA will reconcile fund transfers made at June 30, 1975 which relate to FY '73 appropriations. Upon completion of the reconciliation, a determination will be made as to whether a violation of the Anti-Deficiency Act has occurred.

TECHNICAL COMMENTS

On page 5 of the draft report the first paragraph implies that HSA had a choice in the data to be used on the report. However, the preclosing balance referred to here by GAO is furnished by the Treasury and must be used. Therefore, we believe this last sentence should be deleted.

[See GAO note below.]

GAO note: The page number in the draft corresponds to page 4 in the report. We disagree with the Department concerning use of Treasury balances. Page 6 of the report summarizes Treasury requirements for reporting appropriation balances. The appropriation balance furnished by Treasury must be verified with agency records and any differences reported to the Treasury. The Health Services Administration did not do this.

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SECRETARY OF HEALTH, EDUCATION,
AND WELFARE:

Joseph A. Califano, Jr.	Jan. 1977	Present
David Mathews	Aug. 1975	Jan. 1977
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Elliot L. Richardson	June 1970	Jan. 1973

COMPTROLLER:

John D. Young	Oct. 1973	Present
James B. Cardwell	Aug. 1970	Oct. 1973

ASSISTANT SECRETARY FOR HEALTH:

Dr. James F. Dickson (acting)	Jan. 1977	Present
Theodore Cooper	May 1975	Jan. 1977
Vacant	Feb. 1975	Apr. 1975
Charles C. Edwards	Apr. 1973	Jan. 1975
Vacant	Jan. 1973	Mar. 1973
Merlin K. DuVal	June 1971	Dec. 1972

DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY:

W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	May 1974	Jan. 1977
George B. Schultz	June 1972	May 1974
John B. Connally	Feb. 1971	June 1972

UNDER SECRETARY FOR MONETARY
AFFAIRS:

Anthony M. Solomon (acting)	Jan. 1977	Present
Edwin H. Yeo III	Aug. 1975	Jan. 1977
Vacant	July 1975	Aug. 1975
Jack F. Bennett	July 1974	June 1975
Paul A. Volcker	Jan. 1969	June 1974

FISCAL ASSISTANT SECRETARY:

L. D. Mosso	July 1975	Present
John K. Carlock	June 1962	June 1975

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
COMMISSIONER, BUREAU OF GOVERNMENT FINANCIAL OPERATIONS (note a):		
Dario A. Pagliai	Mar. 1975	Present
L. D. Mosso	Mar. 1971	Mar. 1975

a/Under Treasury Department Order 229, effective January 14, 1974, the Bureau of Accounts was incorporated into the newly established Bureau of Government Financial Operations.