

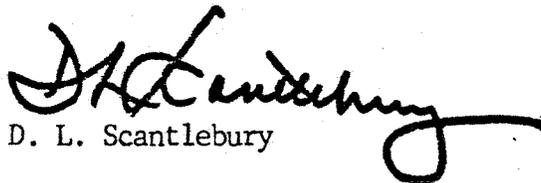
Memorandum

AUG 8 1980

B-199967-0.m DEC. 3, 1980

TO : General Counsel

FROM : Director, FGMS Division - D. L. Scantlebury



SUBJECT: Request for Opinion on Certification Requirements of Section 1311 of the Supplemental Appropriation Act, 1955

During our review of Defense procedures for recording, accounting for, and certifying obligations (code 903930), we identified several issues related to agencies year-end certification procedures, which have been discussed informally with Richard Cambosos of your staff. Because these issues may affect the proposed Financial Integrity Act and the revised GAO Policy and Procedures Manual, Title VII, we would appreciate your response as soon as possible.

CERTIFICATION REQUIREMENTS

Section 1311 of the Supplemental Appropriation Act of 1955 (31 U.S.C. 200), as amended, requires that agency heads certify, in writing, that any statement of obligations submitted to the Office of Management and Budget or the Congress is accurate. Section 1311 (b) states that:

"Hereafter, in conjunction with the submission of all requests for proposed appropriations to the Office of Management and Budget, the head of each Federal agency shall report that any statement of obligations furnished therewith consists of valid obligations as defined in subsection (a) of this section."

Section 1311 (c) states that:

"Each report made pursuant to subsection (b) of this section shall be supported by certification of the officials designated by the head of the agency, and such certifications shall be supported by records evidencing the amounts which are reported therein as having been obligated. Such certifications and records shall be retained in the agency in such form as to facilitate audit and reconciliation for such period as may be necessary for such purposes. The officials designated by the head of the agency to make certifications may not redelegate the responsibility."

Section 1311 (e) states that:

"Any statement of obligations of funds furnished by any agency of the Government to the Congress or any committee thereof shall include only such amounts as may be valid obligations as defined in subsection (a) of this section."

Section 1311 does not provide specific criteria on how agency heads would assure themselves that all valid obligations are included in statements of obligations.

Agencies interpretation of Section 1311

Agencies have generally interpreted Section 1311 as requiring a one hundred percent review of unliquidated obligations at least once a year. These verifications consist of tracing each posted unpaid obligation amount to source documents.

Most agencies use a system of pyramiding certifications as a basis for certifying overall appropriation account balances to the Treasury and OMB. This usually involves verification and certification at the installation level, consolidation and certification at intermediate levels, and consolidation, adjustment, if necessary, and certification at agency level. The agency heads base their overall certification primarily on the assumption that the lower level activities have performed the required verifications and consolidations.

During our review, we found that agencies were not complying with their own requirements for verifying one hundred percent of the unliquidated obligations. Agencies have generally been unable to perform such a verification primarily because of:

- the network of complex automated fund accounting systems which have evolved in the Government since the enactment of Section 1311,
- the decentralization of agencies' accounting systems and related documentation,
- the enormous growth in the volume of transactions, and
- the limited agency personnel resources.

Because the detailed verifications have generally not been achieved, agency heads, knowingly or unknowingly, have been certifying to unsupported and/or erroneous appropriation account balances.

POSSIBLE USE OF OTHER VERIFICATION METHODS

Statistical sampling is a reliable method for determining the accuracy of a total balance (total file) within a predetermined tolerance

level. By establishing an acceptable confidence level and error rate and randomly selecting an appropriate sample size, the reasonableness of the reported total balance can be accurately projected.

GAO endorses the use of statistical sampling for auditing vouchers, GAO Policy and Procedures Manual, Title 2, Section 12.2 and Title 3, Sections 48-51. Further, 31 U.S.C. 82 b-1 authorizes the use of statistical sampling in the examination of vouchers when it is determined to be in the interest of economy. See appendix 1 for copy of GAO Policy and Procedures Manual, Title 2, Section 12.2 and Title 3, Sections 48-51.

We believe that statistical sampling could also be used for determining the validity of obligation balances, particularly the numerous lower dollar amount items, and would meet the intent of 31 U.S.C. 200. The use of statistical sampling would provide a reliable method for determining the accuracy of the obligation balances without performing a one hundred percent review.

LEGAL QUESTIONS

1. Does Section 1311 require that agencies verify one hundred percent of the unliquidated obligations before certifying to the validity of the obligation balances?
2. Can agencies use statistical sampling for determining the validity of the obligation balances and to satisfy the intent of the Section 1311 certification requirement?
3. Must agencies perform a separate verification review each time (i.e. monthly) they submit a statement of obligations to the Congress, OMB, or the Treasury or is one review a year sufficient to satisfy Section 1311?

cc Mr. Simonette (FGMSD)
Mr. Lowe (FGMSD)

December 3, 1980

Indorsement

Director, FGMSD

Returned. For the reasons stated below, your questions are answered as follows:

1. Section 1311 does not require agencies to verify 100 percent of the unliquidated obligations individually before certifying to the validity of the obligation balances.

2. Agencies may use statistical sampling for the purpose of giving qualified certifications of obligations balances in order to satisfy the requirements of section 1311 (31 U.S.C. § 200).

3. Verifications should be performed as often as is necessary to assure that the information produced by the accounting system is accurate within certain pre-established limits for the purpose of making certifications under section 1311. However, it is only reports submitted by agencies in connection with the submission of requests for proposed appropriations which must be supported by 31 U.S.C. § 200(c) certifications.

While section 1311(c) (31 U.S.C. § 200(c)) requires that certifications under subsection (b) of that section be supported by records evidencing the amounts reported as obligated and that the records and certifications be retained by the agency in a form that facilitates audit and reconciliation, it does not specify that a 100 percent verification be made of the amount certified as obligations (based on information produced by the agency's accounting system) against the underlying records.

In fact, the law does not specify how the person making the certifications is to satisfy himself that the amount certified meets the requirements of 31 U.S.C. § 200(c). However, since the certification requirement was included in the law apparently to impress on agencies the need to provide the most accurate information on obligations available, it seems incumbent on agencies to provide the best information they can in statements of obligations provided to the Congress. What the best information is would depend on the circumstances affecting each agency. While 7 GAO Section 17.3 requires that the totals of the obligation documents shall be reconciled with the controlling accounts periodically and as of the end of the fiscal year, we have been informed by Mr. Pugnetti of your staff that agencies are not doing this and, as a practical matter, many could not.

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As we pointed out in B-197559-O.M., May 13, 1980, there is nothing to preclude agencies from making qualified certifications indicating that the amount of obligations certified might contain inaccuracies or variations up to some amount. This would be preferable to failing to make certifications altogether if the agency could not do 100 percent verification reviews of the amount certified. Statistical sampling would provide the basis for qualified certifications of obligations. Such certifications should indicate that they were based on valid statistical sampling and that the amounts certified are subject to some stated amount of error.

If an agency complies with the accounting principles, standards, and related requirements in title 2 of the GAO Policy and Procedures Manual, systematically records obligations on the basis of the proper documentation as prescribed by law, and has instituted proper procedures to assure accuracy in these recordations, we see no reason why, in certifying obligated balances of appropriations, it should not be permitted to rely on the information generated by this system without having to check every item. (In such a situation, statistical sampling would appear also to be useful for testing the agency's system to determine if it is functioning properly and, where it is not, to indicate what additional review and corrections are necessary.)

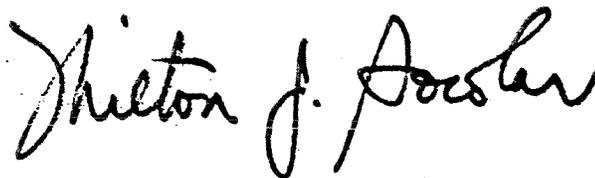
As to how often the system should be sampled, this would seem to depend on the demonstrated accuracy of the system and the time over which significant changes in the accuracy of that system can be expected. (Significant changes would be those which exceeded the pre-established acceptable variations between amounts indicated in accounting balances and those shown by the underlying documentation.)

Thus, initially, agencies might have to perform statistical sampling on a regular (though not necessarily monthly) basis in order to determine the frequency with which future samples should be taken. If the samples indicate that the system is producing data that will remain within pre-established limits of acceptability, and that this is unlikely to change over a three, six, or nine-month period or over the year, then it would seem that the system could be relied on during those periods of time. Based upon this, a qualified certification could be made, giving the amount of obligations as currently produced by the system and indicating possible variations in that amount based on the last statistical sampling performed.

However, as indicated above, 31 U.S.C. § 200(c) requires certifications only of reports submitted by agencies to the Office of Management and Budget (OMB) in connection with requests for proposed appropriations.

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Thus statements to Congress or Treasury, and statements not made in connection with appropriation requests are not required to be certified as to their accuracy by 31 U.S.C. § 200. It is not clear from your submission whether the monthly statements furnished OMB are in connection with appropriation requests. If they are, then they must be certified as required by 31 U.S.C. § 200(c); if they are not, then they are not required by 31 U.S.C. § 200(c) to be certified.

A handwritten signature in cursive script, reading "Milton J. Posner". The signature is written in black ink and is positioned above the printed name.

General Counsel