



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

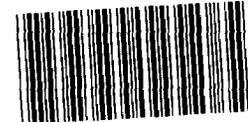
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B-208061

JULY 16, 1982

The Honorable Mark O. Hatfield
Chairman, Committee on
Appropriations
United States Senate

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



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Dear Messrs. Chairmen:

Subject: Limitations on Fiscal Year 1981 Fourth Quarter
Obligations in Certain Agencies (GAO/PAD-82-43)

This report is submitted under Section 320 of the Department of Transportation and Related Agencies Appropriation Act, 1981 (P.L. 96-400), and Section 414 of the Department of Housing and Urban Development-Independent Agencies Appropriation Act, 1981 (P.L. 96-526). The agencies covered by these appropriations (see enclosure) were required to

--limit their fourth quarter 1981 obligations to no more than 30 percent of their total budget authority, and

--limit obligations for any month in the last quarter of 1981 to no more than 15 percent of their total budget authority.

The affected agencies were also required to submit quarterly status reports to the Committees on Appropriations and to the Director, Office of Management and Budget (OMB). The Director of OMB was authorized to waive the limitations whenever he determined in writing that a waiver was necessary to avoid a serious disruption in carrying out programs or activities. Moreover, OMB was required to submit a report to the Committees on Appropriations on the results and effect of the limitations and actions taken, including the effects upon the procurement and apportionment processes, together with any appropriate recommendations.

The legislation requires GAO to review the OMB report and submit to your Committee an analysis of the report and any recommendations we consider appropriate. In addition to the legislative requirements, your office said it wanted us to concentrate on broad questions regarding how practical or disruptive the statutory limitations were on the agencies' operations. In addition, we were asked to look at the extent that impoundments, particularly in the Department of Housing and Urban Development (HUD), may have contributed to any late spending patterns.

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METHODOLOGY

We conducted on-site interviews with responsible agency budget officials at the following larger departments and agencies affected by the limitations: 1/

Department of Housing and Urban Development
Department of Transportation
Department of the Treasury
Environmental Protection Agency
National Aeronautics and Space Administration
National Science Foundation
Veterans Administration

For the remaining smaller agencies, we conducted telephone interviews with responsible budget officials and, in some instances, requested written follow-up information. We also reviewed documents the agencies prepared under OMB Bulletin No. 82-5. These documents summarized how compliance with the limitations affected them. Each document generally addressed the effects on the agency's procurement and apportionment processes, other effects of the limitations, and any recommendations the agency considered appropriate concerning such limitations that might be proposed in the future. We made our review in accordance with GAO's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

We provided draft copies of this report to officials from OMB and HUD and considered their comments in the final report. Basically, they agreed with our findings. They continue to believe, however, that statutory limitations during the last quarter are not helpful in controlling the problem of year-end spending and that the associated paperwork is unnecessary.

IMPACT OF LIMITATIONS ON
AFFECTED COMPLYING AGENCIES

In analyzing OMB's report, we noted that it concluded that the workload associated with the limitations was unnecessary. We found that approximately 80 percent of the affected entities responded that the year-end spending limitations did not cause them any difficulties. There were six others (including three of the seven larger ones), however, that did indicate that they experienced difficulties. These are noted in the enclosure. For example, the Department of Housing and Urban Development experienced the most disruption as a result of the limitations. HUD's fourth quarter obligation rate (as a percentage of total available funding apportioned for use) was 49 percent with 35 percent occurring in September. HUD applied for and was granted waivers by OMB

1/Larger departments and agencies are those with fiscal year 1981 outlays of approximately \$1 billion or more.

to accommodate the long planning lead-time in some programs and to avoid program interruptions in others.

Program difficulties were, however, encountered in the Department's Housing Counseling Assistance program. Planned patterns of obligations were originally based on the assumption that a proposed rescission would be passed. Subsequently, obligational authority HUD had not planned to use became available as a result of congressional action approving only part of the proposed rescission. Revised obligational planning indicated that the Department would need a waiver for the fourth quarter limitation, which was requested on June 30, 1981. On July 30, OMB disapproved the waiver request. So, plans had to be revised once again. Based on further review of the case by OMB's Office of General Counsel, the Director of OMB advised HUD on September 4 that, while not reversing its initial decision on the waiver request, some additional funds were available for obligation. According to HUD records, this advice came so late in the year that HUD was not able to obligate up to the new limitations. In addition, about \$4.2 million of the account lapsed as a result of OMB's disapproval of the waiver request. This lapse of funds was the subject of hearings by the House Government Operations Committee, Subcommittee on Manpower and Housing. Also, the denial of the waiver request for this program and the imminent lapse of funds resulted in joint litigation by four counseling agencies.

HUD officials stated that carrying out the restrictions was made unusually complicated because the base figures on which the percentages were calculated were subject to almost continual change. The Administration proposed rescissions from appropriated amounts at several stages during the year. The Congress did not agree to all the rescissions, and congressional action on those proposals approved was delayed by other budget adjustment processes. The process of requesting waivers was virtually continuous because the assumptions changed with events. The granting and denial of waivers was also subject to the same delays and uncertainties. Other agency officials said that even though the limitations did not cause them any difficulties, late appropriations, supplementals, budget cutbacks, impoundments, etc., did affect their obligation patterns.

EFFECTIVENESS OF FOURTH QUARTER SPENDING LIMITATIONS

In previous testimony by us regarding similar provisions, we have generally not favored these types of limitations because they are difficult to administer and because they address a symptom rather than correct underlying management problems. Limitations alone do not solve all the problems associated with inadequate management of budget execution. For example:

- A limitation on the quantity of year-end spending does not assure that funds spent under the limitation are spent wisely.

- Without a carefully developed--and carefully monitored--agency spending plan, the surge in spending could just be advanced by several months, rather than become a smooth process.
- The timely and reliable data on obligations needed to assess whether the limitation is being complied with may not always be available.
- A limitation of 30 percent in the last quarter and 15 percent for any month on total budget authority by a department or agency allows considerable flexibility for variation among programs.

Notwithstanding these considerations, we supported the temporary use of a limitation on year-end spending as a way of conveying the Congress' concern, not only with year-end spending itself, but also with the need to strengthen the budget execution process.

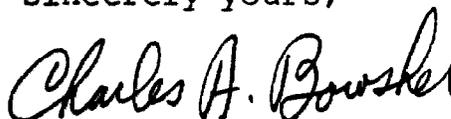
In a prior report entitled, "Effectiveness of the Federal Apportionment Process and Implications for Budget Execution" (PAD-80-5), we mentioned several steps that could be considered to help strengthen the budget execution process. For example, we stated there is a need to reestablish a greater degree of flexibility and discretion to

- manage funds (subject to adequate congressional reporting),
- create greater incentives for cost reduction by managers, and
- change the deferral process which inhibits effective budget execution.

Besides the above considerations, if the Congress decides it is necessary to reimpose fourth quarter spending limitations, it may wish to consider an option suggested by agency officials-- exempt obligations made in the fourth quarter when it can be shown that the obligation was initiated before the fourth quarter. We continue to believe, however, that in cases where agency action is not taken to limit unnecessary year-end spending, limitations are an option the Congress may feel is warranted.

We would be happy to discuss the contents of this report with you or members of your staff.

Sincerely yours,



Comptroller General
of the United States

Enclosure

<u>Federal Department/Agency a/</u>	<u>Difficulty with Limitations?</u>	<u>Type of Difficulties</u>
Civil Aeronautics Board	No	
Department of Transportation Federal Aviation Administration	No, except for FAA Yes	Unexpected funding for the Grants-in-Aid to Airports program and the air traffic controllers' strike affected the obligation pattern. Waiver requested.
Interstate Commerce Commission	No	
National Transportation Safety Board	No	
Panama Canal Commission	No	
Department of the Treasury: Office of the Secretary - Investment in Fund Anticipation Notes	No	
U.S. Railway Association	No	
Washington Metropolitan Area Transit Authority	No	

a/Agencies included in the Department of Transportation and Related Agencies Appropriation Act, 1981 (P.L. 96-400).

ENCLOSURE

<u>Federal Department/Agency a/</u>	<u>Difficulty with Limitations?</u>	<u>Type of Difficulties</u>
American Battle Monuments Commission	No	
Consumer Product Safety Commission	No	
Council on Environmental Quality and Office of Environmental Quality	No	
Department of Housing and Urban Development	Yes	The nature of the subsidized Housing Program makes compliance with limitations difficult. This was aggravated by the nature of 1981 budget development (e.g., late appropriations and rescission proposals). Paperwork was cited as a problem. Waiver requested.
Department of the Treasury:		
Payments to State and Local Government Fiscal Assistance Trust Fund	No	
Office of Revenue Sharing Salaries and Expenses	No	
New York City Loan Guarantee Program	No	
Investment in National Consumer Cooperative Bank	No	
Disaster Relief	No	
Department of Defense - Civil:		
Cemeterial Expenses, Army	No	

a/Agencies included in the Department of Housing and Urban Development-Independent Agencies Appropriation Act, 1981 (P.L. 96-526).

ENCLOSURE

<u>Federal Department/Agency</u>	<u>Difficulty with Limitations?</u>	<u>Type of Difficulties</u>
Environmental Protection Agency	Yes	The nature of the Construction Grants program makes compliance with limitations difficult. Waiver requested.
Federal Emergency Management Agency: Emergency Planning, Preparedness, and Mobilization	No	
Hazard Mitigation and Disaster Assistance	No	
National Flood Insurance Fund Admin. Provision	No	
General Services Administration: Consumer Information Center	Yes	Limitations were viewed as overly restrictive.
Department of Health and Human Services: Office of Consumer Affairs	No	
National Aeronautics and Space Administration	No	
National Commission on Air Quality	<u>b/</u>	
National Consumer Cooperative Bank	No	
National Credit Union Administration	No	
National Institute of Building Sciences	No	
National Science Foundation	No	

b/The commission was disbanded before the fourth quarter of FY 1981.

<u>Federal Department/Agency</u>	<u>Difficulty with Limitations?</u>	<u>Type of Difficulties</u>
Neighborhood Reinvestment Corporation	No	
Office of Science and Technology Policy	Yes	Delayed appointment of Director affected obligation pattern.
Selective Service System	Yes	The nature of the annual Reserve Forces Training Program makes compliance with limitations difficult. Waiver requested.
Veterans Administration	No	

ENCLOSURE

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