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

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The Honorable Jamie L. Whitten  
Chairman, Committee on Appropriations H 300  
House of Representatives

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Dear Mr. Chairman:

Subject: Effectiveness of the Federal Apportionment Process and Implications for Budget Execution (PAD-80-5)

This is in response to your April 23, 1979, request that we study the effectiveness of the apportionment process. You also asked for our suggestions on strengthening budget execution through the apportionment process.

We have completed a survey of the process, which entailed:

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- indepth interviews with current and past budget officials of the Office of Management and Budget (OMB) and executive agencies regarding their experiences with the operations and effectiveness of the process and their suggestions for ways to improve it; and
- research of completed and ongoing General Accounting Office studies for information and ideas that relate to the process.

During our interviews and research, we addressed two key objectives of the Anti-deficiency Act, which controls the apportionment process: (1) the effective control over the use of appropriations so as to prevent the incurring of obligations at a rate which would lead to deficiency (or supplemental) appropriations, and (2) the most effective and economical use of budgetary resources. To help accomplish these objectives, reserves may be established by the apportioning officer. The funds may be reserved for contingencies and to show program savings resulting from changes in scope or greater operating efficiency.)

While we did not obtain written comments on this work, we did give OMB officials a formal briefing and we have considered their oral comments. Basically they did not disagree with our findings and the general future steps to be considered. We also presented the same briefing to representatives of the committee and have kept them informed of the progress of our work and ideas on this subject. This letter contains

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the results of our survey and describes several further steps that can be taken by your committee and others.

CURRENT APPORTIONMENT SYSTEM AND ITS  
ROLE IN MONITORING BUDGET EXECUTION

The two main objectives of the Anti-deficiency Act have considerable impact on the effective execution of the budget. To meet these objectives, the apportionment system goes beyond the formal apportionment of funds by OMB to Federal agencies. In broad terms, the apportionment system, which is synonymous with budget execution, is a process of many steps and many decisions about funding levels, including:

- congressional limitations
- financial plans
- apportionment of funds
- administrative control
- deferrals
- rescissions
- reserves
- allotments
- transfers
- reprogramming
- obligations
- deobligations
- monitoring financial data.

These various steps and decisions involve all agencies, OMB, and some congressional committees. To support this process, agencies develop considerable financial and workload data, some of which they report to OMB and the congressional committees involved.

We have concluded two things about the system as it currently operates. First, (there are fewer deficiency appropriations now than in the past.) The people we interviewed felt that the technical deficiencies that do occur are not a major problem. Second, there is a low priority on using

the apportionment process to ensure the effective and economical use of funds. The apportionment process is a good management tool, but it is not being fully used to monitor budget execution.) Right now we do not know the full extent to which it could or should be used.

Our observations that contribute to the second conclusion are delineated below.

(The mechanics of the apportionment system seem adequate) that is, the design of the communications flow and decision points appears to be well defined. The general policy guidelines in both the Examiners Handbook and OMB Circular No. A-34 are quite adequate. For example, OMB's policy is that if the program for the entire year is not firm, the amount known to be required should be apportioned and the balance reserved for subsequent apportionment during the fiscal year as operating plans are developed. Funds not required for the fiscal year should be rescinded or deferred. Similarly, OMB has requirements and guidelines for financial plans and for monitoring execution. These guidelines, however, are not uniformly applied.

*but* The degree to which guidelines are followed and available data used at OMB is left/completely to the discretion of the individual budget examiners. *Consequently,* ~~these people,~~ budget execution is third priority, ranking below budget formulation, and legislative and policy proposals and analysis. ~~These~~ examiners emphasize the future; they have little time to monitor past and present performance.) This overall lack of emphasis on the apportionment process results in the following:

- Not all agencies submit their financial plans to OMB, and not all those submitted are used by the examiners in any systematic way to monitor agency progress against plans and to seek answers for variances.
- In some cases the level at which apportionments are made is too high. Most apportionments are made at the appropriation account level. However, many appropriations fund several different programs and activities with different financing methods and requirements. Where single apportionments are made for such appropriations, financial control of individual programs is

lost. The examiners are allowed to apportion at lower levels, but we noted too few instances where this is being done.

- (Little use is made of historical program performance or obligation trend data in establishing the apportionment periods or amounts.) Such data may underlie the financial plans developed by the agencies, but OMB does not systematically collect and use the obligation data to support its apportionment decisions. Individual examiners seem to rely on personal knowledge, agency recommendations, and tradition. An interesting contrast to this lack of emphasis on monitoring obligations is the emphasis on outlays, which are monitored closely and reported on a monthly basis. Having failed to take the opportunity to monitor and control obligations, little improvement in effective budget execution is gained by monitoring spending.)

*(Contrast the)*

CHANGES IN FEDERAL PROGRAMS AND BUDGET PROCESSES

Changes in programs

The shift in the relative mix of Federal programs and activities can be illustrated by comparing the Federal budgets for 1960 and 1978 according to object class distribution.

Federal Budget by Object Class

	<u>Percent of obligations</u>	
	<u>1960</u>	<u>1978</u>
Salaries and expenses	25	13
Contractual services	13	7
<u>Subtotal</u>	<u>38</u>	<u>20</u>
Insurance claims & indemnities	4	24
Grants, subsidies & contributions	6	24
<u>Subtotal</u>	<u>10</u>	<u>48</u>
Other	52	32
<u>Total</u>	<u>100</u>	<u>100</u>

Note the difference in subtotals between 1960 and 1978. This difference signifies a shift in the type of activities that are being publicly funded. In 1978 there were less funds available for programs normally appropriated annually, apportioned into comparatively equal quarters, and obligated at a relatively even rate during the fiscal year. (Less is now being spent on administrative activities and much more on funding the operations of entitlement programs and multi-year programs.) Although appropriations for these programs are not limited to one year, their apportionments are generally made annually, and their obligations are uneven during a fiscal year. The OMB budget examiners are now faced with more complex issues, requiring increased program analysis if funds are to be apportioned on a program basis and budget execution monitored. *(Let's also note that)*

Another consequence of this shift is that a much larger proportion of Federal Government programs and activities is financed by trust funds and multiyear appropriations. This in turn has resulted in a significant increase in the unobligated balance carried over at the end of each year--at the end of fiscal year 1971 it was \$181 billion, and for fiscal year 1978 it was \$290 billion. Thus the unobligated balance is now a greater portion of the total obligation authority made available by the Congress and subject to apportionment than it has been in the past. This has an effect on the way apportionments are made and on budget execution.

(Another change in the composition of the budget is the large growth in receipts and collections resulting from business-type transactions with the public.) They have grown from \$41 billion in fiscal year 1973 to \$78 billion in fiscal year 1978. Many of these receipts are automatically available for use by the executive branch without current action by the Congress. In addition, they are offset against budget authority and outlays in appropriation accounts (with respect to collections), in the budget summary tables, and in congressional budget resolutions. Interestingly, at the time OMB apportions funds to the agencies, the anticipated collections previously offset are added back. The effect of this is that gross amount of funds available is controlled through the apportionment process.

#### Changes in the budget process

Several (changes in the past few years in the executive and congressional budget processes have contributed to a deemphasis on effectively apportioning funds and monitoring budget execution.)

1. The Impoundment Control Act established the policy and procedures to ensure that funds made available by the Congress are not inappropriately impounded by the executive. In practice, this means the funds are apportioned by OMB to the agencies. Thus, the policy and pressure on the budget examiners is just the reverse of the economical and effectiveness mandate of the Anti-deficiency Act. For example, about 70 percent of the unobligated balance of Federal funds in 1979 includes full funding projects, long leadtime capital equipment purchases, construction activities, and loan funds. With this large proportion of multiyear programs, it should be expected that the number and amount of deferral requests to the Congress would be increasing. Funds not needed during a fiscal year should be deferred. Yet the number of deferral requests and their amounts have decreased considerably, from about \$25 billion in 1975 to about \$5 billion in 1978.

Because OMB apportions funds to agencies, it does not need to report deferrals under the current ground rules. Agency officials are also reluctant to initiate deferrals and cause added paperwork for themselves and OMB. Consequently, the incentive is strong to overestimate annual obligations and not to look too closely at budget execution. Agencies thereby avoid running into conflict with the reporting requirements for deferrals.

2. The Congressional Budget Act of 1974 placed formal congressional controls (including ceilings) on budget authority and outlays. The then existing appropriations and budget execution processes controlled budget authority and obligations. Thus, we now have various controls on budget authority, obligations, and outlays. However, the greatest public interest and policy attention has been given to outlays and to attempting to effect control at a late stage--when commitments are being paid. This has reduced the emphasis on obligations and the degree of control that can be effected at an earlier stage--before commitments are made.
3. The linkage among the various program and budget classification structures (i.e., the basic decision and control categories) has also become more complex with the addition of the congressional budget process and zero-base budgeting (ZBB) on top of the basic budget system. Legislative authorizations are made on the basis of programs and activities. Executive

agency budget formulation is based on ZBB decision units and packages, which can be applied to either organizations or programs. The President's Budget is constructed on the basis of appropriation accounts, as are the congressional appropriations and the executive apportionments. In short, (legislative authorizations and agency budget formulation are more program oriented, whereas budget execution is limited to control over appropriation account totals with little attention to individual programs. Monitoring the execution of program budgets within appropriation accounts requires special effort by agencies and/or budget examiners.) For busy policy officials, this is a difficult and unattractive.

FURTHER STEPS FOR CONSIDERATION

You asked us to give you our thoughts on additional steps that could be considered to help strengthen the budget execution process.

1. Budget execution monitoring does not have high priority in OMB. Therefore, we believe it is necessary to raise the priority given to monitoring budget execution. Both the legislative and the executive branches must clearly demonstrate that a change in emphasis is wanted. *GAO indicates that* It is not necessary to amend the Anti-deficiency Act; it is only necessary to give it renewed prominence and priority. A reassessment could be made of the operational responsibilities and workload of OMB, the agencies, and the Department of the Treasury for budget execution accounting, reporting, monitoring, and decision-making to determine if there are better ways to divide them.
2. A major part of a better monitoring process is that significant variances from planned programs and activities should be known and explained. *GAO* We believe there is a need to define and describe more precisely the types of analyses (beyond the traditional tracking of obligation rates) that could be performed to monitor budget execution.
3. (Not enough is being done to encourage and promote effective and economical use of funds; ~~we believe~~ there is a need to reestablish a greater degree of flexibility and discretion.

--to manage funds (subject to adequate congressional reporting),

--to create greater incentives for cost reduction by managers, and

--to change the deferral process which inhibits effective budget execution.

4. Current deficiencies in the linkages between budget formulation and budget execution hinder accountability. We believe (there is a need to improve accountability for programs and activities and also to streamline the budget process. The appropriation account structure could begin to be simplified, the linkage between budget formulation decisions and budget execution actions could be improved, and the utilization of apportionment/budget execution data that is currently available and helpful for monitoring execution could be improved.)
5. The apportionment process is a good management tool that is not being used to its potential. To support the process, agencies have developed considerable financial and workload data. However, the adequacy of existing data as a resource for monitoring budget execution is not known. We believe (there is a continuing need to identify budget execution data, assess their usefulness, and recommend further changes needed to make existing systems effective for monitoring budget execution.)

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In addition to the general steps we have outlined above there is a need to develop specific steps and studies. We recognize that some of our suggestions involve difficult political and management changes. We also recognize that some of our suggestions may cover issues not specifically under the jurisdiction of the Appropriations Committee and that you may wish to discuss them with the other committees. We would be pleased to discuss these ideas with you and representatives of the Committee.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report.



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At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, reading "Thomas B. Steitz". The signature is written in a cursive style with a large, looping initial "T".

Comptroller General  
of the United States