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Report to the Chairman, Committee on
Government Operations, House of
Representatives

January 1988

FUND ACCOUNTABILITY

Procedures Used for Selected Benefit/ Mandatory Spending Programs Are Adequate



RELEASED

Accounting and Financial
Management Division

B-221204

January 27, 1988

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Your April 20, 1987, letter requested that we survey entitlement programs at selected agencies to verify whether they are exercising proper fund accountability by charging entitlement payments against the proper year's spending authority. You also asked us to determine whether amounts authorized for expenditure for these programs are being exceeded. If agencies are not maintaining proper fund accountability or are exceeding authorizations, you wanted to know (1) the effect on the budget deficit, (2) whether a potential violation of the Anti-Deficiency Act (31 U.S.C. 1341) has resulted, and (3) whether agencies are recording payments to the subsequent fiscal year's authorization in order to avoid violating the act.

Our survey included seven major social welfare programs¹ at the Departments of Health and Human Services (HHS) and Education. These programs had a proposed combined budget authority for fiscal year 1988 of \$49.3 billion. (See appendix I.)

We found that a proper fund accountability framework existed for the seven programs. Several factors significantly contributed to our conclusion.

- Procedures established by HHS and Education for these programs were sufficient to prevent overobligation of funds.
- Five of these programs provide grants to states in specific amounts, which limits the total payments that can be charged to the programs.
- For the other two programs, funding flexibility has been provided by the Congress through budget authority language contained in the appropriation acts.

Other agencies, including the Departments of Agriculture, Labor, and the Treasury and the Veterans Administration (VA), have entitlement,

¹For purposes of this report, social welfare programs include the education programs administered by the Department of Education.

benefit payment, and mandatory spending programs. We found that funding flexibility provided by the Congress through legislation contributed to a sound basis for maintaining fund accountability for a number of these programs at those agencies. In addition, the Congress has established trust funds having no-year, indefinite appropriation authority² through which payments under some of these types of programs are being made. This facilitates proper fund accountability as long as there are sufficient funds in the trust fund to continue making payments.

Since one indication of funding problems would be a state receiving funds late, we obtained the views of officials from the Commonwealth of Virginia. They indicated that Virginia generally has not experienced problems receiving funds from federal agencies promptly.

These matters are discussed further in the following sections. In addition, this report highlights (1) two recent General Accounting Office (GAO) reports which identify entitlement and benefit payment program fund control weaknesses, (2) a recent Comptroller General decision involving the Anti-Deficiency Act's application to mandatory spending programs, and (3) the potential impact of fund accountability problems on budget deficit computations.

Objective, Scope, and Methodology

The objective of this report is to discuss fund accountability procedures of selected agencies and funding flexibility provided by the Congress for many benefit payment, entitlement, and mandatory spending programs. We analyzed fund accountability procedures for major entitlement and education programs administered by HHS and Education. These agencies were selected because they account for the majority of funds spent for social welfare and education.

Our survey work at HHS and Education included identifying and evaluating fund accountability processes and procedures, testing whether these procedures were working properly, and reviewing fund control reports for unusual items such as negative balances. We also obtained general information on benefit payment, entitlement, and mandatory spending programs at other federal agencies.

²An indefinite appropriation authority is authority for which a specific sum is not stated but is determined by other factors. No-year appropriation authority means that there are no fiscal year limitations on the time during which the funds in the account remain available for obligation.

We excluded programs at HHS and Education which were funded through trust funds because they have been given no-year, indefinite appropriation authority. We also did not include programs which were expected to disburse less than \$1 billion in fiscal year 1988. Although HHS' Supplemental Security Income program met our criteria for being included, it was not reviewed because its appropriation language for fiscal year 1987 had provisions similar to those found in two other HHS entitlement programs (Grants to States for Medicaid and Family Support Payments to States) that were part of our work.

Our survey was performed from May 1987 through September 1987. The survey was performed at HHS and Education headquarters in the Washington, D.C., area in accordance with generally accepted government auditing standards.

Agency Control Systems

Our survey disclosed that HHS' and Education's procedures were adequate to ensure that proper fund accounting was being performed.

Education, for example

- uses appropriation warrants provided by the Department of the Treasury and the apportionment document issued by the Office of Management and Budget (OMB) as its foundation for fund accounting;
- uses two independent organizational groups in calculating the amount of formula grants expected to be awarded in order to ensure that each grantee is provided the proper funds and that the amount of the individual grants will not exceed the funds available;
- compares the amount of a proposed obligation to the funds available before incurring an obligation;
- requires grantees to submit quarterly expenditure reports disclosing the cost incurred for a given grant, which in turn relates to the program activities authorized; and
- uses its accounting system to identify cases in which an obligation may exceed funds available, which would detect a significant breakdown in the just-mentioned controls.

HHS uses similar procedures. In addition, our review of fund accountability reports produced by the systems at both HHS and Education to account for programs reviewed disclosed no instances where obligations were being incurred in excess of available funds. We also verified that information reported to the Department of the Treasury and OMB on

these programs was consistent with data produced by these agencies' accounting systems.

Formula Grant Programs

Five of the seven social welfare programs we surveyed at HHS and Education were funded by grants provided to the states in specific amounts. (See appendix I.) This includes, for example, HHS' Social Services Block Grant Program and Education's Compensatory Education for the Disadvantaged Program.

The funds a grantee receives under most of these programs are determined by a formula contained in the law. For example, Education's programs basically take the number of children meeting given criteria, such as those whose families' incomes are below the poverty level, and multiply it by an amount determined to be available per child. It is then up to the grantee to provide the level of service prescribed by law.

If a state needs additional funds to provide services under these programs, it must use its own funds. The federal government is not required to provide supplemental funding. For such programs, agencies—by limiting the amount of funds awarded to the amount appropriated—can readily control the total expenditures that will be incurred. This is possible because (1) the amount of funds that will be provided to a particular grantee is known well in advance and (2) the maximum amount that will be disbursed to a grantee is limited by the grant award.

Funding Flexibility Provided by the Congress

We reviewed the legislation for 16 social welfare and mandatory spending programs, each having a fiscal year 1988 budget estimate exceeding \$1 billion. These programs were administered by HHS, Treasury, Education, and Labor. We found that the Congress had provided funding flexibility for 11 of these programs. Although the specific statutory language in these cases varied, it fell into two broad areas: (1) authority to make payments through trust funds having no-year, indefinite appropriation authority and (2) other authority to obtain the necessary funds for entitlement programs without additional congressional action.

Examples of entitlement programs funded through trust funds having no-year, indefinite appropriation authority are HHS' social security programs and the Department of Labor's unemployment programs. Trust funds such as these are generally allowed to pay benefits as long as money is available in the trust fund. In addition, the Unemployment

Trust Fund is allowed to borrow from the Treasury if its fund balances are insufficient to make the benefit payments.

An example of an entitlement program which is granted special funding authority in its appropriation act is HHS' Family Support Payments to the States. In addition to specifying an amount to be made available for this program, a fiscal year 1987 appropriation act authorized HHS to incur unanticipated costs, in such amount as may be necessary, to make payments related to the program during the last quarter of that fiscal year. Likewise, under the Department of the Treasury's Earned Income Credit Program, Treasury is authorized to expend amounts necessary to provide refunds where the earned income credit exceeds the taxpayer's tax liability. Authority such as this allows an agency to incur and pay the amounts necessary to cover actual costs incurred. Therefore, the potential for obligations to exceed authorizations is eliminated or significantly lessened.

Previously Reported Problems

While we did not identify any additional problems during the survey, two recent GAO reports discuss entitlement and benefit payment fund control problems similar to those in which you are interested. One involves payments to states by the Department of Agriculture's Food and Nutrition Service under its Child Nutrition Programs. The other relates to delayed processing of benefit payments under VA's compensation and benefit programs.

In a March 17, 1987, report,³ we stated that the Food and Nutrition Service had been paying for meals provided as part of the Child Nutrition Programs in September of each fiscal year with funds from the subsequent year's appropriation without the authority to do so. We concluded that since specific legislative authority allowing Agriculture to use the subsequent fiscal year's funds expired in fiscal year 1982, the Service's actions had violated the Anti-Deficiency Act, which provides that no officer of the government may authorize an expenditure or obligation exceeding an amount available in an appropriation or involve the government in an obligation for the payment of money before an appropriation is made unless authorized by law. (See related discussion in the following sections.)

³Anti-Deficiency Act: Agriculture's Food and Nutrition Service Violates the Anti-Deficiency Act (GAO/AFMD-87-20).

We recently completed a review of the Service's overall accounting operations, which includes accounting for entitlement payments made under its food stamp and supplementary nutrition assistance programs. We will provide you a copy of that report when it is issued.

In a July 29, 1987, report on the results of our financial audit of VA's fiscal year 1986 financial statements,⁴ we noted that VA terminated processing benefit entitlements under its compensation and benefit programs late in fiscal year 1986. As scheduled, the disbursement of these entitlement payments was made on October 1, 1986. Normally, these payments would have been obligated against and paid out of funds available for fiscal year 1986. This raised a question as to whether the fiscal year 1987 appropriation was available for those payments.

This issue, as it relates to the Anti-Deficiency Act, is presently under further examination. We will advise you of the results when available.

Anti-Deficiency Act and Budget Deficit Considerations

Although we found that agencies were generally maintaining adequate fund accountability for the programs surveyed, we considered the effect of the Anti-Deficiency Act's provisions and the accuracy of budget deficit calculations if this were not the case. Regarding the potential for an Anti-Deficiency Act violation if payments under entitlement programs exceeded amounts appropriated for the fiscal year in which the obligation was incurred, an October 2, 1985, Comptroller General decision (65 Comp. Gen. 4, 1985) states that mandatory obligations, even if in excess of available funds, would not violate the act. Therefore, an Anti-Deficiency Act violation generally would not occur if a mandatory entitlement program incurred obligations in excess of amounts authorized in the appropriations acts. Hence, agencies should have no reason to improperly record obligations for these programs in anticipation of averting an Anti-Deficiency Act violation.

Conversely, our March 1987 report on the Child Nutrition Programs disclosed a different situation—obligations applicable to one fiscal year were recorded against and paid from appropriations of a subsequent fiscal year. We concluded that this was in violation of the Anti-Deficiency Act and that these program payments should have been charged to the pertinent appropriation account of the expiring fiscal year.

⁴Financial Audit: Veterans Administration's Financial Statements for Fiscal Year 1986 (GAO/AFMD-87-38).

In regard to the federal deficit, the point when agencies record disbursements under entitlement and benefit programs can affect budget deficit calculations. The federal deficit (or surplus) reported by the Department of the Treasury essentially takes actual revenues and compares them to actual disbursements.

The effect that the timing of an agency's recording of an obligation or disbursement has on the deficit determination is illustrated in the following example. The situation noted in this letter involving the VA compensation and benefit programs does not affect the deficit, as reported by Treasury, because disbursements were made on October 1, as scheduled. Had the disbursements been scheduled for September 30 but delayed until October 1, the deficit calculation would have been affected. The fiscal year 1986 disbursements and deficit would have been understated while the fiscal year 1987 disbursements and deficit would have been overstated by the same amount.

Funds Received by the Commonwealth of Virginia

In order to confirm whether federal agencies were properly carrying out their fund accountability responsibilities, we contacted officials of the Commonwealth of Virginia to determine whether they had experienced problems in receiving federal funds due them under entitlement programs which they administer. One possible cause of a state not receiving federal funds promptly might be a situation where a federal agency has insufficient appropriations available to pay amounts owed to the state under one of these programs. In such a case, the federal agency might delay making payment to the state until the next fiscal year's authority is available, which would result in improper fund accountability.

We were provided a list of the major federal programs in which Virginia participates. These programs, which account for over 70 percent of the total federal funds received by that state, represent federal funding of \$1.2 billion. (See appendix II.)

Virginia officials who were responsible for these programs advised us that generally they had not experienced problems in receiving federal funds promptly with one exception—the Department of Agriculture's Child Nutrition Programs. For example, on August 6, 1987, Virginia requested about \$1 million for reimbursement of costs incurred under this program. However, it had not received reimbursement as of September 21, 1987. In addition, Agriculture told Virginia officials in August 1987 that they would have to wait 4 to 6 weeks for reimbursement.

(This situation is consistent with our prior audit work involving this program, as discussed in the preceding section.)

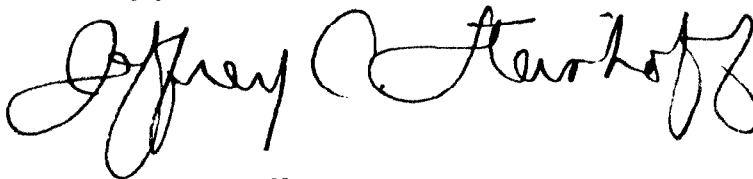
Under a pilot program, Virginia is receiving many of its major grant awards on an annual basis. This allows greater flexibility than under the prior system of quarterly awards and significantly reduces fund receipt problems due to unexpected events.

Supplementary Information

Additional detailed supplementary information on those entitlement, benefit payment, and mandatory spending programs identified during our survey is contained in a companion report entitled, Federal Funding: Information on Selected Benefit/Mandatory Spending Programs (GAO/AFMD-88-31FS). The information contained in that report includes data such as (1) a description of the programs, (2) the amounts authorized for the programs for each fiscal year from 1982 through 1987, (3) information on caseload statistics related to the programs, and (4) unique program characteristics, including whether mandatory spending is involved.

As you requested, we did not obtain agency comments. Unless you publicly announce its contents earlier, we will not distribute copies of this report until 30 days after it is issued. At that time we will send copies to the Director of the Office of Management and Budget; the Secretaries of Health and Human Services, Education, Agriculture, and Treasury; the Administrator of Veterans Affairs; interested congressional committees; and other interested parties. Copies will also be made available to others upon request.

Sincerely yours,



Jeffrey C. Steinhoff
Associate Director

Entitlement and Benefit Payment Programs Analyzed in Fund Accountability Survey

In thousands

Program	FY 1988 budget estimate^a
Department of Health and Human Services	
Grants to States for Medicaid	\$28,120,000
Family Support Payments to States	10,243,668
Social Services Block Grant ^b	2,700,000
Low Income Home Energy Assistance ^b	1,237,000
Department of Education	
Compensatory Education for the Disadvantaged ^b	4,144,163
Education for the Handicapped ^b	1,488,181
Rehabilitation Services and Handicapped Research ^b	1,401,123
Total	\$49,334,135

^aSource: Budget of the United States Government, 1988—Appendix.

^bThese programs provide grants to the states in specific amounts.

Selected Programs Administered by the Commonwealth of Virginia Which Received Federal Funds in Fiscal Year 1986

In thousands

State Program Receiving Federal Funds (Federal agency in parentheses)	FY 1986 funding
Highway Planning and Construction (Transportation)	\$379,909
Medical Assistance Program (HHS)	346,927
Assistance Payments - Maintenance Assistance (HHS)	118,961
Social Service Block Grant (HHS)	60,581
Educationally Deprived Children - Local Education Agencies (Education)	60,266
National School Lunch Program (Agriculture)	55,231
Low Income Home Energy Assistance (HHS)	45,621
Special Supplemental Food Program for Women, Infants, and Children (Agriculture)	30,746
Rehabilitative Services - Basic Support (Education)	27,415
Handicapped Preschool and School Program (Education)	26,417
Vocational Education - Basic Grant (Education)	18,518
State Administrative Matching Grants for Food Stamp Program (Agriculture)	17,739
Airport Development Aid Program (Transportation)	11,576
Improving School Program - State Block Grant (Education)	10,563
Maternal and Child Health Block Grant (HHS)	9,433
Family Planning (HHS)	2,814
Preventive Health Block Grant (HHS)	1,840
Refugee Resettlement Program (HHS)	1,150
Total	\$1,225,706^a

Source: Commonwealth of Virginia Officials

^aTotal differs due to rounding.



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