GAO
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-283112

August 30, 1999

The Honorable Richard W. Riley
The Secretary of Education

Subject: Budget Issues: The Importance of Increased Accuracy of Budget Outlay Estimates

Dear Mr. Secretary:

In May, we briefed the staff of the Subcommittee on Labor, Health and Human Services, Education and Related Agencies, House Committee on Appropriations, on how the Department of Education estimates, tracks, and reports on its budget outlays. In the course of this earlier work, we found that the Department of Education has the opportunity to better monitor budget outlay rates and potentially increase the accuracy of budget outlay estimates.

Results in Brief

In an environment in which the caps on new discretionary budget authority and on outlays are increasingly constraining federal spending, it is important that congressional decisionmakers have accurate estimates of program outlays. More accurate estimates provide greater confidence that program funding will be within overall discretionary limits without restricting spending further than is necessary. Moreover, management reforms such as the Government Performance and Results Act (GPRA) and the Chief Financial Officers (CFO) Act reinforce the need for better planning and cost data.

The increased importance of budget outlay estimates raises questions about whether the department's outlay estimating process is as accurate as it can be. The department currently groups similar grant programs and then estimates that they will spend funds at the same rate. While this is an acceptable practice, it can mask differences between programs and changes that can occur over time. For example, spending patterns may change as a new program matures and program requirements are fully established or as the result of a change in policy. The recent implementation of Education's Grant Administration and Payment System (GAPS) enables the department to identify and track separately the actual rate of budget outlays at the program level and provides an opportunity for improving budget outlay estimates.

167709

Scope and Methodology

We selected the following grant programs to use as case studies: Technology Literacy Challenge Fund, Migrant Education-Basic State Grant, Migrant Education-High School Equivalency, Special Education-Grants for Infants and Families, and Technology Innovation Challenge Grants. We based our selections on information from officials at the Department of Education, data provided by the Office of Management and Budget (OMB), and consultation with congressional staff and the Congressional Budget Office (CBO).

Once we completed our selections, we interviewed Department of Education officials from each of the selected grant programs and the offices of Budget Service, the CFO, and the Inspector General. We reviewed data provided by each of the programs and by the offices of Budget Service and the CFO. We conducted our work in accordance with generally accepted government auditing standards from December 1998 through April 1999.

Accurate Outlay Estimates Are Increasingly Important

A changing budget environment has led to an increased emphasis on the need for and use of budget outlay data.[1] The advent of initiatives such as the GPRA and the CFO Act make good cost data, and by extension accurate budget outlay information, necessary requisites.

Under the Budget Enforcement Act of 1990 (BEA), as amended,[2] budget authority (BA) and budget outlays for discretionary programs are constrained by spending caps.[3] If the amount of outlays for a year estimated to result from budget authority exceeds the cap on outlays, the BEA requires a procedure, called sequestration, for reducing spending. A sequestration reduces spending for most programs by a uniform percentage.[4] As budget outlay limits have become more restrictive, the accuracy of budget outlay estimates has gained in importance.

---

[1]To develop outlay estimates, agencies calculate what they expect to outlay each year from available budget authority, i.e., new budget authority and authority provided in earlier years that is likely to be spent that fiscal year. The rate at which a program spends budget authority during the period that authority is available is called the outlay rate.

[2]The Budget Enforcement Act of 1990 and subsequent amendments (the Omnibus Budget Reconciliation Act of 1993 and the Budget Enforcement Act of 1997) are collectively referred to as the Budget Enforcement Act (BEA). These acts are all amendments to the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act).

[3]BEA divides federal spending into (1) direct, or mandatory, spending controlled by permanent law and (2) discretionary spending controlled through annual appropriation acts, which is further subdivided and capped. These caps were most recently extended through fiscal year 2002 in the Budget Enforcement Act of 1997 (BEA-97).

[4]The BEA specifies special rules for reducing some programs and exempts some programs from sequestration.

Management reforms also provide an impetus for improving the accuracy of budget outlay information. We have stated in the past that to operate, manage, and oversee programs and activities efficiently and effectively, agencies need reliable, timely program performance and cost information and the analytic capacity to use that information.[5]

Agencies need to have reliable data during their planning efforts to set realistic goals and later, as programs are being implemented, to gauge their progress toward reaching those goals. GPRA requires that agencies update strategic operating plans at least every 3 years, and that agencies submit annual performance plans to the Congress starting with the budget submission for the fiscal year 1999. Although it is not a requirement, the availability of reliable budget outlay and cost data is necessary to increase the usefulness of performance plans for decision-making.[6]

The CFO Act also has set expectations for the development of better performance and cost measures and for results-oriented reports on the government's financial condition and operating performance.[7] The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies comply substantially with applicable federal accounting standards. Statement of Federal Financial Accounting Standards No. 4, paragraph 32, states that cost information is essential for (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursements and setting fees, (4) program evaluations, and (5) making economic decisions.

Education Budget Outlay Estimating Practices

Education's Office of Budget Service develops most of its budget outlay rates at the account level by grouping similar grant programs and assuming that they draw down or spend at the same rate. Although OMB requires agencies to report outlays only at the account level, the increased importance of outlay estimates for decision-making raises the question of whether Education can improve its process by using information on the actual rates of spending for the various grant programs within an account.

Education grant officials told us that spending varied for their programs, although much of the evidence provided was anecdotal. Under the Education Payment Management System (EDPMS),[8] most of the department's grant funds were pooled. In turn, recipients with multiple awards drew funds from their pool of grant funds.

---

[5]Managing for Results: Building on Agencies' Strategic Plans to Improve Federal Management (GAO/T-GGD/AIMD-98-29, October 30, 1997).

[6]Ewer, Sid R. "Managerial Cost Accounting: A Step Toward Accountability and Reliable Costing of Federal Programs," *The Government Accountants Journal, Spring 1999,* p. 52.

[7]Financial Management: Continued Momentum Essential to Achieve CFO Act Goals (GAO/T-AIMD-96-10, December 14, 1995).

[8]EDPMS, the department's legacy pay system, was used until May 1998.

Consequently, the department could not identify drawdowns to specific awards or even programs as they occurred. Expenditures to specific programs were not known until the recipients reported their expenditures back to the department.

According to the grant managers we interviewed, the action of the grantee is a primary factor in the timing of budget outlays. They told us that states may rely less on federal funds during good economic times and that this can change spending patterns. For example, spending in the Migrant Education-Basic State Grant program can vary greatly by the recipient state, the type of migrant population it serves, and changes in the economy. Policy decisions also can affect the rate of budget outlays. Budget outlay rates slowed considerably for several of the grant programs we reviewed after the Congress granted them expanded authority to carry over fund balances from one year to the next.

The department's recent experience with the Technology Literacy Challenge Fund (TLCF) grant program provides a specific example of account level estimates that were not sufficiently accurate to meet the needs of budget decisionmakers. Generally, the Office of Budget Service develops budget outlay rates at the account level. However, because concerns were raised that spending for the TLCF grant program was slower than expected, the department, according to a Budget Service official, required states to use special award and grant recipient numbers when drawing down funds for these grants. In this way, the department was able to identify obligations and outlays for the TLCF program separately and confirm that spending was slower than for other grant programs in the same account. As a result, the department lowered its estimates for the Education Reform account with the agreement of OMB and CBO. Although the department is required to report outlays at the account level, the Education Reform account is the only account that incorporates actual program level detail in developing budget outlay estimates.

<u>The Department's Capacity to Monitor and Estimate Budget Outlays Has Been Augmented Recently</u>

GAPS—a component of Education's recently implemented integrated financial management and information system[9]—provides Education with significantly enhanced ability to provide more reliable budget outlay information than in the past. Prior to GAPS, the department did not have timely information, as noted above, on how grants were allocated when multiple awards were given to one grantee. It took approximately 4 months for the grantee to report whether a drawdown was for one award or more, or even if a drawdown had actually occurred. With GAPS, each drawdown is immediately matched to the specific grant program and account. Budget outlay data at the program level are available to the Office of Budget Service, the Office of the CFO, and the program offices as the budget outlays occur. This enables the department to incorporate actual program level detail for all grant programs in developing outlay estimates.

[9]Education Central Automated Processing Systems (EDCAPS). The GAPS component of EDCAPS was implemented on May 1, 1998.

Conclusion

Accurate budget outlay estimates are critical to decisonmakers when considering program funding needs. The current budgetary environment, which caps discretionary spending, and the emergence of recent management reforms have heightened the significance of accurate budget outlay data. Although the Department of Education's current practice of developing budget outlay data at the account level meets OMB's reporting requirements, the department now has the capability to monitor outlay data at the program level. Recently, Education implemented a management information system that potentially can produce more accurate budget outlay estimates or, at least, provide assurance that the current method of estimating budget outlays is as accurate as it can be. We found, however, that the use of budget outlay data varies by grant program offices, and, most important, that the Office of Budget Service is not using this information for estimating future spending. Except for the TLCF program, the Office of Budget Service does not use program level data to develop and update budget outlay estimates.

Recommendation

We, therefore, recommend that you direct the Office of Budget Service to systematically monitor budget outlay data available through GAPS and use this information to estimate and adjust spendout rates at the account level to reflect actual program level data.

Agency Comments

On July 27, 1999, we provided a draft of this letter to the Department of Education. On August 11, 1999, the Director of the Office of Budget Service provided written comments stating that the department concurred with our recommendation and will use actual program outlay data to develop account level outlay estimates beginning with the fiscal year 2001 budget submissions to OMB and the Congress. In his response, the Director stated that his office strongly supports the new GAPS system and its ability to provide more accurate data, but noted that in the past the outlay rates used by Education were jointly agreed upon by Budget Service, OMB, and CBO. Moreover, account level rates were designed to reduce the number of projection rates used and facilitated outlay estimating by the Congress during the appropriations process. We have incorporated additional technical and clarifying comments as appropriate.

This letter contains a recommendation to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on action taken on this recommendation to the Senate Committee on Governmental Affairs and the House Committee on Government Reform not later than 60 days after the date of this letter. A written statement must also be sent 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 report.

We are sending copies of this report to Senator Tom Harkin, Senator James Jeffords, Senator Edward Kennedy, and Senator Arlen Specter and to Representative William Clay, Representative William Goodling, Representative David Obey, and Representative John Edward Porter, in their capacities as Chairmen or Ranking Minority Members of Senate and House Committees. We are also sending copies to other interested Members of the Congress, and we will send copies to others on request. If you or your staff have any questions regarding this letter, please contact me at (202) 512-9573. This report was prepared under the direction of Denise Fantone, Assistant Director. Other key contributors were Hannah Laufe and Marcus Melton.

Sincerely yours,

Paul L. Posner

Paul L. Posner
Director, Budget Issues

(935326)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested