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

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The Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives

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Dear Mr. Chairman:

In accordance with your October 24, 1973, request and subsequent discussions with your office, we are enclosing information regarding GAO and agency audit responsibilities for, and the extent of GAO audits, of, lapsed appropriations, "M" account activities, and obligation balances reported pursuant to Section 1311 of the Supplemental Appropriation Act of 1955.

In summary, the heads of executive departments and agencies have the primary responsibility under the law to audit the above matters. GAO, as an agent of the Congress, reviews the adequacy and effectiveness of department and agency accounting and internal controls, including internal audit, to insure that they comply with applicable laws.

We trust this information responds to your request.

Sincerely yours,

James B. Stacks

Comptroller General
of the United States

Enclosures

No

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INFORMATION CONCERNING
GAO AND AGENCY AUDITING RESPONSIBILITIES FOR,
AND THE EXTENT OF GAO AUDITS OF, LAPSED APPROPRIATIONS,
"M" ACCOUNT ACTIVITIES, AND OBLIGATION BALANCES
REPORTED PURSUANT TO SECTION 1311
OF THE SUPPLEMENTAL APPROPRIATION ACT OF 1955

The specific items of information
requested and our responses are presented below.

ITEM 1

"The responsibilities of the General Accounting Office for audit and verification of payments from lapsed appropriation accounts:

- a. Prior to the enactment of the Surplus Fund-Certified Claims Act of 1949;
- b. Under the Surplus Fund-Certified Claims Act of 1949; and
- c. Under the 1956 Act (31 U.S.C. 701-708) that repealed the Surplus Fund-Certified Claims Act of 1949 and established the "M" or successor accounts:

(1) when the Act was first enacted

(2) at the present time."

Prior to enactment of the Surplus Fund-Certified Claims Act of 1949.

The disposition of unexpended balances of appropriations and treatment of claims thereunder prior to the 1949 act were governed by 31 U.S.C. 712, 713 and 715 (1946) and 5 U.S.C. 266 (1946). Under these provisions, balances of fiscal year appropriations (with certain exceptions) remaining unexpended after 2 full fiscal years following the year for which appropriations were made were covered into the surplus fund of the Treasury. Subsequent claims against such appropriations were considered and settled by GAO. However, as a consequence of the constitutional prohibition against withdrawals from the Treasury, except pursuant to appropriations, payment of such claims could not be made from amounts covered into the surplus fund. Accordingly, GAO periodically reported claims allowed to the Congress to await enactment of reappropriation legislation.

Beginning with a 1945 statute (59 Stat. 90), appropriations were made in amounts necessary to pay claims of \$500 or less certified by the Comptroller General to be lawfully due, and within the limits of and chargeable to, appropriation balances covered into the surplus fund. Several subsequent appropriations for this purpose were made in definite amounts; but such amounts proved inadequate.

As indicated above, the Comptroller General's primary responsibility prior to the 1949 act was to process claims against balances covered into the surplus fund under his general settlement authority. Claims allowed in excess of \$500 were transmitted to the Secretary of the Treasury for reporting to the Congress. The Comptroller General was also responsible for determining whether such claims were within the limits of, and chargeable to, remaining balances in lapsed appropriations.

Under the Surplus Fund-Certified Claims Act of 1949, approved July 6, 1949, ch. 299, 63 Stat. 407.

The purpose of the 1949 act, based upon draft legislation prepared by GAO, was to obviate the need for reappropriations and special appropriations and thus expedite the payment of claims. Section 2 of the act, 31

U.S.C. 712b (1952), provided for the transfer of unexpended balances remaining after 2 years to a Treasury account designated "Payment of certified claims." Funds in this account remained available until expended for the payment of claims certified by the Comptroller General to be lawfully due, and within the limits of and chargeable to, the respective balances of lapsed appropriations. Section 2 further provided that, at the beginning of each fiscal year, all funds in the "Payment of certified claims account" certified by the Comptroller General as not required for payment of claims thereunder would be covered into the surplus fund.

Accordingly, the responsibilities of the Comptroller General under the 1949 act were to certify claims for payment from the payment of certified claims account and to certify amounts of such account not required for payment of claims. Thus he retained a central role in direct administration of these procedures.

Public Law 798, 84th Congress, approved July 25, 1956, ch. 727, 70 Stat. 647, 31 U.S.C. 701-708 (1958)

The 1956 act provided for the merger of prior-year obligated balances after 2 years in agency accounts for the same general purpose ("M" accounts) and for the restoration of withdrawn unobligated balances in amounts determined by the agencies to be required to liquidate obligations and effect adjustments. Agencies were also authorized to pay obligations from "M" accounts without prior action by GAO.

One major purpose of the 1956 act was to permit agency disposition of clearly valid claims against prior-year appropriations, in lieu of submitting all such charges to GAO as claims. This accomplished a fundamental change whereby direct responsibility for administration of payment procedures passed largely from GAO to the agencies. However, the act expressly preserved the Comptroller General's ultimate settlement authority. It also assigned to him the following oversight responsibilities.

- To receive from agencies reports of each proposed restoration of withdrawn unobligated balances prior to its effectuation (section 1(a)(2), 70 Stat. 648, 31 U.S.C. 701(a)(2) (1958)).

- To prescribe regulations for payment of obligations by agencies without prior action by GAO (section 2, 31 U.S.C. 702).
- To report to agency heads, the Secretary of the Treasury, and the Director of the Bureau of the Budget (now the Office of Management and Budget) respecting operations, including appraisal of the unliquidated obligations under accounts established by the act. Agencies are required to take necessary actions based upon such reports within 30 days (section 3(b), 31 U.S.C. 703(b)).

Section 4 of the Act, 70 Stat. 649, 31 U.S.C. 704 (1958), required the Comptroller General to prescribe procedures for the transfer to "M" accounts of obligated balances from the predecessor payment of certified claims account and for the withdrawal of the unobligated balance of that account. The procedures are set forth in General Regulations 131, August 7, 1956. A copy has been furnished to your office.

At the present time

Section 4 of the 1956 act, relating to termination of the payment of certified claims account, had only transitional effect and is omitted from the current code. The only substantive modification of the 1956 act relating to GAO responsibilities was the repeal of the requirement in section 1(a)(2) for submission to the Comptroller General of reports of proposed restorations. See Public Law 86-533, section 1(25), approved June 29, 1960, 74 Stat. 249.

Prior to the 1956 act the Comptroller General was directly responsible for determination and verification of payments from lapsed appropriations. Under the 1956 act primary responsibility for such payments was placed in the agencies, and GAO assumed oversight functions.

Two specific functions under the 1956 act were retained--to prescribe regulations governing payments by agencies without prior action by GAO (31 U.S.C. 702) and to report on operations under the act in connection with GAO's audit responsibilities (31 U.S.C. 703(b)). Also applicable to procedures under the 1956 act are GAO's general authori-

ties and responsibilities, such as investigation and reporting on all matters relating to the receipt, disbursement, and application of public funds (31 U.S.C. 53), and prescribing accounting principles, standards, and related requirements (31 U.S.C. 66).

ITEM 2

"The past and present responsibilities of the General Accounting Office for audit and verification of obligated and unobligated balances in appropriation and "M" accounts reported and certified annually by the executive departments and agencies pursuant to Section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200) to the Treasury Department and the Office of Management and Budget."

Subsection (a), section 1311 provides that no amount shall be recorded as an obligation unless supported by documentary evidence meeting the criteria set forth. Subsection (e) requires that any statement of obligation of funds furnished by an agency to the Congress or congressional committees include only obligations as defined in subsection (a).

As originally enacted, subsections (b) and (c) of section 1311, 68 Stat. 830-31, required that, by September 30 of each year, agency heads report to the appropriations committees and to the Comptroller General the amount of each of its appropriations or funds remaining obligated but unexpended and the amount remaining unobligated on June 30 of such year. It also required that such reports be supported by appropriate certifications and documentary evidence. Section 1(c) of the 1956 "M" account statute, discussed supra, 70 Stat. 648, originally referred to in its requirements for calculation of obligations to the reports made pursuant to section 1311(b). Subsection 1311(b) was subsequently amended to eliminate periodic reports on appropriation balances in favor of a requirement that, in all appropriation requests to the Office of Management and Budget, each agency head report that any statement of obligations furnished therewith conform to the definitions of subsection 1311(a). See Public Law 86-79, section 210, approved July 8, 1959, 73 Stat. 167. The reference to periodic reports in section 1(c) of the 1956 act was also repealed.

Except for the original requirement that the Comptroller General receive periodic reports on appropriation

balances, repealed in 1959, section 1311 did not impose any specific responsibilities upon the General Accounting Office.

GAO's audit and verification of obligated and unobligated balances of appropriations and "M" accounts reported and certified pursuant to section 1311 is presently subject only to the general authorities, such as 31 U.S.C. 53 and 66 and section 3(b) of the 1956 act (31 U.S.C. 703(b)).

ITEM 3

"The extent to which "M" account activities (including withdrawals to and restorations from related Treasury Department surplus funds, and payments in liquidation of obligations) have been audited by the General Accounting Office, together with a copy of the report on the last such Government-wide or lesser-scale audit made."

"The extent to which audits with respect to item 3⁽¹⁾ above have been made by the General Accounting Office, together with a copy of the report on the last such audit made."

We were advised by your office in subsequent discussions that the use of the word "extent" was not intended to mean that we furnish you with statistical data, such as the number of audits performed, but, rather, to advise you of our basic audit approach.

To help in understanding our approach in reviewing "M" account activities and obligation balances reported pursuant to section 1311 of the Supplemental Appropriation Act of 1955, a general discussion of our overall responsibilities and the approach we use in satisfying them follows.

The Comptroller General--under the provisions of the Budget and Accounting Act, 1921; the Budget and Accounting Procedures Act of 1950; and the Legislative Reorganization Act of 1970--is responsible as an agent of the Congress for auditing the various Government activities. In carrying out its responsibilities, GAO audits or reviews Federal agency financial systems and accountability, management's use of

¹ See item 2 on page 5.

resources, and the effectiveness of programs in achieving congressional objectives.

The broad scope of our Government-wide audit interest and responsibility in relation to our resources requires the most efficient use of available staff in undertaking and conducting assignments. Except as otherwise required by statute, external request, or other factors beyond our control, our basic audit policy is to direct available resources and talents to the areas in which they can be most effectively used to fulfill the greatest apparent need and benefit to the Government.

Our audit approach is to test the working of an agency's system of control including the adequacy of the internal reviews to examine apparent weaknesses and to report on conditions found, appropriate conclusions, and recommendations.

Extent of GAO reviews of "M" account
activities and obligation balances
reported pursuant to section 1311

The original provisions of section 1311(b) required the head of each agency to report by September 30 of each year the unliquidated obligations and unobligated balances as of the previous June 30 for each appropriation or fund under its control to the Chairmen of the House and Senate Appropriations Committees, to the Comptroller General, and to the Director of the Bureau of the Budget.

This provision did not require any special examination or report by GAO to the Congress. However, pursuant to a request made by the Chairman of the House Committee on Appropriations, GAO reviewed reports submitted by the agencies and reported to the Committee as to compliance with the provisions of section 1311. These special reviews were discontinued with the enactment of Section 210(a) of the General Government Matters Appropriation Act, 1960 (Public Law 86-79, approved July 8, 1959). This section removed the requirement for agencies to submit certified annual reports to the Congress covering appropriations and fund balances under section 1311.

Since passage of the above act, our policy has been to examine agency obligation practices in conjunction with other audit work. Through the use of this approach we have identified and reported problems directly related to the agency not recording and reporting obligations. We also perform other work that bears on the validity and control over obligations.

Settlement of accountable
officers accounts

The Act of May 19, 1947, 61 Stat. 101, (31 U.S.C. 82i), requires GAO to settle the accounts of accountable officers within a period not to exceed 3 years from the date of receipt of the account. As used in the act, the term "accountable officers" refers to disbursing officers, collection officers, and certifying officers. During fiscal year 1973 GAO spent about 110 man-years in settling these accounts.

In reviewing the accounts of accountable officers, we evaluate whether an agency's organization and its systems of accounting and transaction handling procedures, controls, administrative examinations, and internal audit are adequate to provide reasonable assurance that amounts certified for payment are supported by the facts; that proposed payments are legal, proper, correct; and that they represent legal obligations under the appropriations or funds involved.

Approval and review of accounting systems

Section 112(b) of the Budget and Accounting Procedures Act of 1950 requires that executive agency accounting systems and the central accounting system of the Treasury Department be approved by the Comptroller General when deemed by him as adequate and in conformity with the principles, standards, and related requirements prescribed by him.

In reviewing accounting systems designs submitted by agencies to us for approval, we make a determination as to the system's ability to control the input of obligation documents, verify their accuracy, control the correction and timely reinput of rejected transactions, provide for peri-

odic record reconciliation, and produce valid reports. If an approved system is operated as designed, this would provide a high degree of assurance that the accounts contained only valid unliquidated transactions. It is our policy that, once a systems design has been approved, a followup review is made to insure that the system is operating as approved.

Enclosure II lists examples of GAO reports issued during the past 2 years containing comments on problems related to recording, controlling, and reporting of obligations. Copies of these reports have been delivered to your office.

ITEM 4

"The positions of the General Accounting Office as to who is primarily responsible for conducting the audits and verifications prescribed relative to items 2 and 3 above,¹ and as to how frequently such audits and verifications should be made."

Section 1311(a) of the Supplemental Appropriation Act 1955, (31 U.S.C. 200 b and c) requires that statements of obligations submitted to the Office of Management and Budget regarding requests for proposed appropriations shall be certified by designated agency officials and that such certifications shall be supported by records evidencing the amounts obligated.

The 1956 act (Public Law 798, 984th Congress, approved July 25, 1956), requires that "M" account balances be reviewed by each agency periodically, but at least once each fiscal year. The act also requires that, in connection with his audit responsibilities, the Comptroller General shall report to the head of the agency concerned, and others, respecting operations under the act, including an appraisal of the unliquidated obligations under appropriation accounts established by the act. The law does not specify how frequently the Comptroller General should render such reports.

¹See items 2 and 3 on pages 5 and 6.

Pursuant to the Budget and Accounting Procedures Act of 1950, the primary responsibility for establishing and maintaining adequate systems of accounting and internal control, including internal audit, rests with the heads of Federal agencies. The accounting systems established, however, must conform to the principles and standards and related requirements prescribed by the Comptroller General.

We believe that primary responsibility for reviewing "M" account activities is placed on the agency as a matter of law and that the requirement for agencies to review "M" accounts annually should continue. Regarding the audit and verification of obligation balances reported pursuant to section 1311, we believe that, to properly certify to such balances, each agency must audit or verify its accounts at least once each year. The scope of such audits and verifications should depend on the agency head's evaluation as to the adequacy of his agency's system of accounting and internal control.

With regard to the requirement that the Comptroller General report on operations of the "M" account act, we believe the frequency of GAO audits, which would be the basis for such reports, should depend upon the adequacy of the agency's system of accounting and internal control, including internal audit.

EXAMPLES OF GAO REPORTS
CONTAINING COMMENTS ON PROBLEMS
RELATED TO RECORDING, CONTROLLING, AND REPORTING
OF OBLIGATIONS

<u>ADDRESSEE</u>	<u>SUBJECT</u>	<u>DATE AND NUMBER</u>
Ralph E. Nicholson, Senior Assistant, Postmaster General, Finance United States Postal Service	Handling of claims for overtime compensa- tion	10-30-73
The Secretary of the Navy	Violation of Section 1311 of the Supplemental Appropriation Act of 1955. Navy's ship overhaul and repair programs	10-17-73 B-133170
George H. Mahon, Chairman, House Committee on Appropriations	Army violations of the Anti-Deficiency Act	9-28-73 B-132900
Congressman Les Aspin	Navy violation of the Anti-Deficiency Act	6-07-73 B-177631
The Secretary of the Navy	Use of procurement appropriations for unauthorized pur- poses, complaint by the Hoppman Corpora- tion	5-10-73 B-176496

<u>ADDRESSEE</u>	<u>SUBJECT</u>	<u>DATE AND NUMBER</u>
John A. Hannah, Administrator Agency for In- ternational Development	Study of legal require- ments for a valid deobligation and ob- ligation of funds	4-06-73 B-173240
The Secretary of Health, Educa- tion, and Welfare	Violations of the Anti- Deficiency Act by a working capital fund, Department of Health, Education, and Welfare	11-21-72 B-164031
Thomas F. Eagleton, Chairman, Commit- tee on the Dis- trict of Columbia, United States Senate	Control over funds avail- able to D.C. Public Schools	10-31-72 B-118638
Birch Bayh, Chairman, Subcommittee on the District of Columbia, Commit- tee on Appropria- tions, United States Senate	Anti-Deficiency Act violations by the District of Columbia Government	9-15-72 B-118638
John N. Nassikas, Chairman, Fed- eral Power Com- mission	Settlement of account- able officers' ac- counts	8-31-72 B-95136
William Proxmire, Chairman, Joint Economic Committee	Questions regarding the spending au- thority of the De- partment of Defense	8-17-72 B-152554
Congressman William J. Scherle	Problems in financial and property adminis- tration at D.C. Teachers College	5-16-72 B-167006

ENCLOSURE II

<u>ADDRESSEE</u>	<u>SUBJECT</u>	<u>DATE AND NUMBER</u>
Andrew E. Gibson, Assistant Secretary for Maritime Affairs, Department of Commerce	Review of financial practices at Washington headquarters of Maritime Administration	3-31-72
James H. Stover Regional Commissioner of Customs, Region IV	Settlement of accountable officers' accounts	10-26-71