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United States General Accounting Office

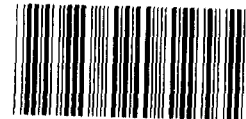
GAO

Report to the President and the Congress

December 1987

DEFICIT REDUCTIONS FOR FISCAL YEAR 1988

Compliance With the Balanced Budget and Emergency Deficit Control Act of 1985



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

Comptroller General
of the United States

B-221498

December 15, 1987

The President
The President of the Senate
The Speaker of the House
of Representatives

I hereby submit my report for fiscal year 1988 as required by section 253 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

Results in Brief

The General Accounting Office reviewed the reports prepared by the Director of the Office of Management and Budget (OMB) under section 251 of the act and the orders issued by the President under section 252 of the act. We applied a variety of tests that were designed to determine whether or not the requirements imposed by the act with respect to those reports and orders had been met.

We found a few accounts where we believe the act was construed incorrectly. The amounts involved are small. Our analysis of these accounts appears in appendix I of this report.

After examining the results of our tests, we conclude that, notwithstanding the matters discussed in appendix I, the reports and orders substantially complied with the act's requirements.

Objectives, Scope, and Methodology

Our review was designed to determine whether or not OMB and the President had fully and accurately complied with the act's requirements in their reports and orders of October 20 and November 20, 1987. This entailed a variety of tests to determine whether or not specific procedures required by the act had been implemented correctly.

For example, we used automated tests to ensure that the outlay rates from OMB's August 20 report had been used, as required, in the October and November reports. We replicated OMB's calculations of sequesterable resources, sequester percentage, and amount sequestered to ensure that these steps had been performed correctly. We examined differences between the August, October, and November OMB reports to ensure that the changes were consistent with the intervening amendments to the act. In a sample of accounts, we reviewed in detail the calculations needed to develop the 1988 baseline to ensure that the correct inflation

adjustments had been made. Because of the extensive interrelationships among defense accounts, we reviewed a higher proportion of those accounts.

We also compared the OMB reports with those issued a few days earlier by the Congressional Budget Office (CBO). We examined each case where there was a difference of \$5 million or more between OMB's estimate of sequesterable resources and that of CBO. We examined certain other cases where there was a large difference in nonsequesterable resources.

These tests, and the information we derived from discussions with officials of OMB, CBO, and the operating agencies, were sufficient to give us reasonable assurance that there was no pattern of errors affecting large numbers of accounts that would suggest a bias in the results. The tests were also sufficient to give us reasonable assurance that there were no unreported errors large enough to have altered the amount of the required sequester or to have altered materially its distribution.

The act required OMB to use the same economic and technical assumptions that it employed in its August 20 report. Our review, therefore, did not encompass an assessment of the validity or reasonableness of these assumptions. Accordingly, we are not rendering an opinion on the likely accuracy of OMB's estimates of revenues, outlays, and the deficit. However, in view of the passage of time since the original assumptions were set, it appears likely that they would be different if more recent data and current economic conditions were taken into account.

Other Matters

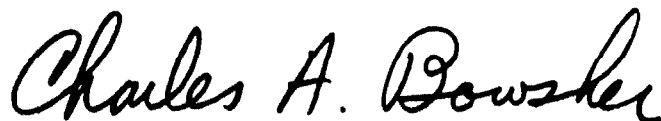
We continue to be concerned about the quality, timeliness, and reliability of the financial data underlying the budget process. As we have reported on other occasions, major improvements in the government's financial management systems are needed if decisionmakers are to have timely and reliable information as a basis for the policy choices they must make if they are to avoid sequestration. This problem may also impair effective implementation of the Balanced Budget and Emergency Deficit Control Act of 1985. Unreliable financial data substantially increase the difficulty of estimating the deficit and of ensuring that any required sequester is allocated appropriately.

We also continue to be concerned about the susceptibility of the current budget structure and process to short-term adjustments that do not solve—and may actually exacerbate—the long-term problem. Shifting revenues and outlays from one fiscal period to another can reduce the

cash deficit in one year. But the reduction is only temporary. In some situations—as with some sales of loan assets, for example—the long-term effect can be to produce a larger deficit than would otherwise occur.

The recent amendments to the act sought to ensure that savings produced by such devices were not counted in determining whether or not the deficit reduction target had actually been met. However, these provisions do not apply to the President's budget or to the congressional budget resolutions that continue to use traditional cash-based budgetary accounting. This could be a source of confusion in future years. The situation could arise, for example, in which a sequester could be required under the rules of the act even though traditional budgetary accounting suggested—because of asset sales and other one-time adjustments—that the deficit target had been achieved. We are currently examining these and other issues involving the budget process, some of which may have implications for procedures under the act. We will provide the results of that review in our report for fiscal year 1989, pursuant to section 253(3) of the act.

Copies of this report will be provided to interested congressional committees and to the directors of OMB and CBO and will be made available to other interested parties on request.



Charles A. Bowsher
Comptroller General
of the United States

Comments on Individual Accounts

Railroad Supplemental Annuity Pension Fund

The OMB report includes a sequester for the Railroad Supplemental Annuity Pension Fund because, in OMB's view, the Congress did not explicitly exempt this account. We believe the account should have been treated as exempt.

In the original Balanced Budget and Emergency Deficit Control Act of 1985, "Railroad retirement tier II (60-8011-0-7-601)" was classified in section 257(1)(A) as a program with automatic spending increases and was subject to special rules applicable to such programs. In the Omnibus Reconciliation Act, 1986, all programs in section 257(1)(A) were completely exempted from any reduction under the 1985 act. This exemption included all benefits paid out of account number 60-8011-0-7-601, including railroad retirement supplemental annuities, and OMB treated all railroad retirement benefits, including supplemental annuities, as exempt in its August 20, 1987, report under the 1985 act.

In section 104(b) of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, approved September 29, 1987, the 1986 exemption for "Railroad retirement tier II (60-8011-0-7-601)" was reenacted as an amendment to the 1985 act. However, during the time between enactment of the 1986 and 1987 legislation, OMB separated railroad retirement supplemental annuities from other tier-II benefits and placed the supplemental annuities in a new and separate account, 60-8012-0-7-602. When OMB issued its October 20, 1987, report, it treated as exempt only the tier-II benefits remaining in account 60-8011-0-7-601.

In our view, it is clear that the exemption enacted in 1986 was intended to apply to all benefits then paid from account 60-8011-0-7-601, including supplemental annuities. We believe it is equally clear that the Reaffirmation Act was intended to reenact, without substantive change, the 1986 exemption. (See H.R. Rep. No. 313, 100th Cong., 1st Sess. 61 (1987).) In our judgment, OMB should have treated railroad retirement supplemental annuities as an exempt program in its October 20 and November 20 reports, as it did in its August 20 report.

Compact of Free Association

CBO and OMB differed on the treatment of certain assistance to Micronesia under sections 122, 221, and 223 of the Compact of Free Association, Public Law 99-239. CBO treated all these items as appropriated entitlements and added \$27.9 million to the baseline as its estimate of the funding requirement. OMB treated these same programs as discretionary. Since there was no 1987 appropriation to the Compact account, OMB's

estimate for the baseline for these programs was zero. Our analysis suggests that two of the items are appropriated entitlements and two are not.

The assistance provided to the Compact states under sections 122 and 221(a) and (c) is in the form of in-kind services provided by various federal agencies; these services are to be continued on a nonreimbursable basis. We believe that OMB was correct in excluding these amounts from its baseline for the Compact account.

On the other hand, sections 221(b) and 223 of the Compact do create appropriated entitlements. Section 221(b) mandates a \$10 million annual payment to serve the special health care and educational needs of the inhabitants of the Compact states. Section 223 continues the post-secondary education benefits (Pell grants and other programs) that qualified students were receiving before the effective date for up to 4 years after the Compact's effective date. In our view, these sections create entitlements that must be liquidated by appropriations. To fully fund these entitlements, as required by the estimating procedures in the act, OMB should have included about \$16 million in budget authority in its baseline for 1988.

Radio Construction, United States Information Agency

OMB's sequester baseline for the United States Information Agency (USIA) account, Radio Construction (67-0204-0-1-154), incorrectly reflected \$20 million in permanent, indefinite budget authority for 1987. The \$20 million was recorded to cover an "obligation" incurred under an agreement with the Federal Republic of Germany. Under the agreement, the U.S. government assumed a contingent liability for reimbursing the German government if the United States terminates the agreement. The maximum potential liability under the agreement is \$20 million. USIA recorded \$20 million in budget authority and obligations in 1987 for the contingent liability. However, such liabilities give rise to true obligations only when there is a requirement to make the payment, a situation would occur only if and when the U.S. government cancels the agreement. Thus, USIA was incorrect in recording the budget authority and obligation, and OMB should have disregarded the \$20 million in calculating its baseline.

Corporation for Public Broadcasting

We agree with OMB's inclusion of \$214 million in the sequester baseline of the Corporation for Public Broadcasting (CPB) account, Public Broadcasting Fund (20-0151-0-1-503), but we do not believe it proper to report

an expected outlay savings of \$18.2 million for the account. The 1988 appropriation of \$214 million was completely obligated and disbursed before the initial and final sequester orders were issued. Under such circumstances, the budget resources are no longer available for reduction under the act. OMB acknowledges that the \$214 million was already disbursed but believes that the executive and legislative branches will be able to influence CPB to return an amount equal to the sequester amount, \$18.2 million. We find no basis for reflecting this assumption in the calculations required by the act.



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