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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20546

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

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B-179343

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The Honorable
The Secretary of State 32

Dear Mr. Secretary:

In our February 13, 1975, report to you (B-179343) we pointed out that the Department of State (State), which provides accounting services at overseas locations for both State and the United States Information Agency (USIA), is not recording obligations for separation allowances for foreign national employees when they earn rights to be paid in the future, but is instead delaying the recording of obligations until the allowances are paid. As a result, the reported obligations have been consistently understated, and the Congress was not informed of the significant liability that exists for the eventual payment of separation allowances. At June 30, 1973, estimated unrecorded obligations for separation allowances was approximately \$7 million. 32

Because of the delay in recording obligations for separation allowances, we believe that State and USIA administrative controls over appropriated funds are inadequate and we recommended that you direct the diplomatic posts to record all unrecorded obligations for separation allowances, and record all future obligations when they are incurred.

We made similar recommendations in a report to the Congress (B-179343, October 21, 1974) which pertained to accounting for separation allowances in the Department of Defense. Defense concurred with our recommendation to record all separation allowance obligations at the time employees earn rights to be paid in the future.

see p. 5

In a letter to the Chairman of the House Committee on Appropriations, dated April 7, 1975, the Assistant Secretary of State for Administration said that, for several reasons, State was unable to concur with our recommendations. H-00303

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BEST DOCUMENT AVAILABLE

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We disagree with the reasons advanced by the Assistant Secretary and still believe that State should change its accounting system so as to properly account for separation allowances.

SEPARATION ALLOWANCE OBLIGATIONS
SHOULD BE CHARGED AGAINST
APPROPRIATION IN YEAR EARNED

The Assistant Secretary believes that obligations for separation allowances should be charged against the appropriation available in the year when the allowances are paid, and not in the year when earned. His position appears to be that no obligation arises when separation allowances are earned because there is then no definite amount to be paid in the future when the employee separates. The amount is not definite because over the long period between the time the employee earns any increment of separation allowance and the time he separates there will be changes in salary, additional years of service, and fluctuations in currency rates of exchange--all of which are factors that operate in the future to increase or decrease the amount that actually will be paid.

The Assistant Secretary also advised that additional administrative expenses would be incurred in order to maintain those records needed to support the recording of obligations at the time separation allowances are earned.

As noted in our previous report to you, we have consistently held that an appropriation is obligated when a definite commitment is made or a legal liability incurred to pay funds therefrom. (See 18 Comp. Gen. 363, 38 id. 81.)

Section 1311(a) of the Supplemental Appropriation Act, 1955, (31 U.S.C. 200(a)), states:

"* * *no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of

"(1) a binding agreement in writing between the parties thereto, including Government agencies, in a manner and form and for a purpose authorized by law, executed before the expiration of the period of availability for obligation of the appropriation * * * concerned * * * for * * *"

"(7) employment or services of persons * * *."

Since separation allowances are covered by binding agreements and, with minor exception, will be paid to each employee eventually, liabilities for future payment of separation allowances meet the criteria for valid obligations of section 1311 of the Supplemental Appropriation Act of 1955. Obligations for separation allowances should, therefore, be recorded when they are earned.

We appreciate the difficulties the Assistant Secretary refers to in trying to estimate the amount of separation allowance that eventually will be paid to each foreign employee. We recognized that this was also a problem in Defense and, in our report to the Congress, we recommended a rather simple and effective method for estimating the amount of separation allowances that are to be recorded each year as obligations.

2 We recommended that the Secretary of Defense require that the amount of obligations for separation allowances recorded against current appropriations be equal to the total increase in the liability for separation allowance payments. Each year the increase in liability will be computed as the difference between the amount of separation allowance that would have been paid if all employees terminated employment as of the end of the current year and such liability owed on the last day of the previous fiscal year. This method, which excludes such unknown factors as future changes in pay and exchange rates, would automatically take into account year-to-year changes in the amount owed for separation allowances, and provide a means for arriving at a definite amount to be obligated. 5

Although our recommended method of obligating for separation allowances might cause some additional administrative expense as suggested by the Assistant Secretary, this fact does not justify delaying the recording of obligations until separation allowances are paid. We believe, however, that little or no additional cost would be incurred in accounting for separation allowances if the above procedures are used.

SEPARATION ALLOWANCES ARE
NOT UNFUNDED LIABILITIES

The Assistant Secretary believes the accounting treatment for separation allowances should be the same as that used for severance pay and accrued annual leave to be paid in a lump sum to Federal employees. Severance pay and accrued annual leave are considered unfunded liabilities and the Office of Management and Budget requires that obligations for these elements of expense not be recorded until time of payment.

We do not agree that accounting procedures for separation allowances should be the same as those used for severance pay and accrued annual leave for Federal employees. Although under 5 U.S.C. 5595 United States citizens accrue credits (weeks of severance pay which may be paid in the future) during the years they are employed in the Federal Service, the credits so accrued give rise to only a remote potential that the employees will receive any severance pay. It is actually paid only in the unlikely event they are involuntarily separated from the service through no fault of their own (as when there is a reduction-in-force), and then only when they are not entitled to an immediate retirement annuity and are not offered a position of pay and tenure equal to that of the position from which separated. Not only is payment of any severance pay to any individual or particular group of employees unlikely to occur, but such amounts as will be paid in the future are altogether unpredictable. As noted in our previous report to you, separation allowances of foreign nationals are owed when accrued and, except in rare cases of employee misconduct, will be paid in the future after they are accrued. Such accruals create a definite commitment and legal liability to pay the separation allowances, so that an obligation arises at the time of accrual.

Although accrued annual leave to be paid to Federal employees represents a somewhat more definite liability at the time of accrual than does severance pay, both the Office of Management and Budget and our office recognize that the Congress has permitted Federal agencies to accrue annual leave liability without charging the appropriation at the time of accrual. The Congress, however, has not sanctioned any delay in recording and charging current appropriations with the amount of separation allowances earned by foreign national employees during the fiscal year.

CONCLUSIONS

The Department of Defense which employs most of the foreign nationals who are entitled to separation allowances has accepted our recommendation to record obligations for separation allowances when they are incurred. The Committee on Appropriations, House of Representatives, has also expressed concurrence in our recommendations. (See House Report No. 94-517, September 25, 1975, pp. 149-150.)

We believe that State's accounting system should also provide for the proper accrual of separation allowances. By recording against current appropriations an amount equal to the total increase in the liability for separation allowance payments, State would be able to take into account year-to-year changes in the amount owed for separation allowances and would be able to effect better administrative control of funds. We believe this change in accounting for separation allowances should be made before the accounting system is submitted to the Comptroller General for approval.