

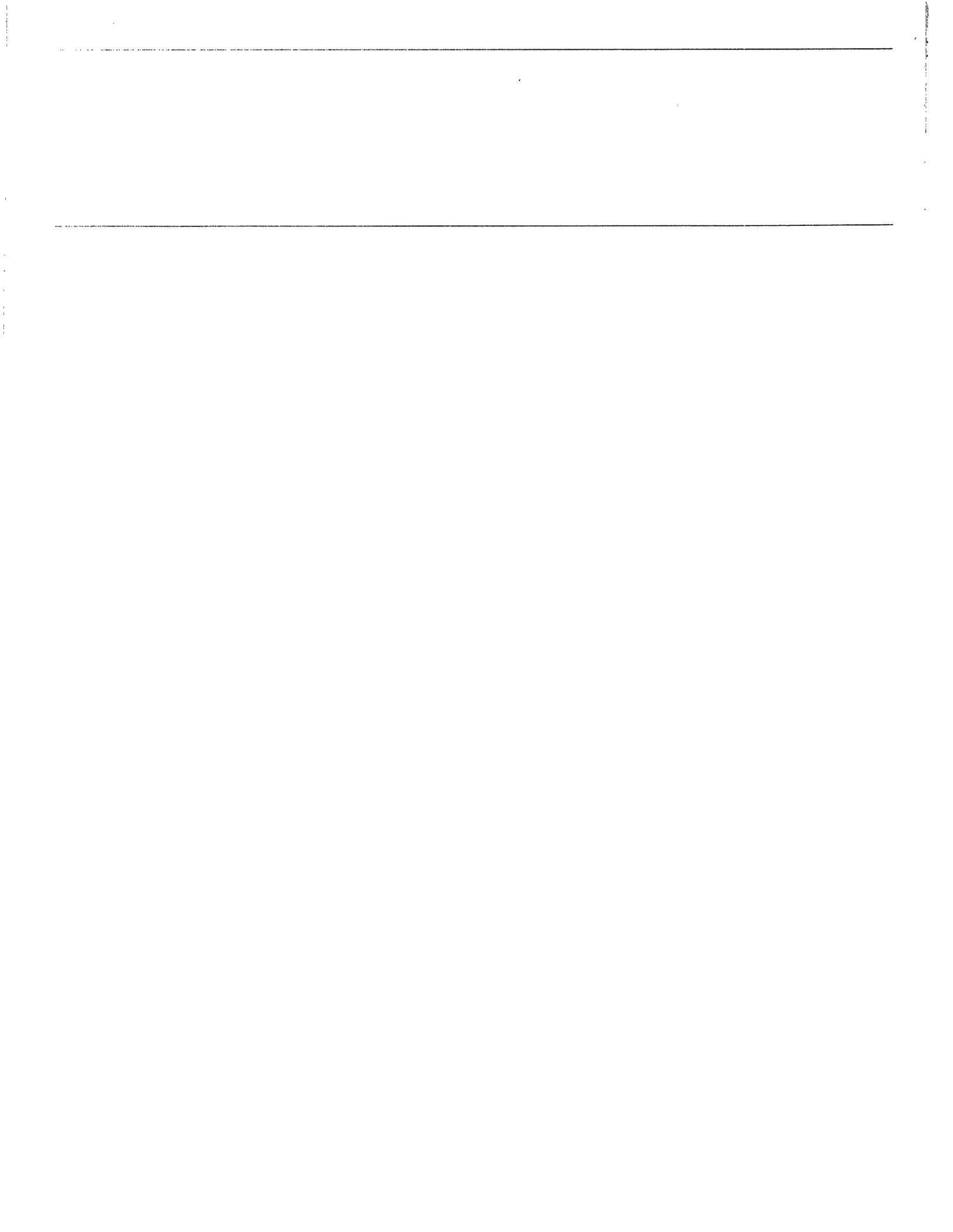
December 1990

FINANCIAL AUDIT

Food and Nutrition Service's Financial Statements for Fiscal Years 1988 and 1987



142865





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-231263

December 21, 1990

The Honorable Clayton K. Yeutter
The Secretary of Agriculture

Dear Mr. Secretary:

This report presents the results of our financial audit of the Food and Nutrition Service (FNS).

Our report includes:

- an unqualified opinion accompanying FNS's financial statements for the fiscal years ended September 30, 1988 and 1987;
- an evaluation of FNS's system of internal control which indicates high-risk conditions requiring prompt remedial actions; and
- a report on FNS's compliance with laws and regulations which discusses one instance of noncompliance.

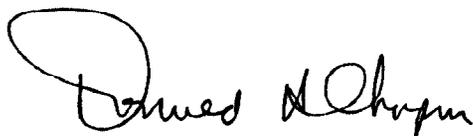
FNS has some material internal control weaknesses which have not been fully reported in its FMFIA reports. Briefly, we found that:

- FNS is not adequately monitoring the states' control over food coupons. Without proper monitoring, FNS cannot be sure that the states are maintaining the controls necessary to prevent coupons from being lost, stolen, or misappropriated. A serious risk exists that losses, thefts, and misappropriations will go undetected.
- FNS's financial reporting process does not produce reliable results. Material audit adjustments were required to present the historical financial statements included in this report in accordance with generally accepted accounting principles. Further, FNS's year-end reports to Treasury and the Office of Management and Budget are inaccurate.

This report contains recommendations to you to deal with these problems. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Administrator of the Food and Nutrition Service, and interested congressional committees.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Donald H. Chapin". The signature is written in a cursive style with a large, looping initial "D".

Donald H. Chapin
Assistant Comptroller General

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Abbreviations

AMS	Agricultural Marketing Service
ASCS	Agricultural Stabilization and Conservation Service
FMFIA	Federal Managers' Financial Integrity Act
FNS	Food and Nutrition Service
GAAP	generally accepted accounting principles
GAO	General Accounting Office
OMB	Office of Management and Budget

**Accounting and Financial
Management Division**

B-231263

To the Administrator
Food and Nutrition Service

We have audited the accompanying statements of financial position of the Food and Nutrition Service (FNS), an agency of the Department of Agriculture, as of September 30, 1988 and 1987, and the related statements of operations and changes in funds with the U.S. Treasury for the fiscal years then ended. These financial statements are the responsibility of FNS's management. Our responsibility is to express an opinion on these financial statements based on our audits. In addition to this report on our audit of FNS's fiscal year 1988 and 1987 financial statements, we are also reporting on our consideration of FNS's system of internal accounting controls and on its compliance with laws and regulations.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also include assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As we stated in our report on FNS's fiscal year 1987 statement of financial position (GAO/AFMD-89-22), fiscal year 1987 was the first year that FNS prepared financial statements in accordance with generally accepted accounting principles. Because certain information with regard to opening account balances was not readily available, it was not practical to perform various auditing procedures to determine whether, as of the beginning of fiscal year 1987, assets, liabilities, equity, and related revenues and expenses were recorded in the proper accounting period.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of operations and changes in funds with the U.S. Treasury for the fiscal year ended September 30, 1987.

The fiscal year 1987 financial statements have been restated to include \$1.8 billion of food commodities, received from the Department of Agriculture's Agricultural Stabilization and Conservation Service (ASCS) and

its Agricultural Marketing Service (AMS), that have been distributed to states for child nutrition and other programs. (See notes 1 (I) and 5 to the financial statements.) These amounts are shown on the statement of operations as an additional financing source and as an offsetting operating expense. Also, as discussed in note 1 (I), the fiscal year 1987 financial statements have been restated to recognize certain other corrections and revisions of estimates.

As reported in our 1987 report, and as described in notes 1 and 4, the liability for unredeemed food coupons was reduced by \$477 million. For several years, the amount of food coupons issued exceeded the amount of food coupons redeemed, thereby resulting in an increase in the liability for unredeemed food coupons. This condition occurred because FNS did not reduce the liability for unredeemed food coupons by the value of food coupons (1) that were undeliverable and returned to inventory and (2) that actual experience indicated would never be redeemed. Because the increase in this account had taken place over a number of years, it was not practical for FNS to determine the periods to which the adjustment should be applied. As a result, FNS included the entire amount of the adjustment in the statement of operations in fiscal year 1987.

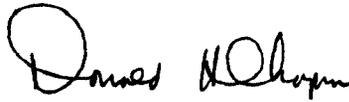
Finally, as discussed in our report on internal accounting controls, FNS has material internal control weaknesses which have not been fully reported in its Federal Managers Financial Integrity Act (FMFIA) reports. Briefly, we found that:

- FNS is not adequately monitoring the states' control over food coupons. Without proper monitoring, FNS cannot be sure that the states are maintaining the controls necessary to prevent coupons from being lost, stolen, or misappropriated. A serious risk exists that losses, thefts, and misappropriations will go undetected.
- FNS's financial reporting process does not produce reliable results. Material audit adjustments were required to present the historical financial statements included in this report in accordance with generally accepted accounting principles. Further, FNS's year-end reports to Treasury and the Office of Management and Budget are inaccurate.

The above material internal control weaknesses did not preclude us from expressing an opinion on FNS's financial statements because we extended our audit procedures.

GAO Opinion

In our opinion, the statements of financial position as of September 30, 1988 and 1987, and the related statements of operations and changes in funds with the U.S. Treasury for the year ended September 30, 1988, present fairly, in all material respects, the financial position of the Food and Nutrition Service at September 30, 1988 and 1987, after restatement, and the results of its operations and changes in funds with the U.S. Treasury for the year ended September 30, 1988, in conformity with generally accepted accounting principles.



Donald H. Chapin
Assistant Comptroller General

August 1, 1990

Report on Internal Accounting Controls

We have audited the accompanying financial statements of the Food and Nutrition Service (FNS) for the fiscal years ended September 30, 1988 and 1987, and have issued our opinion thereon. This report pertains only to our study and evaluation of FNS's system of internal accounting controls for the fiscal year ended September 30, 1988. Our report on the study and evaluation of FNS's internal accounting controls for the fiscal year ended September 30, 1987, is presented in GAO/AFMD-89-22, dated March 15, 1989.

As part of our audit, we made a study and evaluation of FNS's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on FNS's financial statements. For purposes of this report, we have classified the significant internal accounting controls into the following categories:

- food coupon issuance,
- food coupon redemptions,
- grants/disbursements,
- expenditures,
- asset and liability management,
- treasury, and
- financial reporting.

Our study and evaluation included all of the control categories listed above except for the treasury category. For that category, we found it more efficient to expand the scope of our substantive tests. Substantive audit tests can also serve to identify weaknesses in internal control policies and procedures.

FNS's management is responsible for establishing and maintaining a system of internal accounting controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA responsibilities are described in a July 5, 1990, Office of Management and Budget (OMB) memorandum and Circular A-123, which requires an annual review and report on the reliability of each agency's internal control system. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and

costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded to permit the preparation of reliable financial and statistical reports and to maintain accountability over agency assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Management's Review of Internal Controls

FNS evaluated its system of internal accounting controls in accordance with FMFIA. In November 1988, FNS reported to the Secretary of Agriculture that its internal control system, taken as a whole, complied with the requirement to provide reasonable assurance that internal control objectives were achieved. Nevertheless, FNS also reported that several material weaknesses existed in its system of internal controls. These weaknesses included the following:

- the accounting records were not adjusted for the value of food coupons returned to inventory, thus overstating the food coupon redemption liability;
- external financial statements were not based on an accounting process that obtained its accounting data from a general ledger, which resulted in erroneous reporting; and
- the accounts receivable subsystem produced erroneous external reports, and FNS had been unable to reconcile this subsystem with the general ledger.

FNS has initiated corrective action on these weaknesses, but it has not yet resolved them.

The 1988 FMFIA report also contained FNS's annual assessment of its financial management system's compliance with accounting principles, standards, and related requirements for federal agencies. FNS has one overall accounting system comprised of six subsystems. For five of the six subsystems, FNS characterized their lack of written backup, recovery, and restart procedures as materially failing to conform with applicable accounting principles and standards. For the sixth subsystem, accounts receivable, three additional material weaknesses were identified: lack of adequate system documentation, lack of interest receivable

computations, and erroneous external reporting. These problems have not been corrected, and FNS's fiscal year 1989 FMFIA report continues to cite these material weaknesses. FNS officials told us they expect to solve these problems by implementing the core component, including accounts receivable, of a new integrated financial management system in 1992.

Office of Management and Budget Circular A-127 defines an accounting system as the system, both manual and automated, for recording, classifying, and summarizing information on financial position and operations and requires that financial management information be complete and accurate. Nevertheless, FNS reported that, except for the areas noted, its accounting system taken as a whole generally complied with applicable accounting principles and standards.

Because of the internal accounting control weaknesses identified in this report, we do not agree with FNS's conclusions that its financial management system provides reasonable assurance that internal control objectives are achieved, and that its accounting systems comply with applicable accounting principles and standards. We do not take exception with FNS's FMFIA process, which has surfaced several material weaknesses, but with management's conclusion that such weaknesses do not prevent FNS's systems from providing reasonable assurance that control objectives are achieved. At the end of this report, we recommend that FNS carefully consider the significance of all internal control weaknesses when arriving at an overall statement of conformance.

GAO's Consideration of Internal Controls

We considered FNS's FMFIA reports, the Department of Agriculture's Office of Inspector General reports on financial matters and internal accounting controls, and other GAO reports in determining the nature, timing, and extent of our audit procedures. We also considered OMB's December 1989 staff summary of FNS's highest risk areas. Our study and evaluation of FNS's internal accounting controls, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in a system of internal controls.

Our study and evaluation disclosed two material internal accounting control weaknesses:

- FNS did not monitor the states' control over food coupons, including physical controls over coupon inventories and recordkeeping, and
- FNS's financial reporting process does not produce reliable results.

These two weaknesses, described more fully in the following sections of this report, present significant risks that food coupons, distributed from 2,600 locations, may be lost, stolen, or otherwise misappropriated, and that FNS financial reports are inaccurate and misleading to decisionmakers.

FNS Does Not Always Monitor States' Control Over Food Coupons

FNS does not always monitor the states' control over food coupons. Without the monitoring of state controls, there is no assurance that states will maintain controls necessary to prevent coupons from being stolen or otherwise misused.

Because food coupons are similar to cash and can be used by anyone who presents them to an authorized food retailer, strict physical control over food coupon inventories is necessary to prevent theft or other misuse. FNS has established requirements for the states to safeguard the coupons, including restricted access to the inventories and periodic counts to verify the reported quantities. Under the Food Stamp Act, FNS can charge the states for any food coupons that are lost, stolen, or issued to unauthorized individuals.

To review FNS oversight of controls over inventories and recordkeeping, we visited 19 of 53 state and county agencies and 6 of 7 FNS regional offices. We found weaknesses in oversight controls at 4 of the state and county offices and 2 FNS regional offices visited. To review controls over food coupons and the preparation of the monthly inventory reports to FNS, we visited 38 food coupon inventory points which issued about \$2.9 billion in food coupons in fiscal year 1988, or approximately 26 percent of the approximately \$11 billion of coupons issued nationwide. These inventory points were selected based upon several factors, including size of inventory, prior audit coverage, and type of coupon issuance. At 17 of the 38 food coupon inventory points visited, we found weak controls over inventories, poor recordkeeping, or a combination of both.

States' Audits of Food Stamp Inventories Not Monitored

To ensure the accuracy of the reports submitted to FNS on food coupon activity, FNS requires the states to have an independent count of food coupons at each inventory point at least once every 3 years. The inventory points are also required to reconcile the physical count to the inventory records and reports submitted to FNS. Of the 6 FNS regional offices we visited, we found that 2 regional offices did not monitor whether states within their regions were complying with the requirement for an independent count of food coupon inventory at least once every 3 years.

In fact, 4 of the 19 state and county agencies we visited did not ensure that the physical counts were reconciled with inventory records or reports submitted to FNS. Without these controls, there is increased risk that lost or stolen food coupons will not be detected and, therefore, not be reported to FNS.

Some States Not Verifying Actual Issuances With Authorized Issuances

We found that 4 of the 19 state agencies we visited were not independently verifying actual issuances with authorizations. FNS requires that state agencies independently verify actual food coupon issuances with the number of coupons authorized to be issued through a review of supporting documentation. This procedure is intended to detect losses which might be disguised by inflating the reported amount of coupons issued. Unauthorized issuances are billed to state agencies. Without independent verification, authorized issuances can be misstated and FNS could sustain unnecessary program losses that should be charged back to the state agencies.

Several States Not Maintaining Sound Inventory Controls

Our review of the controls over food coupons at 38 inventory points we visited in 19 states showed that some states are not maintaining sound inventory controls over food coupons. For example, we found that

- at 3 locations, with inventories amounting to \$48 million, coupons were not always maintained in secure areas, and
- at 6 locations, with inventories amounting to \$181 million, employees were allowed access to coupon inventories without supervision.

In addition to weak controls over food coupon inventories, we also found poor adherence to FNS requirements concerning coupon inventory recordkeeping. We found that

- 7 locations, with inventories amounting to \$226 million, did not follow FNS regulations to include all coupons on hand when taking monthly physical inventories and
- 4 locations did not consistently consolidate and correctly report coupons returned in the mail. In their ending inventories, 3 inventory points, with inventories amounting to \$161 million, excluded undeliverable coupons that had been returned in the mail. Another location, with inventories amounting to \$48 million, inflated its ending inventory by including returned coupons received after the end of the month.

At 7 of the 38 inventory points we visited, we found both poor record-keeping and inadequate safeguards over food coupon inventories, making theft or loss of food coupons at these locations difficult to detect. These locations had inventories of about \$260 million and issuances during fiscal year 1988 of about \$804 million. While FNS bills the states for losses (or unauthorized reductions in food coupon inventories), it cannot do so unless the inventory points submit reliable reports which are based on records of actual inventory activity.

The food stamp program is the subject of extensive investigation by Agriculture's Inspector General. In fiscal year 1988, the Inspector General issued 715 investigation reports on all aspects of food stamp abuse. Most of these were investigations of retailers, recipients, and persons not authorized to possess food stamps. The remaining investigations included persons involved with food stamp certification (some of whom were federal employees), and investigations of the issuance of food stamps and inventory sites.

FNS's Financial Reporting Process Does Not Provide Accurate Information

FNS's financial reporting process does not produce accurate financial statements. Adjustments exceeding \$7 billion were required to bring about a fair presentation of FNS's financial statements in conformity with generally accepted accounting principles (GAAP). FNS's fiscal year 1988 statements, submitted to Treasury and OMB before our audit, were inaccurate. These conditions occurred because FNS

- did not properly apply GAAP or use its general ledger to prepare reliable financial reports;
- does not have methodologies to properly review and evaluate account balances; and
- did not clearly document how its financial reports are prepared, which precludes an adequate supervisory review by FNS management.

FNS Staff Did Not Properly Apply Accounting Standards

FNS accounting personnel did not fully apply GAAP and OMB and Treasury requirements in preparing FNS's financial statements. We found significant errors in the financial statements which we attribute to an incorrect application of GAAP requirements for preparing annual reports to OMB and Treasury. Some examples follow.

- On FNS's preliminary fiscal year 1988 financial statements, revenue was overstated by \$1.6 billion because FNS reported total appropriations received rather than the portion actually earned.

- In its fiscal year 1988 Treasury Statement of Financial Condition, FNS reported unexpended appropriations of \$893 million. However, this amount was misstated by \$533 million because it erroneously included asset accounts of \$247 million and invalid undelivered orders of \$286 million.
- FNS incorrectly reported \$224 million of bad debt expense that it had already recognized as an expense on its fiscal year 1987 financial statements.
- FNS's preliminary financial statements omitted all of the fiscal year 1988 salaries and benefits expense, which amounted to \$85 million and represented 99 percent of the fiscal year 1988 Food Program Administration appropriation. This occurred because FNS accounting personnel did not follow procedures for reporting FNS accounting information which is processed at the Department of Agriculture's National Finance Center but which is excluded from FNS's general ledger. FNS officials also told us they were not aware that FNS was responsible for including this information in its financial statements.

Title 2 of GAO's Policy and Procedures Manual for Federal Agencies specifies that an agency's financial statements, including Treasury and OMB reports, should be the culmination of its accounting process. In addition, these standards require managers and employees to apply the standards sufficiently to properly account for and report the agency's transactions. We observed that the FNS accounting staff did not apply GAAP to the extent needed to prepare accurate financial statements. Unless the accounting skill level of the FNS staff is upgraded, it is likely that errors of the magnitude we found will continue to occur and result in misleading financial reports.

FNS Lacks Methodologies to Properly Evaluate Account Balances

FNS has not established adequate procedures and methodologies to evaluate its asset and liability accounts before preparing its year-end reports. Without a review of critical general ledger accounts, FNS cannot determine whether the accounts are properly stated in its year-end reports. Significant audit adjustments were necessary to fairly present the assets and liabilities reported on FNS's fiscal year 1988 financial statements. Some examples follow:

- Although FNS acknowledged that the unredeemed food coupon liability account was overstated and accepted a \$477.4 million adjustment to correct its fiscal year 1987 financial statements, it did not correct its general ledger account for unredeemed food coupons. FNS did not review or analyze the account by September 30, 1988, to determine the account's

proper balance and, thus, prepared its fiscal year 1988 financial statements and reports to Treasury and OMB using the uncorrected balance. As a result, the fiscal year 1988 financial statements had to be adjusted to correct the misstated account balances.

- The methodology FNS used to establish its accounts payable as of September 30, 1988, resulted in incorrect accounts payable and unexpended appropriations accounts and overstated FNS's budget authority. FNS must estimate its accounts payable balance for the current year appropriations because it cannot know the exact balance until grants are closed, a process that occurs over several months after the end of the fiscal year and the due dates for reports to OMB and Treasury. The portion of the account comprised of prior year payables is determinable because most grants have been closed.

However, FNS does not follow its own procedures to record the amount of accounts payable from closed-out grants and to deobligate unneeded funding. In estimating current and prior year grants payable balances, FNS assumed that all outstanding obligations were valid. FNS did not review grant documents to determine that obligations were valid, to establish proper balances for prior year payables, or as a basis to estimate current year payables. We found that \$361 million of the unliquidated obligations were not properly supported and, thus, were invalid.

- FNS also has not established a methodology to properly estimate an allowance for doubtful accounts in its accounts receivable in conformity with GAAP. An appropriate GAAP-based methodology would consider the completeness of the transactions as well as collectibility. Because FNS did not properly review and value its accounts receivable, several audit adjustments exceeding \$150 million were required to correct its allowance for doubtful accounts.

Title 2 requires that account balances be reviewed at the end of the reporting period to ensure they are appropriately valued. To do this requires the consistent use of procedures and methodologies that will reliably calculate the valuation, or year-end accruals, of asset and liability accounts. Additionally, OMB Circular A-34 requires agencies to review their unliquidated obligations account at the end of each fiscal year to determine whether the balance is supported by documentary evidence. To not follow sound year-end procedures for valuing assets and liabilities will result in financial statements that are unreliable and possibly misleading.

FNS Does Not Maintain Appropriate Records

FNS has not documented how its year-end reports and financial statements are prepared. Such documentation is necessary because FNS's statements and reports cannot be produced directly from its general ledger, and FNS staff must manually compile the necessary information. We have reported this condition in two prior reports,¹ and FNS responded that it would begin using its general ledger to prepare its reports in November 1988. FNS officials told us that its general ledger was used to prepare its fiscal year 1989 Treasury statements.

Title 2 states that comparability is a major qualitative factor that enables accounting information to be useful. To ensure that accounting information is consistent from one period to the next, agencies are required to use a documented process with adequate guidelines. The absence of adequate documentation inhibits management's review of financial reports and information.

Accounting information processed by the National Finance Center, and certain balances related to grants, are among the significant information omitted from the general ledger. However, because the staff does not prepare necessary documents showing the sources of information used, it is difficult for FNS management to determine whether the statements and reports properly include all necessary information or whether they are consistent between accounting periods. Many of the errors and omissions previously discussed could have been detected and corrected if proper documentation had been maintained and reviewed.

Conclusions

The risk for theft and other unauthorized use of food coupons is increased because FNS does not adequately enforce its management control requirements for inventory points, state agencies, and FNS regional offices. Without providing the required oversight of inventory points by state agencies and regional offices, FNS cannot ensure that food coupons are safe from theft. Also, the fair cost of losses to be borne by state agencies cannot be determined.

The FNS financial reporting process does not produce reliable financial statements. Accounting personnel are not properly applying GAAP and Treasury requirements in preparing FNS's financial statements and reports to OMB and Treasury. We believe this is attributable to the staff

¹Internal Controls: Food and Nutrition Service Lacks Effective Controls (GAO/AFMD-88-16, March 18, 1988) and Financial Audit: Food and Nutrition Service's Financial Statements for 1987 (GAO/AFMD-89-22, March 15, 1989).

not having a sufficient understanding of GAAP. The financial management staff are also not using sound methodologies to value assets and liabilities and are not maintaining documentation to support year-end financial reporting.

Furthermore, although we were able to audit FNS's financial statements by performing additional substantive testing rather than relying on the system of internal accounting controls, improvements are needed to generate reliable accounting data. Without established methodologies to periodically review all of its critical general ledger accounts, FNS cannot ensure that its account balances are accurate and in accordance with GAAP.

Recommendations

To correct these weaknesses, we recommend that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to do the following:

- Enforce the FNS oversight of state controls over food coupons, including inventory audit procedures, recordkeeping, and reporting to FNS. Develop the policies and procedures necessary to ensure the consistent monitoring of state agency controls.
- Ensure that FNS staff are skilled in applying GAAP and in preparing financial reports to Treasury and OMB. A needs determination should be conducted to ascertain how many staff with accounting skills are needed, and a sufficient number should be engaged and properly trained to ensure the reliable accounting and financial reporting of the agency's transactions.
- Ensure that financial statements and reports are prepared using required accounting policies, procedures, and methodologies.

We further recommend that FNS follow the guidelines OMB established for its FMFIA reporting in its July 5, 1990, memorandum, including OMB Circulars A-123 and A-127, and carefully consider the significance of non-conformances when arriving at an overall statement of compliance.

Agency Comments

We provided a draft of this report to FNS officials for comment. They generally concurred with our findings and recommendations and informed us that they have initiated the following corrective actions.

- Reviews of state audits have been conducted in fiscal year 1990 by the two FNS regional offices which had not monitored the states within their

regions. Further action to strengthen inventory oversight and controls will be developed based on an examination of FNS, GAO, and Office of Inspector General review findings and investigations. Resources and guidance will be directed toward states and types of issuance/inventory facilities identified as presenting the greatest risk to coupon security.

- Two actions have been taken to ensure that FNS's financial statements and external reports are prepared properly. First, FNS instituted a quality control procedure which requires the Director, Accounting Division, to personally review documentation proving that each external report or financial statement was prepared from the general ledger and is consistent with related reports or statements. Second, FNS has committed funds to increase the expertise of Accounting Division employees in applying accounting standards and preparing financial statements.
- Action has been initiated to have an outside consultant perform an objective study of FNS's accounting functions and a staff needs determination and make appropriate recommendations. The study should be completed by the end of January 1991.
- Appropriate actions will be taken to ensure that sufficient numbers of trained staff are assigned, based on the results of the needs determination and available resources.
- A draft of procedures and methodologies for preparing annual financial statements has been prepared.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Food and Nutrition Service (FNS) for the fiscal years ended September 30, 1988 and 1987, and have issued our opinion thereon. Our audits were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our consideration of FNS's compliance with laws and regulations for the year ended September 30, 1988. Our report on compliance with laws and regulations for the year ended September 30, 1987, is presented in GAO/AFMD-89-22, dated March 15, 1989.

The management of FNS is responsible for compliance with laws, regulations, contracts, and grants applicable to FNS. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine FNS's compliance with provisions of the following laws and regulations which could have a material effect on FNS's financial statements if not complied with:

- Federal Managers' Financial Integrity Act (31 U.S.C. 3512 (b) and (c));
- Anti-Deficiency Act (31 U.S.C. 1341, 1342, and 1511-1519);
- Debt Collection Act of 1982 (31 U.S.C. 3302, 3711, and 3717);
- Prompt Payment Act (31 U.S.C. 3901-3906);
- Legislation requiring agencies to annually certify obligations (31 U.S.C. 1108);
- Accounting and Auditing Act of 1950 (Public Law 81-784);
- OMB Circular A-102 concerning requirements for grant programs;
- Treasury Circular 1075 concerning requirements for Letters of Credit with grantees; and
- Legislation concerning the food stamp program (7 U.S.C. 2011-2027, 2029).

The results of our tests for fiscal year 1988 indicate that, with respect to the items tested, FNS complied in all material respects with the provisions of laws and regulations that could have a material effect on its financial statements. With respect to transactions not tested, nothing came to our attention that caused us to believe that FNS had not complied, in all material respects, with those provisions. However, there was one related matter, which although not material to the FNS financial statements, in our view warrants comment. This matter is discussed below.

**Use of Funds From Civil
Penalties**

We found one instance where FNS was not in compliance with a provision of the Food Stamp Act. Under section 12 of the Food Stamp Act (7 U.S.C. 2021), FNS has the authority to impose civil money penalties against a retail or wholesale food concern which violates any provision of the act or its implementing regulations. While FNS has authority to deposit funds collected from households or state agencies based on the Food Stamp Act to the food stamp appropriation account, FNS's authority does not include civil penalties collected from food retailers and wholesalers. Therefore, collections of civil penalties should be deposited with Treasury and not used for agency operations. However, we found that FNS credited the food stamp appropriation account for \$119,949 in civil penalties collected from food retailers and wholesalers during fiscal year 1988. We brought this issue to FNS's attention during the course of our audit. FNS agreed that collection of civil penalties should be accounted for separately and has agreed to take corrective action.

Financial Statements

Statements of Financial Position

As of September 30, 1988 and 1987
(Dollars in thousands)

	<u>1988</u>	<u>1987</u> (as restated)
Assets:		
Funds with U.S. Treasury (Note 6)	\$1,899,617	\$1,645,980
Accounts Receivable net of allowance for doubtful accounts (1988 \$256,827; 1987 \$202,956) and Advances (Note 1)	265,720	189,788
Property, Plant, and Equipment net of accumulated depreciation (1988 \$2,982; 1987 \$2,462)	<u>5,737</u>	<u>966</u>
Total Assets	<u>\$2,171,074</u>	<u>\$1,836,734</u>
Liabilities:		
Accounts Payable, Principally to Grantees	\$ 828,456	\$ 970,993
Amounts Due Treasury (Note 1)	497,089	504,670
Unredeemed Food Coupons (Note 3)	<u>131,734</u>	<u>72,148</u>
Total Liabilities	<u>\$1,457,279</u>	<u>\$1,547,811</u>
Equity of the U.S. Government: (Note 9)		
Unexpended Appropriations	\$ 526,597	\$ 159,456
Invested Capital	<u>187,198</u>	<u>129,467</u>
Total Equity of the U.S. Government	<u>\$ 713,795</u>	<u>\$ 288,923</u>
Total Liabilities and Equity	<u>\$2,171,074</u>	<u>\$1,836,734</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statements of Operations

For the Fiscal Years Ended September 30, 1988 and 1987
(Dollars in thousands)

	<u>1988</u>	<u>1987</u> (as restated)
Financing Sources:		
Expended appropriations	\$19,435,982	\$19,332,478
Reimbursements earned and other	983	1,047
Food commodities transferred from other USDA agencies (Note 5)	<u>1,410,403</u>	<u>1,781,865</u>
Total financing sources	<u>\$20,847,368</u>	<u>\$21,115,390</u>
Operating expenses:		
Grants and subsidies:		
Food Stamp Program	\$13,093,813	\$12,416,608
Child nutrition programs	4,828,319	5,446,001
Other programs	2,721,711	3,039,361
Bad debt expense	53,871	202,956
Salaries and benefits and other	<u>84,738</u>	<u>74,920</u>
Total operating expenses	<u>\$20,782,452</u>	<u>\$21,179,846</u>
Excess of financing sources over operating expenses before correction of estimate	\$ 64,916	\$ (64,456)
Correction of estimate of unredeemed food coupons (Note 4)	<u>0</u>	<u>477,407</u>
Excess of financing sources over operating expenses after correction of estimate	<u>\$ 64,916</u>	<u>\$ 412,951</u>

The accompanying notes are an integral part of these financial statements.

Financial Statements

Statements of Changes in Funds With U.S. Treasury

For the Fiscal Years Ended September 30, 1988 and 1987
(Dollars in thousands)

	<u>1988</u>	<u>1987</u> (as restated)
Appropriations Received	\$20,219,558	\$19,058,570
Funds Returned to U.S. Treasury	(395,872)	(395,528)
Collections on Accounts Receivable	29,995	17,018
Outlays:		
Grant payments	(6,401,147)	(7,964,831)
Reimbursements to Federal Reserve Banks for food stamp redemptions	(13,114,622)	(10,415,563)
Administrative and other expenditures	<u>(84,275)</u>	<u>(78,126)</u>
Increase in Funds with U.S. Treasury	<u>253,637</u>	<u>221,540</u>
Funds with U.S. Treasury:		
Beginning of Year	<u>1,645,980</u>	<u>1,424,440</u>
End of Year	<u>\$ 1,899,617</u>	<u>\$ 1,645,980</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Entity and Basis of Accounting

The Food and Nutrition Service (FNS) was established August 8, 1969 per Secretary's Memorandum No. 1659 and Supplement 1 pursuant to the authority contained in 5 U.S.C. 301 and Reorganization Plan no. 2 of 1953. The agency administers USDA's eight food assistance programs: Food Stamp Program, Child Nutrition Programs, Special Milk Program, Special Supplemental Food Program for Women, Infants, and Children, Commodity Supplemental Food Program, Cash and Commodities for Selected Groups, Nutrition Assistance for Puerto Rico, and the Temporary Emergency Food Assistance Program. The food assistance programs are intended to provide access to a nutritionally adequate diet for families and persons with low incomes, and encourage better eating habits among the nation's children. The programs also help to expand markets for food produced by American farmers. Each year these programs serve approximately 51 million people.

FNS is under the jurisdiction of the Assistant Secretary for Food and Consumer Services. FNS is headed by an administrator with overall policy formulated in the FNS headquarters in Alexandria, Virginia and implemented through seven regional offices and 75 field offices. At the state level, state departments of education have responsibility for food programs serving children in schools, child care centers, and summer recreation centers. State departments of health, welfare, and agriculture usually have responsibility for programs providing food stamps or supplemental foods.

FNS maintains eight appropriation funds. The financial statements include all funds for which the FNS is responsible and are presented in accordance with generally accepted accounting principles as prescribed in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. All significant intra-fund balances and transactions have been eliminated.

B. Accounts Receivable

Accounts receivable principally represent claims against individuals who have been overissued food stamp benefits. States are responsible for identifying instances of over-issuance as well as processing related billings and pursuing collections. Periodically, states report summary information to the FNS Regional Offices on the status of the claims and remit collections of past due amounts. To

encourage aggressive collection efforts, FNS permits the states to retain a percentage of the amounts collected for certain categories of overissuances. Accordingly, the accounts receivable balances include only amounts due FNS.

Recognition of accounts receivable reduces expenses in the current year. However, budgetary authority has been used in financing the original expenditure, and, therefore, is included in expended appropriations. Therefore, an excess of financing sources over expenses is reported annually and is reflected in invested capital (Note 9).

All accounts receivable are recorded net of an allowance for doubtful accounts. During 1987 FNS began the practice of reviewing the history of collections as the basis for determining the proper allowance for doubtful accounts. Because it was not possible to determine which portion of the 1987 bad debt expense should have been recorded in prior years the entire adjustment was recorded in 1987.

Net proceeds from the collections of prior year grants accounts receivable and food stamp accounts receivable due from retailers/wholesalers are not to be used for agency operations but should be deposited with the U.S. Treasury as miscellaneous receipts. Accordingly, FNS establishes a liability to Treasury for the amount of expected collections from these receivables.

C. Recognition of Financing Sources

Financing sources are provided through Congressional appropriations on both an annual and multi-year basis. Net proceeds from the collections of food stamp accounts receivable due from recipients and governmental entities are also included as a financing source. The collections may be used to fund program expenditures for food stamps, grants and other types of food assistance as specified by law as well as operating expenses.

The current budgetary process does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources (outlays) as paid. For financial reporting purposes under accrual accounting, however, operating expenses are recognized currently while expenditures for capital and assets are capitalized and are not recognized as expenses until they are consumed in FNS's operations. Financing sources for these expenses, which derive both from current and prior year appropriations, are recognized on these same bases.

FNS issues grant awards for anticipated program expenses and throughout the year obligates funds for these grants. When FNS obligates funds, they record this portion of unexpended appropriations as an undelivered order. Obligations are reduced when expenses are reported to FNS as incurred by grantees. At year-end, the unused portion of grant awards are shown on the statement of financial position as unexpended appropriations. Unobligated balances available for future periods are also shown as unexpended appropriations.

D. Grants

FNS grant programs usually provide funds to grantees through a letter of credit process. This process allows the grantees to draw on established credit balances, as needed, to pay expenses associated with their grants. It also allows the federal government to hold funds until the grantees need the funds to pay program expenses. Each FNS region is responsible for awarding and managing grants. In addition, the FNS regions authorize and monitor letters of credit cash needs and approve individual requests for cash. The grant expenses recorded on the statement of operations are based on expenditure reports submitted by the grantees. FNS reviews these reports for reasonableness and uses a computer edit to verify the mathematical accuracy of the reports. On a selective basis, FNS visits grantees and reviews the supporting data for the expenditure reports. In addition, FNS relies on audits of grantees performed by USDA/OIG and by independent auditors under the Single Audit Act of 1984 for determining the validity of expenses.

E. Liability For Unredeemed Food Coupons

FNS is liable for the unredeemed food coupons issued since the inception of the Food Stamp Program. Consequently, a liability is recorded when food coupons are issued and reduced when redeemed. The agency does not record the redemption value of food coupons as inventory in the accounting records. Food coupons are recorded as an expense and a related liability at the time they are issued.

F. Amounts Due Treasury

Amounts Due Treasury include expected collections on prior grants accounts receivable, and food stamp accounts receivable due from retailers/wholesalers, as well as funds no longer needed to satisfy the unredeemed food coupon liability.

G. Transferred Commodities

As described in note 5, FNS distributes food commodities primarily through its Child Nutrition Programs, Temporary Emergency Food Assistance Program, Commodity Supplemental Food Program, Food Distribution Program on Indian Reservations, and Nutritional Program for the Elderly. FNS recognizes the financing source and related expense of these commodities at the time they are transferred to state agencies for distribution. FNS receives these food commodities through transfers from other USDA agencies.

H. Property and Equipment

The majority of the reported property represents ADP software and equipment. Property and equipment are valued at cost. Expenditures for major additions, replacements, and alterations are capitalized. Property and equipment is depreciated using a straight line method over estimated useful lives ranging from 5 to 20 years.

I. Restatement of FY 1987 Financial Statements

The fiscal year 1987 statements of financial position and operations, changes in financial position, and reconciliation to budget have been restated to recognize FNS' use of transferred commodities, and to reflect corrections to accounts receivable, accounts payable, and other liabilities. In total, these changes have decreased assets by \$152.1 million, decreased liabilities by \$363.6 million, and increased equity by \$211.5 million. Additionally, financing sources and expenses have been increased by \$1.6 billion.

Additionally, certain items on the fiscal year 1987 financial statements have been reclassified to conform with the current year's presentation.

Commodity transfers

Commodities transferred from other USDA agencies and the related expense has been recognized on the fiscal year 1987 statement of operations because the transfer and use of food commodities are an integral part of FNS' mission and programs. Therefore, the fiscal year 1987 statements recognize the transfer of food commodities and the related expense of \$1.8 billion. Purchases of food commodities using FNS appropriations were previously recognized on the financial statements.

Accounts receivable corrections

The fiscal year 1987 financial statements have been restated to recognize the advance of \$34.8 million to another USDA agency to purchase food commodities. The other USDA agency had not used these FNS funds as of September 30, 1987. Previously this advance was recognized as a program expense and financing source, and omitted as an asset and equity. Therefore, accounts receivable and advances, and unexpended appropriations have been increased by \$34.8 million.

Prior to fiscal year 1987, FNS believed collections of accounts receivable were due back to Treasury, and accordingly, FNS established a liability to Treasury for the amount of expected collections. However, fiscal year 1988 research indicated that FNS is entitled to use collections on certain accounts receivable. Accordingly, the fiscal year 1987 financial statements have been restated to decrease the liability, amounts due to Treasury, and increased equity, invested capital, by \$128.5 million.

Accounts payable corrections

Accounts payable for fiscal year 1987 have been restated to correct an error in estimating accounts payable because FNS did not perform sufficient work to establish the validity of the unliquidated obligations. Assuming all unliquidated obligations are valid, FNS divided this account between undelivered orders (part of unexpended appropriations) and accounts payable. Fiscal year 1988 research indicated that \$232.6 million of unliquidated obligations were not valid, and accordingly, the fiscal year 1987 financial statements have been restated to decrease accounts payable by \$232.6 million. Since \$184.4 million is based on obligational authority which would have lapsed if FNS had known the unliquidated obligations were not valid, the fiscal year 1987 statements reflect a decrease in funds with U.S. Treasury by \$184.4 million, and an increase in unexpended appropriations by \$48.2 million. Accordingly, expended appropriations and program expenses have also been decreased by \$232.6 million.

Funds with U.S. Treasury not available

On the fiscal year 1987 financial statements, other liabilities represented suspense account balances of funds with U.S. Treasury. Fiscal year 1988 research indicated that FNS does not have authority to use these funds. Accordingly, funds with U.S. Treasury and other liabilities have been decreased by \$2.5 million.

Note 2. Intragovernmental Financial Activities

FNS's financial activities interact with and are dependent upon those of the federal government as a whole. Thus, FNS's financial statements do not reflect the results of all financial decisions and activities applicable to it, as if it were a stand-alone entity.

- o FNS's financial statements are not intended to report the agency's proportionate share of the federal deficit or of public borrowing, including interest thereon. Financing for budget appropriations reported on FNS's statement of operations could derive from tax revenues or public borrowing or both; the ultimate source of this financing, whether it be tax revenues or public borrowing, has not been specifically allocated to FNS.

- o During fiscal years 1988 and 1987, FNS's employees participated in the contributory Civil Service Retirement System (CSRS), or Federal Employees Retirement System (FERS), to which FNS makes matching contributions. FNS does not, however, report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees since this data is reported in total by the Office of Personnel Management.

FNS's total contributions for CSRS and FERS participants, including contributions to Federal Insurance Contributions Act (FICA), during fiscal year 1988 and 1987 were as follows:

	<u>1988</u>	<u>1987</u>
CSRS	\$3,521,322	\$3,663,425
FERS	2,004,104	871,113
FICA	<u>56,459</u>	<u>71,269</u>
 Total FNS Contributions	 \$5,581,885 =====	 \$4,605,807 =====

While FNS has no liability for future payments to employees under these programs, the Federal Government is liable for future payments to employees through the various agencies administering the programs.

- o FNS leases facilities, primarily office space, from USDA and other organizations. These leases are cancelable without penalty. Fiscal year 1988 and 1987 rent expenses for these leases amount to approximately \$339,000 and \$ 330,000, respectively.

Note 3. Commitments and Contingencies

A. Undelivered Orders

FNS is committed under obligations, primarily for contracts and grants, it has incurred as of September 30, 1988 and 1987 for goods and services which have been ordered but not yet received (undelivered orders). As of September 30, 1988 and 1987, aggregate undelivered orders amounted to \$145,079,000 and \$79,924,000, respectively.

B. Unredeemed and Unissued Food Coupons

As discussed in Note 1, FNS records a liability for the value of issued food coupons. FNS is also contingently liable for the value of all food coupons which have been produced but not yet issued. Such food coupons are under the control of the companies which produce, distribute and transport the coupons, as well as the states who control the inventories of food coupons available for issuance. Although FNS is indemnified for missing food coupons by these entities, they must honor all redeemed food coupons.

The Food Stamp Program is administered primarily by the states in accordance with federal regulations. Monthly allotments are computed by the states' departments of human services using standards for eligibility promulgated by FNS.

To assure that the supplies of food coupons are sufficient to meet monthly issuance amounts, states maintain several month's supply of food coupons in inventory. State officials may manage inventory points directly or may enlist the services of private companies to provide storage and transportation services.

States regularly report inventory balances, issuance amounts, and transfer and shipping information to FNS regional offices. FNS regional offices review state operations to assure that food coupons are adequately safeguarded and that the Food Stamp Program is properly managed. In addition to state oversight by FNS regional offices, FNS maintains additional oversight operations to assure that the food stamp program is operating in compliance with relevant laws and regulations. For example, FNS compliance branch personnel review retailers participating in the Food Stamp Program to determine that only eligible food items are exchanged for food coupons.

In fiscal year 1988 and 1987, food coupons were produced by two independent printing companies under contract with FNS.

Throughout the production and shipment process, all food coupons are the responsibility of the printing, distribution, or shipping companies. FNS authorizes all production amounts and directly oversees the production process to assure that quality production standards are met and that all authorized food coupons are adequately accounted for and safeguarded.

The ending balance of the food coupon inventory as of September 30, 1988 and 1987 is comprised of the following (dollars in millions):

	September 30, 1988	September 30, 1987
Value of food coupons held at States	\$3,586	\$3,462
Value of food coupons held at printing companies	<u>3,515</u>	<u>4,063</u>
Total value of food coupons produced but not issued	\$7,101 *****	\$7,525 *****

FNS relies on the cooperation of retailers, commercial banks, and the Federal Reserve Banks to adequately control the process for redeeming negotiated food coupons. FNS policies require retailers and commercial banks to cancel food coupons upon receipt to prevent against food coupons being redeemed more than once. Federal Reserve Banks additionally cancel, count for accuracy, inspect for authenticity, and destroy to prevent recirculation all food coupons that have been presented by commercial banks.

Note 4. Correction of Estimate for Unredeemed Food Coupons

The adjustment of the unredeemed food coupon liability at September 30, 1987, reduced an overstatement that had developed over several years. Contributing to the overstatement was the practice by FNS of not recording as reductions to food stamp program expense and unredeemed food coupons, the value of food coupons returned to inventory as undeliverable through the mail. The effect of this practice was to create and maintain a balance in the unredeemed food coupons account higher than the value of food stamps

actually issued. FNS also believes that a number of food stamps are lost or destroyed after issuance and, therefore, will never be redeemed. Both conditions contributed to the continuous growth of the unredeemed food coupon liability.

To rectify the overstatement for the fiscal 1987 statement of financial position, FNS reduced the unredeemed food coupon liability by approximately \$477.4 million, and reported this adjustment as a liability, amounts due Treasury. Because the amount of the overstatement pertaining to fiscal year 1987 could not be distinguished from the amounts pertaining to prior years, the full amount of the adjustment was recognized in the fiscal year 1987 statement of operations. This adjustment caused financing sources to exceed expenses in the fiscal year 1987 statement of operations. Consequently the effect on prior year government equity was not determinable.

Note 5. Purchased and Transferred Commodities

During 1988 and 1987, FNS distributed over \$1.6 billion and \$2.0 billion, respectively, of commodities primarily through its Child Nutrition Programs, Temporary Emergency Food Assistance Program, Commodity Supplemental Food Program, Food Distribution Program on Indian Reservations, and Nutritional Program for the Elderly. FNS acquired these commodities by purchase, using its own appropriations, and by transfer at no charge to FNS appropriations from the Agricultural Stabilization and Conservation Service (ASCS) and the Agricultural Marketing Service (AMS). These commodities are an integral part of FNS's mission and programs. Generally accepted accounting principles require that the entire cost of these commodities and their related financing sources be recognized. Therefore, the fiscal year 1988 statements recognize the transfer of food commodities and the related expense of \$1.4 billion. The fiscal year 1987 financial statements have also been restated to recognize the transfer of \$1.8 billion in food commodities.

The following schedules provide details on the estimated commodities distributed by FNS by source and program for 1988 and 1987:

Financial Statements

<u>Distributed by</u>	<u>Transferred from</u>		<u>Purchased by</u>	<u>Total</u>
	<u>AMS</u>	<u>ASCS</u>	<u>FNS</u>	
FY 1988				
Child Nutrition Programs	\$400,285,250	\$ 322,384,904	\$139,940,790	\$ 862,610,944
Other Programs	<u>15,158,273</u>	<u>672,574,684</u>	<u>73,757,174</u>	<u>761,490,131</u>
Total	<u>\$415,443,523</u>	<u>\$ 994,959,588</u>	<u>\$213,697,964</u>	<u>\$1,624,101,075</u>
FY 1987				
Child Nutrition Programs	\$391,015,503	\$ 393,567,919	\$121,885,541	\$ 906,468,963
Other Programs	<u>13,931,120</u>	<u>983,350,440</u>	<u>119,802,250</u>	<u>1,117,083,810</u>
Total	<u>\$404,946,623</u>	<u>\$1,376,918,359</u>	<u>\$241,687,791</u>	<u>\$2,023,552,773</u>

Although overall authority to distribute these commodities to eligible recipients rests with FNS, FNS delegates this responsibility to the state and local governments which are required to maintain complete and accurate records on the receipt, disposal, and inventory of the commodities and to provide FNS with monthly inventory reports. However, legal title to these commodities passes when the commodities have been distributed to the states. As of September 30, 1988 and 1987, food commodities remaining in inventory at the state level available for distribution to eligible recipients were \$296 million and \$244 million, respectively.

Note 6. Funds with U.S. Treasury

FNS does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The balance in the U.S. Treasury consists of all unexpended balances of FNS accounts with the U.S. Treasury. As of September 30, 1988 and 1987, funds available to pay outstanding obligations, amounts due to Treasury, and amounts available until expended or obligational authority lapses were \$1,899,617,000 and \$1,645,980,000, respectively.

Note 7. Supplemental Appropriation for Child Nutrition Program

During 1986 grantees of the Child Nutrition Program incurred approximately \$117,000,000 of expenses in excess of appropriations. During fiscal 1987 FNS received a

supplemental appropriation to cover the prior years' expense. In presenting the 1987 financial statements, the appropriation was recorded as an increase to cumulative results of operations. No supplemental appropriation was enacted during fiscal 1988.

Note 8. Statement of Reconciliation to Budget Reports

The schedule below reconciles total operating expenses with outlays, as reported in the Office of Management and Budget Report, SF-133, Report on Budget Execution, for fiscal years ended September 30, 1988 and September 30, 1987 (dollars in thousands). Outlays as presented in the Statement of Changes in Funds with U.S. Treasury represent cash payments made by FNS. These differ from outlays reported on the SF-133 for two reasons: Outlays on the SF-133 include amounts transferred to an FNS account at Treasury for food coupons issued which may not have been redeemed. Collections on accounts receivable reduce reported outlays.

	<u>1988</u>	<u>1987</u> (as restated)
Total Operating Expenses (as Reported on the Statement of Operations)	\$20,782,452	\$21,179,846
Items Not Requiring Outlays:		
Depreciation and Other	(599)	(457)
Bad Debt Expense	(53,871)	(202,956)
Food Commodities used in FNS programs	(1,410,403)	(1,781,865)
Net (Increase) Decrease in Accounts Payable and Other	<u>189,626</u>	<u>(854,000)</u>
Total Expenses Not Requiring Outlays	(\$ 1,275,247)	(\$ 2,839,278)
Other Items Not Affecting Outlays:		
Capital Expenditures	5,370	366
Receivables Offsetting Expenses	87,808	137,579
Net Advances	29,811	0
Debit Vouchers Not Processed by Treasury	<u>0</u>	<u>3,839</u>
Total Expenses and Other Outlays	<u>\$ 122,989</u>	<u>\$ 141,784</u>
Total Outlays	<u>\$19,630,194</u>	<u>\$18,482,352</u>

Note 9. Equity of the U.S. Government:

Equity of the U.S. Government consists of Unexpended Appropriations, and Invested Capital.

Unexpended Appropriations

Unexpended Appropriations include the undelivered orders and unobligated balances of the FNS funds which receive Congressional appropriations through the budgetary process.

Obligations of appropriated funds are recorded as undelivered orders. Undelivered orders are relieved by either an expenditure of appropriated funds or an obligation cancellation. Appropriated funds which are not obligated are included in Unexpended Appropriations on the Statement of Financial Position. At the end of the fiscal year, certain multi-year appropriations which have unobligated balances remain available to FNS for obligation in future periods. Unobligated appropriations returned to the U.S. Treasury may be made available for restoration to FNS subject to administrative determination.

The following schedules detail the changes in unexpended appropriations for the fiscal years ended September 30, 1988 and September 30, 1987 (dollars in thousands):

Financial Statements

Activity in the Unexpended Appropriation Account for Fiscal Year 1988

	Fiscal Year 1988 <u>Appropriations</u>	Undelivered <u>Orders</u>	Unobligated <u>Balances</u>	<u>Total</u>
Beginning Balance, October 1, 1987		\$ 79,924	\$ 79,532	\$159,456
Changes in Beginning Balances:				
Expenses Charged Against Prior Year Appropriations		(34,767)		(34,767)
Funds Withdrawn		(43,784)	(79,371)	(123,155)
Changes Attributed to FY 1988 Appropriations:				
FY 1988 Appropriations	\$20,259,185			
Transfer Out Under Food Stamp Appropriation	(39,627)			
Expenses Charged Against FY 1988 Appropriations	(19,366,312)			
Advances Charged Against FY 1988 Appropriations	(64,577)	64,577		64,577
Unliquidated Obligations as of September 30, 1988	(79,129)	79,129		79,129
Unobligated 1988 Appropriations Funds Withdrawn	(381,357)		381,357	381,357
Treasury Funds Restored	(328,183)			0
Ending Balance, September 30, 1988		\$145,079	\$381,518	\$526,597
Increase in Unexpended Appropriations				\$367,141

Financial Statements

Activity in the Unexpended Appropriation Account for Fiscal Year 1987 (as Restated)

	<u>1987</u>	<u>Undelivered orders</u>	<u>Unobligated balances</u>	<u>Total</u>
Beginning Balance, October 1, 1986		\$898,784	\$ 9,966	\$908,750
Changes in Beginning Balances:				
Expenses Charged Against Prior Year Appropriations		(870,892)	(10,211)	(881,103)
Funds Withdrawn		(27,892)		(27,892)
Changes Attributed to FY 1987				
Appropriations:				
FY 1987 Appropriations	19,058,570			
Expenses Charged Against FY 1987 Appropriations	(18,766,618)			
Advances Charged Against FY 1987 Appropriations	(34,767)	34,767		34,767
Unliquidated Obligations as of September 30, 1987	(45,157)	45,157		45,157
Unobligated 1987 Appropriations	(79,532)		79,532	79,532
Funds Withdrawn	(132,496)			
Treasury Funds Restored		_____	245	245
Ending Balance, September 30, 1987		\$ 79,924	\$79,532	\$159,456
Decrease in Unexpended Appropriations				(\$749,294)

Invested Capital

Invested Capital represents the Government's net investment in FNS's property and equipment and the total surplus from anticipated collections on accounts receivable to which FNS is entitled under the Food Stamp Act of 1977. Because its programs are funded with appropriations, prior to fiscal year 1987 FNS believed collections of accounts receivable were due back to Treasury. However, fiscal year 1988 research indicates that FNS is entitled to use collections from food stamp receivables except those collected from retailers/wholesalers.

The following is a summary of the activity in invested capital for fiscal years 1988 and 1987 (dollars in thousands):

	<u>1988</u>	<u>1987</u> (as restated)
Beginning Balance	\$129,467	\$103,928
Supplemental Appropriation for FY 1986 Expenses	_____	<u>117,347</u>
Beginning Balances After the Supplemental Appropriation	\$129,467	\$221,275
Excess of Financing Sources Over Operating Expenses	<u>64,916</u>	<u>412,952</u>
Total Beginning Balance and Excess Financing Sources Over Operating Expenses	194,383	634,227
Excess Financing Sources Due to Treasury for FY 1986		(124,220)
Excess of Financing Sources Due to Treasury for FY's 1988 and 1987	(11,956)	(380,451)
Capital Expenditures	5,370	366
Current Year Depreciation	<u>(599)</u>	<u>(455)</u>
Ending Balance	<u>\$187,198</u>	<u>\$129,467</u>

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