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

January 26, 1981

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The Honorable Jesse Helms
Chairman
Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

On October 30, 1980, your staff verbally requested that we provide information to supplement our October 9, 1980, letter to you. That letter responded to your request for us to review certain changes in accounting procedures used by the Department of Agriculture's Food and Nutrition Service for the Child Nutrition Programs. The specific questions raised and our responses follow.

Question 1. Will the shortfall in the Child Nutrition Programs for fiscal year 1980 be greater than the \$243 million that was transferred to the Food Stamp Program, as permitted by the Supplemental Appropriations and Rescission Act, 1980?

At the time of our October 9, 1980, letter the Food and Nutrition Service advised that, if all meals served in fiscal year 1980 are to be paid from fiscal year 1980 funds, about \$243 million in additional funds would be needed. This potential shortfall was anticipated because of the \$243 million transfer of funds from the Child Nutrition Programs to the Food Stamp Program which was permitted by the Supplemental Appropriations and Rescission Act, 1980.

On the basis of current data provided to us by the Food and Nutrition Service, the shortfall in the Child Nutrition Programs for fiscal year 1980 is now estimated to be \$204 million. The actual amount of the shortfall will not be known until March 1981 because the Food and Nutrition Service regulations allow claims to be reported by schools to State agencies until December 31 and States to submit final reports to the Food and Nutrition Service by March 1.

Because of the delay in claims submission, we have no reasonable basis upon which to dispute the accuracy of the projected \$204 million shortfall. Likewise, there is no current basis for us to independently determine the amount of the eventual shortfall.

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Question 2. To what extent will the new accounting methods for the Child Nutrition Programs be inconsistent with existing accrual accounting law and with the accounting principles and standards prescribed by the Comptroller General?

The accrual accounting law and principles and standards prescribed by the Comptroller General require that accounts of departments and agencies be maintained on an accrual basis. The accrual basis of accounting consists of recognizing in the books and records of account the significant and accountable aspects of financial transactions or events during the period in which they occur.

As we described on page 2 of our letter of October 9, 1980, changes in the timing of obligations made by the Food and Nutrition Service for funds made available to States will change the fiscal year in which the amount of some obligations and costs will be recognized and recorded. Without legislative authority to do so, this would result in charging some obligations and costs to an improper fiscal year.

Historically, the annual appropriations act for the Child Nutrition Programs specifies that funds appropriated are to be available to pay for meals served during only one particular fiscal year even though claims may be submitted by states during the early months of a subsequent fiscal year.

The Supplemental Appropriations and Rescission Act, 1980 (Public Law 96-304) permitted the transfer of \$243 million from the Child Nutrition Programs to the Food Stamp Program. The Conference Report on Supplemental Appropriations (Report No. 96-1149) recognized that the \$243 million transfer may necessitate an adjustment in accounting for these programs. If it were not for these congressional actions, the Food and Nutrition Service would have recorded obligations and costs for fiscal year 1980 in an amount representing all meals served by schools during that fiscal year.

The transfer reduced the amount of fiscal year 1980 funds available to the Child Nutrition Programs--apparently to a level below an amount which would cover all meals expected to be served during the fiscal year. The Food and Nutrition Service is precluded by law from recording obligations in excess of amounts appropriated. Because the total amount of funds expected to be needed was not available, the Food and Nutrition Service changed its basis for recognizing obligations and costs from the basis of meals served to the basis of funds actually needed to pay claims submitted by States.

Even though obligational authority may not be available under the 1980 fiscal year appropriation acts to cover all meals served during that fiscal year, the total liability and cost of such meals should be recognized in that year even if some are recognized as unfunded liabilities and costs. The new accounting methods for the Child Nutrition Programs, therefore, would not normally be consistent with existing accrual accounting law and with the accounting principles and standards prescribed by the Comptroller General to the extent that some unfunded liabilities and costs for meals served during fiscal year 1980 will be accounted for as obligations, liabilities, and costs of fiscal year 1981. The Joint Resolution making continuing appropriations for fiscal year 1981 (Public Law 96-369) provided that funds for Child Nutrition Programs may be used to pay valid claims submitted in fiscal year 1981 for meals served in September 1980. If Congress wishes the Food and Nutrition Service to continue to account for the Child Nutrition Programs in this manner, it could provide similar language in the annual appropriation acts which would permit fiscal year funds to be used to pay valid claims submitted by States during a fiscal year regardless of when the related meals were served.

Another alternative would be to provide for an additional supplemental appropriation for the Child Nutrition Programs for fiscal year 1980 to cover all meals served in that fiscal year. This action would allow for all obligations and costs to be recorded in what would then be the proper fiscal year.

Question 3. Could the change in cash management procedures implemented by the Food and Nutrition Service have been accomplished without the other accounting changes which were inconsistent with accrual accounting law and the principles and standards of the Comptroller General?

We believe that improvements in cash management could have been adopted by the Food and Nutrition Service without sacrificing accrual accounting procedures. Implementation of sound cash management practices does not require accounting changes that are inconsistent with accrual accounting law and the principles and standards prescribed by the Comptroller General. The accounting changes in this case were made because \$243 million was transferred to the Food Stamp Program and, therefore, there was not adequate funding to finance the Child Nutrition Programs at the same level.

Cash management in the Federal Government is concerned with controlling the timing of the collection, disbursement, and investment of cash resources in a manner that will save the Federal Government money through improvements in its cash flow. This enables the Federal Government to reduce its borrowing

needs and the attendant interest costs. Cash management procedures, i.e., payment for meals served, should not affect the timing of the obligations and accrual of costs for the meals. It is common to obligate funds and accrue the cost for a specific transaction at the time the service is performed, and then actually pay for the service later, using good cash management procedures.

Sound cash management procedures and sound accrual accounting procedures are compatible with each other. Each, however, normally has a separate function and separate procedures.

If you have any additional questions relating to any of the above areas please contact us.

Sincerely yours,



Comptroller General
of the United States