

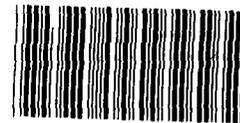
GAO

Briefing Report to the Honorable
Jack Brooks, Chairman, Committee on
Government Operations, House of
Representatives

January 1987

**STATISTICAL
REPORTS**

**Information on
Standard Industrial
Classification Codes**



132470

**RESTRICTED — Not to be released outside the General
Accounting Office except on the basis of specific approval
by the Office of Congressional Relations.**

RELEASED



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

General Government Division

B-225862

January 30, 1987

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your May 29, 1986, request and subsequent discussions with your office at which we agreed to review the rule-making process at the Environmental Protection Agency (EPA) to determine (1) how Standard Industrial Classification (SIC) coded data are used in developing regulations, (2) whether the impact a regulation can have on small industries is identified, and (3) whether EPA's regulatory process may have had an adverse impact on the handmade glass industry. We also agreed to identify the responsibilities assigned to the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB) under the Paperwork Reduction Act.

The SIC is a coding system that was developed to promote the comparability of statistics describing the national economy. It is used primarily by federal agencies for statistical purposes, such as collecting, tabulating, and publishing data on the national economy but is also used for nonstatistical purposes such as administering regulatory programs. OIRA is responsible for periodically reviewing and revising the SIC to reflect the changing structure of the national economy.

We briefed committee staff on the results of our survey on October 31, 1986. This report summarizes the information presented at the briefing.

Our work was done at OIRA and EPA during the period June 1986 through October 1986. We interviewed responsible agency officials and reviewed agency files, records, and internal memorandums. To determine the potential impact of EPA regulations on small industries, we met with representatives of the handmade glass industry and reviewed the EPA process for developing regulations. We reviewed five EPA regulations, therefore, our audit results may not represent agency-wide operations at EPA because of the limited number of regulations reviewed. Our work was performed in accordance with generally accepted government auditing standards. Additional information on the scope and methodology of our work is included in appendix I. Our survey results are summarized below and are discussed in detail in appendixes I and II.

- The five regulations we reviewed at EPA were developed as the result of detailed technical analyses rather than being based solely on SIC-coded data. By using SIC-coded data, EPA can identify the number and location of firms that may be subject to regulation. However, SIC-coded data do not provide the information on production materials and processes that is needed to develop a regulation. EPA prepares an economic analysis to identify the potential impact a regulation could have on small industries and evaluates and considers the comments received in response to published announcements of its regulatory activities. However, we were advised that because of the amount of information that is considered when a regulation is developed, it would not be possible to attribute readily all changes made to a proposed regulation to a specific data source.
- Handmade glass industry representatives believe that the industry's SIC code is inappropriate because it includes large, automated glass manufacturers. They said that EPA, by using SIC-coded data, could not distinguish between the handmade and automated glass manufacturers. They said that in 1979 EPA had proposed a rule that would have required glass manufacturers to install costly pollution control devices, and that the rule could have been economically harmful to the handmade glass industry. However, EPA granted the industry an exemption from the rule. Handmade glass industry representatives also told us that they did not have concerns with current EPA regulatory activities. However, they believe that the industry should have a separate code in the SIC.
- The Paperwork Reduction Act of 1980 established OIRA within OMB to carry out paperwork management objectives assigned to the Director of OMB by the act. The act did not provide OIRA the authority or resource authorization for performing reviews of regulations except for assessing compliance with the act's objectives for paperwork management. However, OIRA was not prohibited from undertaking other

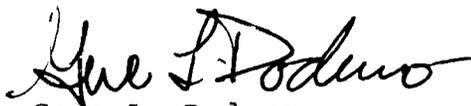
responsibilities. In 1981, OIRA was assigned responsibilities, by an executive order, for reducing the burden of existing and proposed regulations. As a part of its responsibilities under the executive order, OIRA is required to review all regulations before publication by agencies.

Although OIRA's initial authorization for paperwork management activities expired in 1983, its activities have been funded from OMB's general appropriations. In October 1986, Congress passed the Paperwork Reduction Reauthorization Act of 1986. While this act authorized funds for OIRA paperwork management activities for fiscal years 1987 through 1989, it also contained certain restrictions on the use of the funds. For example, it limits the use of the funds for reviewing rules or regulations "...only to the extent that such review is for the sole purpose of reviewing an information collection request contained in, or derived from, such rule or regulation."

In accordance with your request, we did not obtain official agency comments on this report. However, we briefed OIRA and EPA officials on the results of our work and they agreed with the information presented. 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 this report. At that time we will send copies to interested parties and make copies available to others upon request.

If there are any questions regarding the contents of this briefing report, please call me on 275-8387.

Sincerely yours,



Gene L. Dodaro
Associate Director

CONTENTS

<u>APPENDIX</u>		<u>Page</u>
I	Information on the Revision of the SIC and its Use at EPA	5
II	Responsibilities of OIRA	13

Abbreviations

EPA	Environmental Protection Agency
OIRA	Office of Information and Regulatory Affairs
OMB	Office of Management and Budget
SBO	Small Business Ombudsman
SIC	Standard Industrial Classification
TCIC	Technical Committee on Industrial Classification

INFORMATION ON THE REVISION OF THE SIC AND
ITS USE AT EPA

The Standard Industrial Classification (SIC) is the statistical classification system underlying all establishment-based federal economic indicators. An establishment is an economic unit, such as a factory, generally at a single physical location where business is conducted or where services or industrial operations are performed. The SIC is a coding system that can be used to classify these establishments by their type of economic activity. It was developed to promote the comparability of statistics describing various facets of the national economy. Although the SIC was initially developed for use within the federal government for statistical purposes, such as collecting, tabulating, and publishing data by industry; federal agencies also use the system for nonstatistical purposes, such as administering regulatory and tax programs. Private sector firms and organizations also have widely adopted the system for market research.

The SIC currently contains about 1,000, 4-digit codes. It is reviewed and revised periodically to reflect the changing structure of the national economy. One of the responsibilities of the Office of Information and Regulatory Affairs (OIRA), within the Office of Management and Budget (OMB), is updating the SIC. As discussed in more detail on pages 6 through 9, OIRA has recently completed a revision to the SIC which took effect on January 1, 1987.

OBJECTIVES, SCOPE, AND METHODOLOGY

In a letter dated May 29, 1986, the Chairman, House Committee on Government Operations, requested that we review the SIC system to determine whether smaller industries were adversely affected by federal agencies and the private sector using the SIC for nonstatistical purposes. During subsequent discussions, we agreed to:

- Review the Environmental Protection Agency's (EPA) rule-making process to determine how SIC-coded data are used to develop regulations; whether the impact a regulation can have on small industries is identified; and identify any adverse impact the process may have had on the handmade glass industry.
- Identify the responsibilities assigned to OIRA under the Paperwork Reduction Act.

We performed our audit work during the period June 1986 through October 1986 at OIRA and EPA. We interviewed responsible agency officials and reviewed agency files, records, and internal memorandums. We reviewed the procedures for revising the SIC to determine if OIRA considered the handmade glass industry's request for a separate SIC code and if other small industries were adversely affected by the SIC.

We reviewed proposals for revising the SIC submitted by private sector organizations to OIRA. Based on information contained in the proposals, we judgmentally sorted the basis for each proposal into one of three categories, namely (1) improving the accuracy and usefulness of the SIC, (2) problems experienced with the SIC, and (3) adverse effects caused by the SIC. We interviewed officials at the Departments of Labor and Commerce who were responsible for evaluating proposals for revising the SIC. We also met with members of the handmade glass industry.

In April 1986, EPA announced in the Unified Agenda of Federal Regulations that it was developing about 250 regulations. We took a small sample of the 133 regulations that EPA classified as being in the final rule stage or completed. We reviewed five regulations to determine how the agency used SIC-coded data to develop regulations and identify the impact a regulation could have on smaller industries. We selected three regulations which were issued pursuant to the Clean Water Act. The act required EPA to develop standards to control toxic discharges into waterways. The other two regulations selected were issued pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. This act authorized EPA to adjust reportable quantities for hazardous substances and to designate as hazardous substances, substances which when released into the environment may present substantial danger to the public health or welfare or environment. Because of the limited number of regulations reviewed, our audit results may not represent agency-wide operations at EPA. Our work was performed in accordance with generally accepted government auditing standards.

REVISION OF THE SIC

In 1984, as a part of its periodic efforts to update the SIC, OIRA published a notice in the Federal Register that requested proposals for specific changes in the SIC Manual. The notice listed the criteria that would be used to evaluate the proposals and stated that the nonstatistical uses of the SIC would not be considered during the revision of the system.

OIRA established a multiagency Technical Committee on Industrial Classification (TCIC) which was responsible for providing technical advice and making recommendations to OIRA on the individual proposals for revising the SIC. The TCIC, chaired by OIRA, is comprised of senior economists, statisticians, and classification specialists representing 18 federal agencies, such as the Bureau of the Census and Labor Statistics, that use the SIC.

Private Sector Proposals to Revise the SIC

About 160 private sector organizations submitted proposals to OIRA for revising the SIC. Most of these organizations, about 130, proposed revisions that they believed could improve the accuracy and usefulness of the SIC. For example, one organization proposed redefining a SIC code to more accurately reflect the output of the establishments within the code. Another organization proposed establishing a new SIC code for an industry because it believed that the existing industry codes were not conducive to analysis of the industry and that new producing sectors may not be accurately reflected.

About 20 organizations proposed revising the SIC citing problems they had experienced with the SIC. Most of these organizations said that the SIC was not meeting their information requirements. For example, one organization said that the existing codes no longer reflected the industry and that restructuring the codes was essential for assessing the industry's market distribution channels and retail employment. Another organization believed that existing federal data collection systems based on the SIC did not provide the industry with the essential data needed to better understand the marketplace and its composition and to prepare business forecasts and projections.

Ten organizations proposed revising the SIC because they believed that they were, or could be, adversely affected by nonstatistical uses of the SIC. One organization believed that it was hampered in its ability to be placed on federal and state mailing lists for bids from overseas buyers and to sell directly to the federal government. Another organization wanted a revision to eliminate potential problems related to state sales and property taxation, and city and county zoning regulations. Eight organizations expressed concerns about federal regulatory activities. Seven of these organizations were related to the handmade glass industry. This industry's concern with the SIC is discussed in greater detail on pages 9 and 10.

Evaluation of the Proposals

The TCIC reviewed and evaluated the proposals that were submitted to OIRA for revising the SIC. According to the TCIC chairperson, the TCIC evaluated the proposals using the following criteria published by OIRA.

- Structure of the classification. Proposed changes should be designed to fit within the existing structure of the SIC which is based on a 4-digit code that describes a group of establishments as an industry. Stronger justification would be required for revisions to the basic 2-digit or 3-digit SIC structure, that is, revisions to a major group or industry group which are comprised of several industries.
- Historical continuity, that is, maintaining the continuity of major federal statistical series.
- Economic significance. A series of establishments, to be recognized as an industry, must have economic significance measured in terms of the number of establishments, employment, payroll, the value of shipments, and value added. In general terms, value added is determined by subtracting the cost of goods and services purchased from other business firms from the value of goods and services sold.
- Specialization and coverage, that is, the output of an industry should consist mainly of the goods and services defining the industry; and account for the bulk of the specified goods and services provided by all establishments.
- Other statistical considerations, such as recognizing rapidly growing new industries although they may not meet all of the industry criteria based on existing data; and increasing the comparability of the SIC with the United Nations International Standard Industrial Classification.
- Administrative considerations, such as the cost to the federal government and the burden to businesses that furnish data to the government.

Of the 10 proposals that we identified as being submitted to OIRA to eliminate potential adverse effects caused by the SIC, the TCIC rejected nine of the ten proposals and, after making modifications, accepted one. Based on the OIRA criteria, the TCIC modified and accepted a proposal from an organization requesting that the SIC be revised by establishing three new codes that would recognize diecasting industries within its industry group, establishing new codes for industries it was currently combined with in the SIC, and discontinuing several existing codes. The TCIC approved and established two new SIC codes for diecasting industries and two new codes for other types of industries. The TCIC did not approve the discontinuing of existing codes. OIRA accepted and approved the TCIC's recommendations.

According to the TCIC chairperson, the TCIC was basically sympathetic to organizations that claimed the SIC caused adverse effects, such as the handmade glass industry's claim of adverse regulatory impact which is discussed below. However, he said that the TCIC followed the published procedure that the nonstatistical uses of the classification system were not to be considered during the revision of the SIC. He believes that the appropriate place for organizations to address regulatory complaints is with the regulatory community, that is, the agencies that promulgate regulations.

Handmade Glass Industry

The SIC for the handmade glass industry includes other manufacturers that produce machine-made glass products. Handmade glass industry representatives believed that it was inappropriate to include handmade and automated glass manufacturers in a single SIC code because of the differences in their production methods. Additionally, they believed that the industry potentially could be subject to economically adverse EPA regulatory requirements because the industry did not have a separate SIC code. In 1984, members of the handmade glass industry had proposed to the TCIC that the SIC be revised by establishing a separate classification code for their industry. However, the TCIC rejected the industry's proposal for a separate code because the industry did not meet the criterion of economic significance.

We met with representatives of the industry to discuss their proposal to revise the SIC. The representatives said that in 1979 EPA had proposed a regulation that they believed could have

had an economically adverse impact on the industry. The representatives believed that the regulation would have required firms within the industry to purchase and install pollution control devices that would have been more costly than the furnaces used in the production processes at the typical firm within the industry. They believed that EPA, by using SIC-coded statistical data to develop the regulation, could neither identify nor consider how the proposed regulation could have affected the handmade glass industry.

EPA granted the industry an exemption, and as a result, the industry did not experience an adverse impact from the proposed EPA regulation. However, the industry representatives said that it was necessary to undertake special efforts, such as holding meetings with government officials, to obtain relief from the proposed EPA regulation. They said that these efforts were relatively expensive and the costs could not be easily borne by members of the industry.

The representatives also advised us that although they did not have concerns with current EPA regulatory activities, they were concerned that future EPA regulations could be based on SIC-coded data that did not adequately define or describe the handmade glass industry. They believe that the industry could not afford to take special actions to obtain relief from potential future regulations that could have adverse affects on the industry. Therefore, they believe that a separate code for the handmade glass industry should be established in the SIC.

Development of EPA Regulations

We reviewed five EPA regulations that were in various stages of development as of April 1986. For example, for two of the five regulations EPA completed evaluations of existing regulations and planned to issue revised regulations. EPA also postponed action on two of the five regulations. One regulation was postponed until additional technical studies could be completed. The second was postponed so that other higher priority work could be performed. EPA also withdrew one after determining that additional regulatory action was not required.

For the five regulations reviewed, we found that EPA established files known as "dockets". The dockets contained technical studies and other documents, such as comments received on regulations published in the Federal Register, that were considered during the development of the regulations.

EPA officials said that a docket contains the data that supports the basis for a regulation and information on the decisionmaking process that is followed during the development of a regulation. We were told that a regulation could be revised the result of the internal EPA review process and/or on the basis of comments on a proposed rule received from other federal agencies and the public. However, we were advised that because of the amount of information that is considered when a regulation is developed, it would not be possible to attribute readily all changes made to a regulation to a specific data source.

We reviewed the dockets on the five regulations to identify how EPA used SIC-coded statistical data in developing regulations. We found that EPA did not significantly rely on this type of data as a basis for the regulations promulgated by the agency. According to EPA officials, regulations are developed based on technical analyses to address and control the materials and production processes that are potential sources of pollution. They said that SIC-coded data do not provide the type of information that is needed to develop regulations for controlling pollution sources.

EPA officials characterized SIC-coded data as having a relatively minor role in the agency's development of regulations. By using SIC-coded data, the agency can identify the number and location of firms that may be subjected to regulation. The SIC-coded data may then be used to develop a mailing list for a questionnaire which the agency uses to obtain information on how the materials and processes being studied by EPA are used by the firms within an industry. According to EPA officials, the questionnaire data are used as a part of technical analyses which form the basis for a regulation.

EPA Procedures to Protect Small Businesses

EPA officials said that as a part of their regulatory procedures, economic analyses are performed to identify the potential impact that a regulation may have on small businesses. The officials also said that members of an industry that may be affected by a regulation have the opportunity to comment on the proposed action when it is published in the Federal Register. EPA uses this publication to announce its proposed and final regulations.

Based on the regulations that we reviewed, we found that EPA had completed economic analyses as a part of the development of

the regulations. EPA determined that two of the five regulatory actions could adversely affect small industries. EPA revised one regulation, before it was promulgated, to reduce the impact on the affected industry. At the time of our review we could not determine what actions EPA planned to take on the second regulation that could adversely affect small industries because EPA temporarily postponed the regulation until additional technical studies were completed.

EPA, when developing regulations, evaluated and considered the comments received in response to the announcements of its regulatory activities that were published in the Federal Register. EPA also has established a Small Business Ombudsman (SBO). The SBO is a member of the work groups that develop regulations, and is responsible for identifying and commenting on the regulations that may adversely affect small businesses. The SBO also operates a telephone hot-line that small businesses can use to contact the SBO, and publishes information that discusses EPA regulatory activities that may have an impact on small businesses, which is mailed to about 7,000 firms and organizations.

RESPONSIBILITIES OF OIRA

The Paperwork Reduction Act of 1980 (Public Law 96-511), which became effective April 1, 1981, addressed a wide range of federal information management issues. The act established OIRA within OMB and charged the Director of OMB with governmentwide responsibility for carrying out the act's objectives. Funds were authorized to carry out the provisions of the act for fiscal years 1981 through 1983 and reauthorized for another three years beginning fiscal year 1987. After the initial authorization expired in 1983, OMB carried out the provisions of the act for the next three years without a specific authorization of funds. It used funds from its general appropriations.

The act established the following objectives for information resources management activities:

- Reduce the information burden imposed on the public by the federal government.
- Reduce the cost of collecting, managing, and disseminating information by federal agencies.
- Maximize the usefulness of information collected to ensure that federal agencies collect only as much information as needed and can be used effectively.
- Eliminate inconsistencies among federal information policies by ensuring uniformity wherever possible.
- Improve the efficiency of government programs and reduce the public burden through the effective use of ADP/telecommunications.
- Ensure that the legitimate privacy and confidentiality concerns of individuals and enterprises are safeguarded.

OIRA was established specifically to carry out the responsibilities of the director of OMB under the act and to provide the necessary leadership in improving agency information resources management. The director of OMB was required to appoint an administrator to head OIRA to whom administration of act functions was delegated, but ultimate responsibility for administration of the functions performed under the act was retained by the director.

In February 1981, the President issued Executive Order 12291 titled Federal Regulation. The purpose of the order was to reduce the burden of both existing and proposed regulations, increase agency accountability for regulatory actions, provide oversight and minimize duplication and conflict between regulations. The order required OMB to review all regulations before publication and agencies to refrain from publishing any regulations until they receive OMB's formal written comments. The order also required that OMB review regulatory impact analyses which were to be prepared by agencies on major rules having a potential impact of \$100 million or more annually on the economy. The order also authorized the Director of OMB to designate any existing or proposed rule as a major rule. OIRA was assigned responsibility for administering the order.

In an earlier report¹, we said that there is a degree of overlap with OMB's regulatory reviews under the Executive Order and its paperwork management reviews under the Paperwork Reduction Act. We found that paperwork management issues were addressed in connection with reviews of regulatory matters and that the reviews were largely performed by the same staff within OIRA.

We also determined that the House and Senate Committee reports that comprise a part of the Paperwork Reduction Act's legislative history recognized OIRA's role in reviewing the information management and paperwork burden aspects of regulations. However, both Committee reports explicitly stated that regulatory reform functions beyond reviews of the paperwork burden aspects of regulations were not to be assigned to OIRA because of the concern that such duties would dilute the information resources management responsibilities assigned by the act. The act did not provide OIRA either the authority or resource authorization for performing reviews of regulations except for assessing compliance with the act's objectives for reducing paperwork. OIRA was not prohibited from undertaking other responsibilities.

Our report proposed several matters for consideration by Congress including the option of providing a separate appropriation for implementing the Paperwork Reduction Act and

¹Implementing The Paperwork Reduction Act: Some Progress, But Many Problems Remain, GAO/GGD-83-85, Apr. 20, 1983.

amending the act to prohibit OIRA from performing any duties other than those required by the act.

OIRA has continued both its paperwork management and regulatory review activities. Although its initial authorization of funds for paperwork management activities expired in September 1983, OIRA's activities have been funded from OMB's general appropriations on a year-to-year basis.

As a part of the fiscal year 1987 continuing resolution that authorized funds for government activities, Congress passed the Paperwork Reduction Reauthorization Act of 1986 in October 1986. This act authorized appropriations to OIRA of \$5.5 million for each of fiscal years 1987 through 1989.

The act also established a separate line item account for only those functions contained in the Paperwork Reduction Reauthorization Act and assigned to OIRA. It further limits the use of the funds for reviewing rules or regulations "...only to the extent that such review is for the sole purpose of reviewing an information collection request contained in, or derived from, such rule or regulation." Additionally, the act required that future administrators of OIRA be selected by the President and confirmed by the Senate, and the establishment of new goals for paperwork reduction. For example, the act required that a goal be set for September 30, 1987, to reduce by at least 5 percent the burden of federal information collections that existed on September 30, 1986.

(017006)

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

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

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use \$300

Address Correction Requested
