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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

November 21, 1972

B-164031



Dear Mr. Secretary:

During a recent examination of selected aspects of the accounting system in the Office of the Secretary of Health, Education, and Welfare (HEW), we found that the Working Capital Fund had been in violation of the Anti-deficiency Act (31 U.S.C. 665) in that for several years, beginning in 1967, the fund was in an overobligated position. As of June 1971, the fund had incurred obligations of over \$7 million in excess of its authority to obligate. Further, your report to the Office of Management and Budget (OMB) showed that one appropriation, Departmental Management, lacked approximately \$380,000 to cover billings by the fund for fiscal year 1971, and therefore was also in violation of the Act. 22

We found, also, that reports to the President and the Congress required by the Act had not been made and that incorrect reports on the condition of the fund had been submitted to the Treasury Department.

Details of our findings together with actions taken or planned by officials of your Department follow.

Operation of the Working Capital Fund

The Working Capital Fund is a revolving fund authorized by law (42 U.S.C. 905) to finance central services provided by the Office of the Secretary to itself and to the several Department of Health, Education, and Welfare operating agencies. The fund, which currently does about \$27 million worth of business each year, is authorized to charge the cost of its services to the various users.

Some of the services which are financed through the Working Capital Fund are central reproduction, central payroll, data processing, supply, communications, systems planning, and personnel support.

Violation of the Anti-deficiency Act

The Anti-deficiency Act (31 U.S.C. 665) states: "No officer or employee of the United States shall make or authorize an expenditure from or create or authorize an obligation under any appropriation or

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fund in excess of the amount available therein." The Act also states that "\* \* \* all appropriations or funds not limited to a definite period of time \* \* \* shall be so apportioned as to achieve the most effective and economical use thereof"; that "funds shall be apportioned or reapportioned in writing by the Director of the Office of Management and Budget"; and that the Director, OMB may "\* \* \* exempt from apportionments working capital and revolving funds established for intragovernmental operations \* \* \*." In the apportionment process, OMB limits the obligations that may be incurred in an appropriation or fund.

Pursuant to the Act, OMB has promulgated regulations which require that obligations must remain within available budgetary resources and that, unless notice has been given that the fund is exempted, the fund will be apportioned. The regulations define budgetary resources to include only cash, balances on deposit with the Treasury, accounts receivable, advances made to others, and unfilled customers' orders.

Our examination showed that, at June 30, 1971, the Working Capital Fund was in violation of the Anti-deficiency Act in that it had outstanding obligations of \$14,343,969 and budgetary resources of \$7,280,954, resulting in an excess of \$7,063,015 of obligations over recorded budgetary resources. We also found that the fund had been in an overobligated position every year since 1967. Further, we noted that contrary to the provisions of the Anti-deficiency Act, OMB had never apportioned the fund nor had it given notice that the fund was exempt from apportionment.

After bringing this matter to the attention of Department officials, your office, on October 17, 1972, submitted a written report of the principal issues raised by us to OMB. A copy of the report was submitted to the Comptroller General. The report indicates that, upon billing the appropriations served by the Working Capital Fund for their share of the deficiency, it was found that one appropriation, Departmental Management, lacked approximately \$380,000 to cover the corrected billings for fiscal year 1971. Accordingly, both the fund and the Departmental Management Appropriation were overobligated and in violation of the Anti-deficiency Act at June 30, 1971.

As a result of our review, Department officials investigated the fund. They subsequently informed us that the overobligation of the fund was caused by

- several HEW offices not being billed for goods or services they received from the Working Capital Fund,
- labor costs not being billed at the proper rates,
- a lack of provisions for recovery of overhead, accrued annual leave and other unfunded costs,
- a division of the responsibility for operation of the fund among several persons and offices rather than having it placed in one person or office, and
- a lag between the time the fund incurred an obligation and the time a receivable was established to reimburse the fund.

During the course of our review, Department officials informed us that they do not consider that the overobligation of the Working Capital Fund constituted a literal violation of the Anti-deficiency Act because the overobligations resulted merely from the failure of the fund to properly bill the benefiting appropriations for the full cost of services rendered and that adequate resources were available in the appropriations to reimburse the fund for its deficit.

We believe that the Anti-deficiency Act was in fact violated because the fund incurred obligations that exceeded its recorded budgetary resources as defined by the Office of Management and Budget. Further, as noted above, Department officials have since found that one of the benefiting appropriations, Departmental Management, did not have sufficient resources to reimburse the fund for its deficit.

#### Erroneous Reporting

Each year since 1967, reports to the Treasury Department on the condition of the Working Capital Fund contained an amount for anticipated reimbursements.

We observed that the amounts reported for the Working Capital Fund as anticipated reimbursements did not consist of items properly reportable as such, but rather consisted of an unsupported amount which equaled or exceeded the excess of obligations over the budgetary resources of the fund.

Department officials explained that the unsupported entries included in reports to the Treasury were "balancing entries".

Corrective Actions

We were informed that a number of corrective actions have or will be taken to correct the problems disclosed by our review.

In its report of October 17, 1972, to the Office of Management and Budget, the Department stated that (1) steps have been taken to correct the billings and to recover the cost of services rendered during the period from 1967 through 1971, and (2) as of June 30, 1972, budgetary resources exceeded obligations of the fund.

We were told by Department officials that the following steps will be taken to strengthen controls over Working Capital Fund transactions.

1. Appointment of a full-time manager to oversee the internal operations of the fund, including the determination of costs and fees and the accounting and billing operations.
2. Transfer of management responsibility for the fund to the Deputy Assistant Secretary, Finance, with the fund manager reporting directly to that official.
3. Establishment of a board of governors of the fund to set policies concerning levels and kinds of services, budgets, fees, and rate charges.
4. Performance of annual reviews by the HEW audit agency of the books and financial statements of the fund, with business-type audit reports of the fund's financial condition being furnished to the fund manager and the board of governors.
5. Establishment of budgetary resources with Office of Management and Budget approval through the regular apportionment process.

Department officials were very cooperative and prompt in identifying the causes of the deficiency we noted and in planning corrective actions.

Recommendations

We believe that, if the corrective actions planned by Department officials are effectively implemented, better financial management of

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the fund, including better controls to insure that the fund does not obligate in excess of its budgetary resources, will result. We recommend, therefore, that, prior to, or in conjunction with, its initial annual review of the fund, the HEW internal audit agency determine whether all of the planned corrective actions have been effectively implemented.

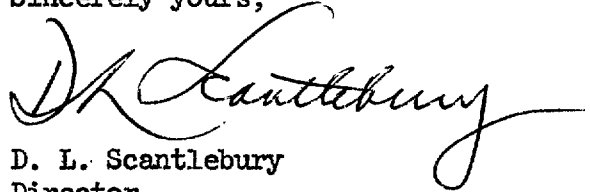
We recommend, also, that formal reports required by the Anti-deficiency Act be prepared by the Department of Health, Education, and Welfare and submitted to the President and the Congress.

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Copies of this report are being sent to the Senate and House Committees on Appropriations and Government Operations, to the Subcommittee on Labor and Health, Education, and Welfare of the Senate Committee on Appropriations, and, pursuant to his standing request, to Congressman L. H. Fountain. Copies are also being sent to the Director, Office of Management and Budget, and to the Assistant Secretary, Comptroller, HEW.

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Sincerely yours,



D. L. Scantlebury  
Director

The Honorable Elliot L. Richardson  
The Secretary of Health, Education, and Welfare 22