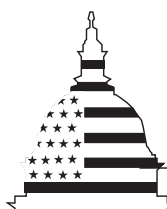

June 2001

BUDGET ISSUES

Agency Data Supporting Capital Project Funding Requests Could Be Improved



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United States General Accounting Office
Washington, DC 20548

June 8, 2001

The Honorable Mitchell E. Daniels, Jr.
Director
Office of Management and Budget

Dear Mr. Daniels:

On February 26, 2001, at the request of the Chairman, Senate Committee on the Budget, we issued a letter on incremental funding of capital asset acquisitions.¹ During the course of the work for that letter, we found that the information provided to appropriations committees in support of agency capital project requests was often incomplete and/or unclear. There were instances in which some capital project requests did not include the projects' total estimated costs and instances in which project descriptions were vague and/or very brief, making it difficult to determine future costs or whether the funding provided would produce usable assets. Since there is value in providing both executive and legislative decisionmakers with the best and most complete information possible, we are providing you a few examples of agency capital project funding request information that could be improved.

For the incremental funding study, we reviewed fiscal year 2001 budget justifications and agency documentation for 18 agencies involving approximately 700 individual projects. We identified and reviewed projects that had received funding through fiscal year 2000 and were still in progress. We conducted the incremental funding study from August through December 2000 in accordance with generally accepted government auditing standards.

We have previously reported² that full funding of capital projects is an important tool for maintaining governmentwide fiscal control. It helps to ensure that the Congress considers the full costs of proposed commitments and makes trade-offs based on the full costs. Failure to

¹*Budget Issues: Incremental Funding of Capital Asset Acquisitions* (GAO-01-432R, February 26, 2001).

²*Accrual Budgeting: Experiences of Other Nations and Implications for the United States* (GAO/AIMD-00-57, February 18, 2000) and *Budget Issues: Budgeting for Federal Capital* (GAO/AIMD-97-5, November 12, 1996).

recognize the full costs of proposed commitments when budget decisions are made could lead to distortions in the allocation of resources. It can also force future Congresses and administrations to choose between having unusable assets and continuing project funding for years, even after priorities may have changed. The Office of Management and Budget (OMB) and others in the budget community have supported and endorsed this concept. OMB requires agencies to prepare capital asset plans that are required to contain full cost estimates for capital projects. OMB also encourages long-term agency capital plans and suggests that they contain full cost estimates.

In our February report, we grouped capital projects into three categories based on the extent of funding they receive for stand-alone or useful segments: full funding, incremental funding, and high technology. Fully funded capital projects are those for which budget authority is, or appears to be, provided for the full estimated cost of a capital project or a stand-alone stage if the project can be divided into stages. Fully funded projects also include the survey and design of a capital project and any major upgrade or renovation that results in a usable asset. Incrementally funded capital projects are projects for which budget authority is, or appears to be, provided for only part of the estimated cost of a capital acquisition or a part of a usable asset—a part that would not be usable if no further funding were provided. High technology capital projects are incrementally funded projects for which budget authority is, or appears to be, provided for only part of the estimated cost of information technology acquisitions or projects that are highly dependent on research and development and for which the outcome is highly uncertain. Space exploration equipment would be an example of such a project. Incremental funding can be justified for high technology capital projects because such projects are often closer in nature to research and development, and funding provided on an incremental basis can provide useful knowledge even if no additional funding is provided.

Results in Brief

During our review of agency budget justifications, we found a number of capital project funding requests that lacked total project cost information and for which it was not always clear whether requested funding would provide a useful, stand-alone asset. Without this information, the Congress cannot consider the full costs of proposed commitments or determine if it is funding an asset that will be useful without additional funding. The examples illustrating these problems are ones that lent themselves to relatively easy description. Other agencies and examples could have been included, but these illustrated the problems most clearly. We are

recommending that you direct certain improvements in agency budget justifications. In commenting on the report, OMB officials agreed with the report's conclusion and said they would take action to implement the recommendation.

Lack of Total Project Cost Information

We found a significant number of ongoing capital projects for which total estimated project costs were not provided and could not be computed accurately because future funding requirements data also were not provided. For example, the Federal Aviation Administration's fiscal year 2001 budget justifications included many capital projects that had received funding through fiscal year 2000 and for which current funding was being requested. However, for 15 of those projects, the only information on any future funding required was the statement "future requirements are under review." One project, titled "Air Traffic Management," had received a total of \$490.1 million prior to the fiscal year 2001 request of \$25.9 million. Another project, titled "Airport Movement Area Safety System," had received a total of \$92.4 million prior to the 2001 request of an additional \$20.7 million. A third project, titled "Operational Data Management System," had received a total of \$26.9 million prior to the 2001 request of an additional \$1 million. Although project descriptions for all three projects implied a definite need for additional funding beyond the fiscal year 2001 budget request, the descriptions did not provide an estimate of funding necessary to complete the projects. We judged all three projects to be incrementally funded.

The U.S. Coast Guard's fiscal year 2001 budget justifications had "To Be Determined" under the Estimated Future Cost Requirement caption for several ongoing capital projects. One of these projects, titled "Alex Haley Conversion Project-Phase II," had received \$20 million through fiscal year 2000, and an additional \$3.2 million was requested for 2001. This project received its initial funding in fiscal year 1998, and the project description suggests that the Coast Guard is planning to request additional funding for fiscal years 2002 through 2005. However, no estimate of the dollar amounts was provided. Another Coast Guard project, titled "Deepwater Capability Replacement Project," received a total of \$73.9 million during fiscal years 1998 through 2000. Additional funding of \$42.3 million was requested for fiscal year 2001. The Coast Guard plans to request additional funding of about \$500 million annually (in 1998 dollars) for the next 20 to

30 years to complete this project.³ We judged both the Alex Haley and Deepwater projects to be incrementally funded.

Incomplete and Unclear Project Data

During our review we also found that some agency budget justifications lacked sufficient information to determine whether funding provided in a given year would result in usable assets. The State Department's fiscal year 2001 budget justifications included a number of funding requests for embassy facility rehabilitation and replacement of support systems. However, the information provided was not always sufficient to determine exactly what the fiscal year 2001 requested funding would provide in terms of usable assets.

For example, the department requested \$2.75 million in fiscal year 2001 to initiate construction of the Brasilia, Brazil chancery rehabilitation—a project that is estimated to cost a total of \$9.2 million and has an estimated construction cycle of 3 years. Funding of \$875 thousand for the project's design was provided in fiscal year 2000. The project description and scope describe what facility structures and systems will be renovated over the course of the entire project. However, there is no sense, either from the project description or schedule of project phases, of exactly what the fiscal year 2001 funding will provide and, particularly, whether it would result in a useful asset absent further funding. The description includes statements such as “increased capacity is needed in the two-story sections of the building” and “the electrical system will be upgraded.” What the description does not provide is information such as whether the initial construction funding will completely finance an expansion of one building section with the next year's funding request providing for expansion of a second section. The description could also mean that the fiscal year 2001 funding would upgrade the electrical system only, with the building expansion to commence in future years. We judged this capital project to be incrementally funded primarily because of the 3-year construction cycle and the project funding schedule, which showed that future funding of \$5.6 million would be needed to complete this project. However, it is possible that fiscal year 2001 and subsequent annual appropriation requests have been structured to provide funding sufficient to produce a

³ *Coast Guard: Progress Being Made on Deepwater Project, but Risks Remain* (GAO-01-564, May 2, 2001).

usable asset each year without further funding. This could not be determined from the available information.⁴

The State Department was not the only agency providing insufficient detail to determine if requested funding would result in a usable asset. For example, the National Aeronautics and Space Administration's fiscal year 2001 budget justifications discusses a \$4 million request to begin the third of five phases of a major repair of the central steam distribution system at the Goddard Space Flight Center. The scope of the project includes replacing system headers and other related piping and insulation. This project is estimated to cost a total of \$18.2 million—\$7.2 million of which had been provided prior to fiscal year 2001. The project justification data described the serious effect of delaying this project, stating that the original system installed in the early 1960s was “at the end of its useful life” and “a major failure could occur.” The justification data also included a list of subsystems that will be replaced during this phase of the project. However, the information gives no indication of whether the replacement of these subsystems would make the overall system functional for its intended purpose and/or improve its operational efficiency—even if the remaining project phases were to be postponed. The justification data would have been more useful had they included the operational status and functionality of the overall system at each phase of the project—clearly describing what each level of funding would provide. We judged this capital project to be incrementally funded primarily because the work is being conducted in phases and the project justification for the fiscal year 2001 funding request did not discuss how the previous funding was used and whether each phase provided stand-alone improvements.

Conclusion

To make well-informed decisions, decisionmakers must have complete, comprehensive, and clear information for all proposed capital projects whether fully or incrementally funded. Data on total project costs are critical for incrementally funded projects. When the Congress is being asked to support only a portion of a project, it should have information on

⁴The Senate Appropriations Committee has expressed concern about the State Department's unfunded construction requirements. In its September 2000 report, the committee expressed concerns that the department was accumulating large, unfunded construction requirements and recommended that the Congress limit the number of new construction starts, and, where possible, only fully fund ongoing projects to prevent the unfunded requirements from growing. See S. Rep. No. 106-404 at, 145-147 (2000). See also *Embassy Construction: Better Long-Term Planning Will Enhance Program Decision-making* (GAO-01-11, January 22, 2001).

the total cost; the period when completion can be expected; and whether the segment being funded will be a useful, stand-alone project.

Capital asset plans, which are required by OMB for major capital acquisitions, and long-term agency capital plans could be useful in reviewing capital project requests but are not routinely provided to the Congress. Budget justifications are meant to provide the relevant information to the Congress but often do not include the data and information needed to determine if full funding is being requested.

Recommendation

We recommend that you ensure that agencies are directed to improve the information the Congress receives for making funding decisions. The budget justifications provided by agencies each fiscal year should contain the following for each capital project: a total project cost estimate (except when not possible for high technology projects), details of all prior funding, a description of how the funding was used and is planned to be used for each fiscal year, and the estimated time frame for completion. The description of how requested funding will be used should be in sufficient detail so that it is clear whether full funding for stand-alone assets is being requested. Capital asset plans, which are required by OMB for major acquisitions, and long-term agency capital plans, which are encouraged by OMB, could also be required as supplemental information to the agency budget justifications.

Agency Comments

We obtained comments from OMB officials. They agreed with the report's conclusion and recommendation. They further stated that OMB plans to include language in OMB Circular A-11, *Preparing and Submitting Budget Estimates*, encouraging agencies to provide the Congress the information it needs for its review of capital projects that are included in the President's Budget.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate and House Committees on the Budget and on Appropriations and the Senate Committee on Governmental Affairs and the House Committee on Government Reform. Copies will be made available to others on request. If you or your staff have any questions regarding this report, please contact me at (202) 512-9573 or Christine Bonham, Assistant Director, at (202) 512-9576. Key contributors to the

incremental funding study were Trina Lewis, Jennifer Eichberger, and David Best.

Sincerely yours,

A handwritten signature in black ink that reads "Paul L. Posner". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Paul L. Posner
Managing Director, Federal Budget
Strategic Issues

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